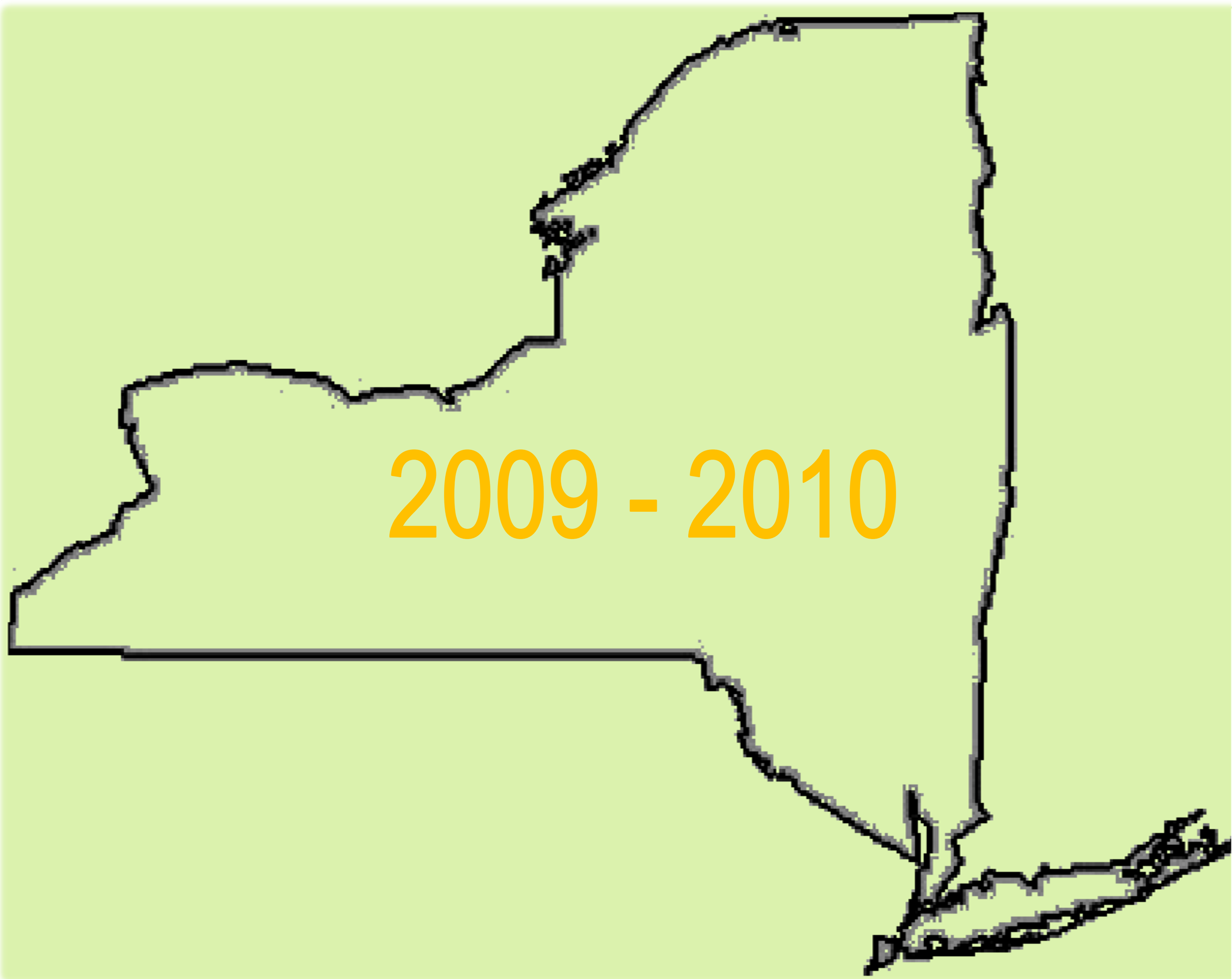
New York State

Public Service Commission

Annual Report



David A. Paterson, Governor | Garry A. Brown, Chairman

MISSION STATEMENT: *The primary mission of the New York State Department of Public Service is to ensure safe, secure, and reliable access to electric, gas, steam, telecommunications, and water services for New York State's residential and business consumers, at just and reasonable rates. The Department seeks to stimulate innovation, strategic infrastructure investment, consumer awareness, competitive markets where feasible, and the use of resources in an efficient and environmentally sound manner.*

AGENCY DESCRIPTION: *The Department of Public Service has a broad mandate to ensure that all New Yorkers have access to reliable and low-cost utility services. The Department is the staff arm of the Public Service Commission. The Commission regulates the state's electric, gas, steam, telecommunications, and water utilities. The Commission also oversees the cable industry. The Commission is charged by law with responsibility for setting rates and ensuring that adequate service is provided by New York's utilities. In addition, the Commission exercises jurisdiction over the siting of major gas and electric transmission facilities and has responsibility for ensuring the safety of natural gas and liquid petroleum pipelines. Bipartisan by law since 1970, the Commission consists of up to five members, each appointed by the Governor and confirmed by the State Senate for a term of six years or to complete an unexpired term of a former Commissioner. The Chairman, designated by the Governor, is the chief executive officer of the Department of Public Service.*

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Chairman Brown's Message

In this year's message I want to focus on the overlay of public policy and the markets in developing a clean energy economy for New York intended to stimulate investment, create jobs, and meet the future energy planning needs of the State's residents and businesses.

The intersection of public policy and the functioning of electricity markets is entering a new era and the need for both an improved environment and energy independence will drive significant changes. These changes will affect many sectors of the state and national economy, not just the electric industry. While it is necessary to address these issues and concerns, it will require a careful balancing of interests to meet public policy goals while maintaining the benefits that markets bring.

An example of careful balancing of interests and objectives in the past to meet public policy objective is the Renewable Portfolio Standard or RPS market which was designed to allow the competitive procurement of renewable resources and their integration into the NYISO markets with limited disruption to those markets. As of September 1, there was approximately 7,070 MW of wind projects in the New York Independent System Operator (NYISO) queue. Also, the Commission approved, and New York State Energy Research and Development Authority (NYSERDA) released, the fourth competitive solicitation for $92 million in renewable energy projects in support of the State's efforts to further the development of large-scale renewable generating resources.

The recently released draft of the State Energy Plan, the State recognizes the benefits to consumers brought about through the competitive electricity markets. The draft State Energy Plan also recognizes the growing concerns regarding climate change and other environmental issues facing the State and its populace. Notably, it calls for the development over the next 12 months of a Climate Action Plan, in accordance the Governor's Executive Order 24, to identify strategies, actions, and infrastructures needs with a goal of reducing carbon emissions by 80 percent by 2050.   At the same time, it recognizes that maintenance of a reliable electric system is a paramount concern.

While it is not clear at this point precisely what initiatives will emerge from the climate plan effort, the trajectory of environmental policy's influence on energy policy is clear: the drive for increased energy efficiency will continue and there will be increasing research and subsidization of renewable energy. Increased integration of demand response and price-sensitive load to shave peak demand and reduce the need to run what are often inefficient or high-polluting units will continue. Innovative technology demonstrations such as Energy East's Compressed Air Energy Storage proposal or Beacon Power's flywheel facility can provide peak shaving and other reliability benefits which may receive public funding.

By means of cap and trade markets or other mechanisms to internalize the cost of what are now environmental externalities, there will be calls to minimize the dispatch of high polluting generating units. The Regional Greenhouse Gas Initiative (RGGI) has held five auctions; New York's share of the allowances raised approximately $42 million in the second auction, $46 million in the third auction, $40 million on the fourth auction, and $27 million in the fifth auction. Another auction is scheduled in early December 2009. The RGGI proceeds will provide additional funding for more energy efficiency and clean technologies in New York.

There will be continued calls for public spending on Smart Grid technology and Advanced Metering to make the electricity grid more efficient, reduce losses, and again shave peak demand. There are also those that are calling for a build-out of transmission, for example, to allow the State to import more hydro and wind power from Canada, or to allow greater transfers into New York City to reduce in-city emissions. Also, electrification of the transportation sector will significantly impact the production and delivery of electricity.

Policy makers in New York are keenly aware of the disruption such initiatives can have on the competitive markets. We want to minimize market disruptions or introduction of inefficiencies to the markets. We also need to ensure that the proper mix of resources is maintained or enhanced to provide essential reliability services such as operating reserves, regulation, load following and ramping capability.

Achieving a proper balance of interests and objectives moving forward will require a cooperative effort between all stakeholders, as was done with RPS. Also integral to that effort will be the need for innovative solutions to the technical issues that will arise. Profit opportunities exist for innovation and investment over a wide spectrum from production through delivery and the efficient end use of electricity which ultimately inures to the benefit of consumers. The Commission looks forward to working together with all stakeholders to achieve the results that will be in the best interest of all.

Gary A. Brown

Garry A. Brown

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1 AUDITS AND INVESTIGATIONS

Central Hudson Audit:

The Public Service Commission in November of 2009 authorized the issuance of a Request for Proposals for an independent third-party consultant to conduct a comprehensive audit of Central Hudson Gas & Electric Corporation's (Central Hudson) construction program planning processes and operation efficiencies of its electric and gas businesses.

> "The comprehensive management and operations audit of Central Hudson will be the next audit in our reinvigorated management audit program of the state's largest gas and electric utilities," said Commission Chairman Garry Brown.

Public Service Law provides for examinations of the management and operations of the major electric and gas utilities. The examination process will emphasize an assessment of Central Hudson's effectiveness in meeting its mission, goal and objectives, particularly with respect to performance goals and will identify any opportunities for improvement (*Case 09-M-0764).*

Con Edison Audit:

In August of 2009, the Commission accepted an independent Audit Report of Consolidated Edison Company of New York, Inc.'s (Con Edison) management and operation of its electric, natural gas, and steam services focusing on the company's construction program planning processes and operational efficiency. The Commission also required Con Edison to file within 45 days, and begin to execute an Implementation Plan to fully address the findings and recommendations of the management and operations Audit Report.

The Commission had sought public comment on the Audit Report's more than 119 conclusions which resulted in 92 recommendations. The forward-looking approach of the management and operations audit was intended to evaluate root causes of problems and to point the way for Con Edison to move to a more effective level of construction program planning and spending levels, consistent with its responsibility to provide safe, adequate and reliable service *(Case 08-M-0152).*

Con Edison Gas Explosion:

Department of Public Service staff initially briefed the Commission in May 2009 and subsequently in November of the same year, on the findings of staff's investigation in the matter of the natural gas explosion in Queens in April 2009 which cost the life of one individual within the service territory of Consolidated Edison Company of New York, Inc. (Con Edison).

As a result of its investigation, staff made recommendations to the Commission for consideration concerning, among other things, the company's dispatching policies and procedures, identification of buildings connected to subsurface structures, leak investigation procedures, and facilities replacement *(Case 09-G-0380).*

> "The next step will be to give the public and other interested parties an opportunity to offer comments and suggestions regarding the company's emergency response procedures and how procedures can be improved," said Commission Chairman Garry Brown. "Con Edison will also be directed to address the Commission's broader concerns about whether the company's internal systems, controls and management oversight are adequately designed to enforce existing procedures, detect weaknesses, and implement improvements."

Con Edison Gas & Steam Revenues:

The Commission's February 2009 Order commenced a proceeding to examine the prudence of Con Edison's payments to contractors, for capital projects and for operation and maintenance activities relating to the company's electric, gas, and steam transmission and delivery services and its steam production assets. Also, the proceeding was to address to what extent and by what mechanism a portion of Con Edison's current gas and steam rates should be made subject to refund to customers in the event certain expenditures ultimately are found to have been imprudently incurred.

In June of 2009, the Commission directed Consolidated Edison Company of New York, Inc., (Con Edison) to set aside $32 million in gas revenues and $6 million in steam revenues annually pending the outcome of the Commission's audit and review of the company's contract-related capital, and operation and maintenance expenditures *(Case 09-M-0114).*

National Grid Audit Report:

The Public Service Commission in December 2009 accepted an independent audit report regarding National Grid that included nearly four dozen recommendations as to how the company could improve the management and operations of its upstate electric services. The 192-page audit report submitted by the independent auditor contained 179 separate findings and 44 specific recommendations on ways to improve the company's operations.

The primary goal of the audit report was to identify opportunities to improve National Grid's construction program planning processes and operational efficiency for its upstate operations. The approach of the audit was to examine existing functions, processes, systems, organizations, and staffing, as well as past performance, for the purpose of defining prospective changes that will improve future performance *(Case 08-E-0827).*

2 CONSUMER MATTERS

Consumer Protection Week:

National Consumer Protection Week's, *Dollars and Sense: Rated A for All Ages,* was endorsed by the Public Service Commission and highlighted the importance of using good consumer sense about spending and managing energy-related dollars wisely.

Staff participated in statewide National Consumer Protection Week outreach and education events the week of March 7-13, 2009 which focused on informing consumers of their rights and protections as utility or energy services companies (ESCO) customers. New York's safeguards help ensure that residential customers receive fair treatment from the utility or ESCO including protections applicable to service terminations, the availability of deferred payment arrangements, and budget billing. Also, information concerning energy efficiency and agency programs were available.

Low-Income Energy Forums:

In April 2009, the Public Service Commission and the New York State Energy Research and Development Authority announced a series of meetings sponsored by the Low-Income on Energy

(LIFE) to help address the challenges and opportunities facing low-income families as they seek affordable energy in the wake of the downturn in the economy. The seven LIFE regional meetings provided an opportunity for frontline workers, advocates, and policy makers to meet and network with those who share the same commitment to helping low-income energy customers.

Tenant Protections for Submetering:

The Commission in September of 2009 held in abeyance approvals to submeter electricity in certain multi-family buildings in New York City until each building owner develops a plan to address specific tenant issues. The plans would help ensure tenants, as a group, do not suffer financial harm is submetered electric service is implemented. Additionally, the building owners were to provide thermostats in each dwelling unit, continue to implement energy efficiency measures, and let tenants know how they can reduce electricity use *(Cases 08-E-0836, 08-E-0837, 08-E-0838, and 08-E-0839).*

> “Specific concerns about the impact of submetering on tenants in certain types of buildings have been raised,” said Commission Chairman Garry Brown. “Our action identified the issues, and provides an opportunity for the owners of these electrically-heated buildings to resolve the concerns subject to our approval. Our action also begins the process that will provide guidance to landlords for procedures to follow in the review of pending and future submetering proposals for electrically-heated residential buildings. We need to be especially careful to ensure low-income residents are not unduly burdened when buildings are submetered.”

Winter Storm Assistance:

Due to winter snowstorms and power outages across broad swaths of the New York State in February of 2009, the Commission announced it would keep its Hotline staffed and open the last weekend in February to assist customers in reporting outages and obtaining needed information. The Commission’s toll-free assistance phone number, as well as the toll-free phone numbers for Central Hudson, Con Edison, National Grid, NYSEG and Orange and Rockland were provide to the public. The Commission also provided tips for health and safety during power outages and the aforementioned utilities called in additional company personnel, contractor line crews and forestry crews to help restore electric service.

3 ENERGY EFFICIENCY PROGRAMS

Overview of PSC's Energy Efficiency Programs:

The Public Service Commission announced in January of 2010 that its recently finalized series of unprecedented energy efficient programs would directly lead to more than $1.4 billion in energy-saving investments over the next five years. These funds would support the continued growth of New York's clean energy economy and help New York meet Governor Paterson's goals of achieving 45 percent of our energy needs through renewable energy and improved energy efficiency by 2015.

> "The energy efficiency initiatives being undertaken as a result of our actions last year will provide significant financial assistance to homeowners and businesses to reduce energy use and lower energy bills," said Commission Chairman Garry Brown. "Thousands upon thousands of families and businesses are now positioned to receive substantial financial support to improve energy efficiency."

The programs are designed to entice homeowners, business owners, commercial building owners and manufacturers to make energy efficiency investments, such as purchasing energy efficient furnaces and energy efficient hot water heaters, and install energy efficient lighting systems. More than $950 million is being made available through 2011 and beyond to accomplish the goal.

As a result of Commission actions, the New York State Energy Research and Development Authority (NYSERDA), as well as the major investor-owned utilities in New York, will provide direct incentives to homeowners and businesses to make energy efficiency improvements. Because most of the programs will require at least a partial customer financial contribution, it's estimated that matching private sector investments over the life of the program will be more than $475 million.

The overall goal of the program is to reduce New Yorkers' electricity usage by 2015, with comparable results in natural gas conservation. In addition to helping lower monthly energy bills, the ratepayer-funded initiative is expected to save enough energy to electrically power about 600,000 average-sized homes annually and enough natural gas to heat about 60,000 average-sized homes annually by 2015.

The funding being made available over a five-year period to electric and gas customers is substantial. NYSERDA will receive the largest share — $441 million through 2011 — to fund customer incentives related to its commercial and residential electric and natural gas energy efficiency programs.

To ensure the greatest customer participation possible, major electric and gas utilities would also offer customer incentives. Utility funding would be as follows: Consolidated Edison Company of New York, Inc., $235.8 million; National Grid (upstate), $147.7 million; National Grid (downstate), $39.9 million; New York State Electric and Gas Corporation, $31.7 million; Rochester Gas and Electric Corporation, $20.1 million; Central Hudson Gas & Electric Corporation, $19.6 million; Orange and Rockland Utilities Inc., $14.3 million; Corning Natural Gas Corporation, $0.2 million; and St. Lawrence Gas Company, Inc., $0.08 million.

Chairman Brown added: "Energy efficiency is the most cost-effective, and most immediate, way to reduce the burden of rising energy and environmental costs on residential and business customers. This program establishes a framework for ensuring energy efficiency becomes an integral part of our everyday lives. It is part of broader State policies designed to develop a clean energy industry and an efficient and competitive economy.

The program, officially known as the Energy Efficiency Portfolio Standard (EEPS), has been under development since 2007. Its broad and comprehensive success is due to the concerted efforts of more than 200 organizations and individuals who participated in the Commission's proceeding as active parties. The initiative is designed to forestall an expected rise in energy consumption and the related need for additional infrastructure investment. This increase, combined with expected fuel price increases and supply uncertainty, and the need to reduce greenhouse gas emissions, made it necessary to create energy efficiency programs and quickly find ways to reduce energy use.

In addition to these efficiency programs, a review of the state's 14-year-old System Benefits Charge (SBC), which provides funding for energy programs targeting efficiency measures, research and development and the low-income sector, is also expected. The current SBC program, which expires June 30, 2011, is currently funded at about $175 million a year. The SBC program has been primarily administered by NYSERDA *(Cases 07-M-0548, 08-E-1127, 08-E-1128, 08-E-1129, 08-E-1130, 08-E-1132, 08-E-1133, 08-E-1135, and 09-G-0363).*

4 MERGERS AND ACQUISITIONS

Constellation Nuclear:

In April of 2009 the Commission approved the $4.5 billion acquisition of nearly half of Constellation Nuclear, the indirect owner of three nuclear power plants in upstate New York, to a wholly-owned subsidiary of Electricite de France S.A., the world's largest nuclear power plant owner. Electricity de France (EDF), through the subsidiary would acquire a 49.99 percent ownership interest in Constellation Nuclear.

EDF, owned primarily by the French government, is the leading electric utility in France, where it owns and operates approximately 98,000 megawatts of its worldwide 124,500 megawatts in generating capacity. With the New York power plant acquisitions, EDF's subsidiary would own the 621 megawatt Nine Mile Point Nuclear Unit I and the 1,135 megawatt Nine Mile Point Nuclear Unit II in Oswego and the 582 megawatt R.E. Ginna Nuclear Power Plant in Ontario, Wayne County *(Case 09-E-0055).*

Entergy Spin-Off:

The Public Service Commission in March of 2010 rejected the August 2009 amended petition and March 2010 supplemental proposals submitted by Entergy Corporation, together with its subsidiaries, to spin-off six nuclear power plants, including three in New York, to a new business entity, Enexus Energy Corporation.

The petition rejected by the Commission called for the transfer of indirect ownership of the James A. FitzPatrick Nuclear Station in Oswego County and the Indian Point Energy Center in Westchester County from Entergy to Enexus. In return, Entergy shareholders would eventually have received all of Enexus' capital stock and Entergy would have received cash and reductions in outstanding debt worth approximately $3 billion. Upon completion of the transaction, Entergy and Enexus would have been separate, unaffiliated entities, and the shares of Entergy and Enexus would have traded independently *(Case 08-E-0077).*

Iberdrola Fossil Plant Divestiture:

In November of 2009, the Commission approved the process by which Iberdrola SA, the owner of Rochester Gas & Electric Corporation (RG&E) would sell off certain fossil fuel plants are required as part of its purchase of RG&E and New York State Gas and Electric Corporation.

> “As a result of a collaborative process, a fair and equitable plan has been crafted to enable Iberdrola to divest itself of the fossil fuel plants it acquired last year as part of its purchase of Energy East’s New York assets,” said Commission Chairman Garry Brown. “The divestiture plan will speed the sale of the power plants and benefit ratepayers in the long-term. The parties involved for creating such a workable and fair solution are to be congratulated.”

Under the divestiture plan, RG&E would be permitted to retain 10 percent of the net proceeds realized from the auction of the generation assets up to a maximum pre-tax ceiling of $5 million. The plan also sets forth accounting protocols for the treatment of auction proceeds, and establishes times periods for important milestones for completion of the auction process *(Case 07-M-0906).*

5 RATES FOR UTILITY SERVICES

Central Hudson Electric and Gas Rates:

The Public Service Commission in June of 2009 established a rate plan increase annual electric and gas service delivery rates by $38 million and $13.6 million, respectively, for Central Hudson Gas & Electric Corporation (Central Hudson), not including an additional temporary surcharge on customer bills to recover an increase in state-mandated assessments.

The principal factors driving Central Hudson’s need for additional revenues were a decrease in sales and increase in pension costs. In fact, 71 percent of the electric rate increase and 69 percent of the gas rate increase were directly attributable to those two factors. Nonetheless, the rates incorporate an austerity savings of $2.4 million for electric and $600,000 for gas service.

Central Hudson was also authorized to adopt Revenue Decoupling Mechanisms for both electric and gas service, modeled after programs recently adopted by the Commission for other utilities *(Cases 08-E-0887 and 08-G-0888).*

<u>Con Edison One-Year Electric Rate Plan:</u>

In April 2009, the Commission established a rate plan that sets new electric service delivery rates for Consolidated Edison Company of New York, Inc. (Con Edison) for the next year. The revenue requirement increase of $721 million represents an increase of 6.1 percent on a system-wide basis and consists of a delivery rate increase of $525 million or 14.3 percent and an additional temporary surcharge on bills to recover an increase in state-mandated assessments.

As part of its decision, the Commission determined that Con Edison should impose additional cost-cutting measures as many companies have done recently. As a result, the Commission directed Con Edison to identify and implement an austerity budget that reduces its revenue requirement by $60 million. If after the conclusion of the rate year, the company was unsuccessful in achieving the full amount of the austerity savings, it could petition the Commission seeking authority to defer any savings that it was unable to achieve over a $30 million threshold *(Case 08-E0539).*

<u>Con Edison Three-Year Electric Rate Plan:</u>

The Commission in March of 2010 voted to adopt a three-year plan that establishes new electric service delivery rates for Consolidated Company of New York, Inc. (Con Edison). To lessen the impact on customers, the plan calls for increases to be spread out over a three-year period. The annual levelized base rate increase would be $420.4 million, representing an annual increase of 3.6 percent on a system-wide total bill basis.

“We are always concerned about the impact of any rate increase on ratepayers, especially in these extraordinary difficult economic times,” said Commission Chairman Garry Brown. “The new electric rates that we have approved will provide levelized base rate increases, austerity measures, controls on capital expenditures, and other provisions to reduce economic burdens on hard-pressed consumers. This rate plan is in the public interest and is a testament to the extensive efforts by active parties to address key issues in an equitable and comprehensive manner.”

While the rate plan provides for significant customer benefits, the Commission also required the issuance to all Con Edison customers of a proportional share of a one-time $36.4 million credit resulting from the company's overspending on capital expenditures during a three-year period ending in 2008 *(Cases 07-E-0523, 08-E-0539 and 09-E-0428).*

Corning Gas Rates:

In August of 2009, the Commission approved a Joint Proposal with modifications for Corning Natural Gas Corp. establishing new rates for natural gas service. As part of authorization of new rates, the Commission also would require a mechanism for the sharing of earnings between customers and the company.

The Commission's approval of the Joint Proposal provides for a $1.5 million increase in annual gas delivery service, equating to a bill increase of between 6.5 percent and 7 percent for a typical residential heating customer for the rate year starting September 1, 2009. The typical bill increase would vary depending on usage level and whether the customer is located in the company's Corning or Hammondsport service area *(Case 08-G-1137).*

National Grid Upstate Gas Rates:

A two-year rate plan was adopted by the Commission in May of 2009 that increases natural gas delivery rates for Niagara Mohawk Power Corporation, d/b/a National Grid's upstate customers. National Grid's upstate customers last received a gas delivery rate increase in February 1993.

Under the terms of the rate plan, gas rates would increase $39 million during the first year of the plan. Residential heating customer bills are expected to increase approximately $57 per year. An additional temporary surcharge on customer bills would recover an increase in state-mandated assessments. While these items would place an upward pressure on gas bills, it was anticipated that if natural gas prices remain at expected levels throughout the rate year, the overall bill for National Grid's upstate full service residential gas customers would likely be significantly lower than their overall gas bills were last year *(Case 08-G-0609).*

NYSEG, RG&E Rate Increase Request Dismissed:

A motion by Staff of the Department of Public Service to dismiss the January 2009 rate relief filings of New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E) was granted by the Commission in April of 2009.

> "The Commission determined that the evidence in this proceeding does not indicate that NYSEG's and RG&E's ability to provide safe and reliable service to their customers is jeopardized," said Commission Chairman Garry Brown. "This determination was made in consideration of the fact that the companies agreed, as part of the Iberdrola merger agreement, to not file for a rate increase within a certain time period unless they could show financial performance would fall to levels that would jeopardize the ability to provide safe and reliable service."

NYSEG and RG&E had been prohibited from filing for rate relief under the terms of their recent acquisition by Iberdrola, S.A., unless they could demonstrate that their ability to provide safe and reliable service would be jeopardized. The Commission found no such jeopardy exists *(Cases 09-E-0082, 09-G-0083, 09-E-0084 and 09-G-0085).*

New York Water Rates:

In January of 2010, the Commission adopted a three-year rate plan for New York Water Service Corporation that would result in three annual revenue increases of $1.9 million, up 8.47 percent; $.4 million, up 1.6 percent; and $.5 million, up 1.95 percent, effective February 6, 2010, 2011, and 2012, respectively.

Net revenue increases, set forth as part of an agreed-upon joint proposal, were needed in the first year to cover $1 million increase in property taxes. Other costs driving the increase were capital costs associated with new infrastructure needed to provide safe, adequate and otherwise reliable water service, production costs, and pension costs. All together, these four costs were projected to go up $2.9 million. Because all other costs are going down by $1 million, the revenue increase needed was only $1.9 million *(Case 09-W-0237).*

Orange & Rockland Gas Rates:

A three-year rate plan was established by the Commission in October of 2009 that increased gas service delivery rates by $8.964 million per year in November of 2009, 2010, and 2011 for Orange and Rockland Utilities, Inc., (O&R). Under the rate plan, delivery revenues results in a change for residential customers in the basic charge for up to 3 Ccf of natural gas service from $14.00 to $15.40 in November 2009; to $16.94 in November of 2010; and to $18.63 in November 2011. While the existing low-income customer program was enhanced, the company implemented austerity measures without adversely affecting safe and adequate service *(Case 08-G-1398).*

St. Lawrence Gas Rates:

A three-year rate plan that increased gas service delivery rates $1.37 million in January 2010, $786,000 in January 2011, and $213,000 in January 2012 was established by the Commission in December 2009 for St. Lawrence Gas Company Inc.'s customers. In approving the rate plan the Commission sought to strike a fine balance between ratepayers' interests and the need to maintain a viable delivery system.

Under the rate plan, average annual residential delivery rates were set to increase $73 in 2010, 4.6 percent of the total bill; $26 in 2011, 3.1 percent of the total bill; and $13 in 2012, 0.8 percent of the total bill. The total bill for the typical commercial/general-use was expected to increase $1.6 percent, 1.5 percent, and 0.4 percent 2010 through 2012, respectively. The average industrial delivery rate would increase 6.2 percent in 2010 *(Case 08-G-1392).*

Utility Austerity Plans:

The Public Service Commission issued a Notice in May 2009 requiring major electric and gas utilities in New York to file austerity plans with the Commission within 30 days. These plans would detail current and future corporate actions during this economic downturn to reduce or postpone discretionary costs and eliminate unnecessary spending. These utility plans must also show how the cost savings from the austerity plans would be shared with customers, and how soon these savings would be shared.

The Commission noted that in response to the downturn in the national and state economy, households and businesses were implementing austerity measures to curtail discretionary spending. In response to these dramatic economic changes, utilities as part of their obligation to serve customers, should also be implementing austerity measures aimed at eliminating or deferring discretionary spending in a manner that does not impact safe and adequate service.

6 RELIABILITY

Bayone Generating Plant:

The Public Service Commission in November of 2009 approved the New York portion of a 6.6 mile, 345 KV AC, submarine electric cable system and associated cable and interconnection equipment, which would connect a new 512 megawatt natural gas generation plant in Bayonne, New Jersey to the existing Consolidated Edison Company of New York, Inc's. Gowanus substation in Brooklyn, New York. The project is anticipated to come on line in the fourth quarter of 2011 *(Case 08-T-1245).*

> "The additional 512 megawatts of capacity from the new Bayonne generating plant into the New York City electricity supply is anticipated to provide additional reliability benefits, environmental improvements, and potential price reductions," said Commission Chairman Garry Brown. "The facility, along with the added generation supply, will bring benefits to the competitive market, and to ratepayers, as a result of the shift of financial expenditure and risk from the utility to the merchant developer."

Central Hudson Mandatory Hourly Pricing:

Central Hudson Gas & Electric Corporation's (Central Hudson) plan to expand the company's mandatory hourly pricing provision to all customers with demand exceeding 500 kilowatts in any two of the previous 12 months was approved by the Commission in February of 2010. In approving the company's implementation plan, the Commission noted that Central Hudson intends to have meters placed by October of 2010, or one year before the mandatory hourly pricing provisions would take effect in October 2011. Additionally, the outreach and education plans would consist of customer notification, seminars to education customers, enhancements to the company's Web site, and employee training in order to help prepare customers for the transition to hourly pricing *(Case 08-E-0887).*

Con Edison's Response Program:

The Commission authorized Consolidated Edison Company of New York, Inc. (Con Edison) in April of 2009 to implement changes to its very successful electricity demand reduction program or the Rider U-

Distribution Load Relief Program (Rider U-DLRP) to hopefully spur greater success in reducing electricity consumption. Rider U-DLRP participants provide demand response through load reductions or operation of on-site generation when Con Edison determines that load relief is needed on a network level basis in return for financial incentives. Two enrollment options are offered—mandatory and voluntary program participation. Approximately 188 megawatts of mandatory participation and 53 megawatts of voluntary participation are enrolled in the program *(Cases 08-E-1463 and 08-E-0176).*

<u>Con Edison's Demand Response Pilots:</u>

The Commission in October, 2009 noted that Consolidated Edison Company of New York, Inc.'s (Con Edison) system experiences peak demand for only a small number of hours a year and only during the summer months. By decreasing the highest peaks, the infrastructure needed and therefore, the expense of meeting peak demand could be significantly reduced, as well as lowering long-term utility costs borne by ratepayers and emissions in communities where certain power plants exits. In response, Con Edison proposed four new demand response pilot programs: Commercial System Relief Program for large commercial or industrial customers; Residential Smart Appliance Program; Critical Peak Rebate Program for all customer classes; and Network Relief Program target at specific networks in need of system relief *(Case 09-E-0115).*

<u>Con Edison Credit to Customers:</u>

Consolidated Edison Company of New York, Inc. (Con Edison) operates under a Reliability Performance Mechanism (RPM) which requires negative revenue adjustments if the company does not meet or exceed certain performance thresholds. The Commission in July of 2009 directed Con Edison to use $5 million of shareholder funds to establish a credit for ratepayers as a result of the company not meeting a reliability goal under the terms of its 2008 electric rate plan. The company failed to meet the standard established for the length of time a network interruption occurs *(Case 07-E-0523).*

<u>Electricity Reliability</u>:

In June of 2009, staff of the Department of Public Service delivered reports to the Commission assessing electric service reliability and customer service quality performance by utilities in New York State. As reported to the Commission by staff, statewide interruption frequency for 2008, excluding major storms was considerably better than that recorded in 2007, while the statewide duration has remained consistent with recent years' performances. Regarding customer service, utilities met or exceeded performance on

46 of 49 measures. These performance measurement systems link company earning to company performance on specific measures of system reliability and/or customer service *(Cases 09-E-0450 and 09-M-0456).*

New York Regional Interconnect:

In late April of 2009, the Public Service Commission dismissed the application of the New York Regional Interconnect, Inc. (NYRI) to build a 190-mile transmission line from upstate to downstate New York.

Earlier in the month NYRI announced that its investors had decided the financial risks of cost recovery were too great as a result of a Federal Regulatory Commission denial of rehearing with respect to the Congestion Analysis and Resource Integration Study process of the New York Independent System Operator. As a result, the investors withdrew their Article VII application to construct the transmission line *(Case 06-T-0650).*

Storm Response Analysis:

In June of 2009 the Commission received a report from staff of the Public Service Department with recommendations to improve Niagara Mohawk Power corporation d/b/a National Grid's, New York State Electric and Gas Corporation's, and Central Hudson Gas and Electric Corporation's restoration and customer service performance during future storm events.

Staff was directed to coordinate a collaborative process with the utilities to help develop guidelines and protocols to help ensure timely release of estimated restoration of service to the public following a storm event. The Commission noted that determining how to improve storm response and restoration efforts is a critical part of the Commission's mission to ensure safe and reliable service *(Cases 09-E-0272 and 09-E-0271).*

Summer Electricity Supply Needs:

In preparation for the summer capacity season and the needs of the electric transmission system, staff reported to the Commission in May of 2009 that it reviewed the condition and status of the electric systems of all New York State transmission owners and assessed the operational readiness of the companies.

Staff also conducted a meeting with operating managers at the New York Independent system Operator (NYISO) to evaluate the adequacy of the State's bulk electric system to meet summer peak load and review operating procedures the NYISO has in place to maintain reliability of the system.

Based upon the information received from the transmission owners and discussions with the NYISO, staff reported to the Commission their belief that there would be adequate electric supply to meet the demands of New York customers in the summer and that the transmission system should be adequate to deliver the energy to all parts of the State.

Winter Heating Season:

In October of 2009, staff of the Department of Public Service reported to the Commission that the utilities providing natural gas service in the state had adequate supplies, delivery capacity and storage inventory to satisfy customer demands under severe winter design conditions.

As part of the winter readiness review, staff reviewed the utilities' compliance with Commission policy regarding gas purchasing practices. Special attention was given by staff to the methods utilized by the utilities for gas price risk management efforts, including the use of hedges (i.e., storage gas and fixed price contracts) and financial instruments, such as futures and options.

7 RENEWABLE ENERGY

High-Tech Energy Storage Plant:

The Public Service Commission in October of 2009 decided to grant Stephentown Regulation Services LLC, (Stephentown Regulation) which planned to construct and operate a 20-megawatt energy storage facility in Stephentown, Rensselaer County, a Certificate of Public Convenience and Necessity (CPCN). In addition, the Commission decided that the company qualifies for lightened regulation because it would sell it regulated services in the competitive wholesale market; and that its proposed financing would be approved.

> We are excited to be able to support the development of new, state-of-the-art facilities that will help us improve our use of electricity," said Commission Chairman Garry Brown. "The facility's flywheels are designed to store excess energy when the generated power supply exceeds demand and conversely deliver it back to the grid when demand exceeds supply. This project will help fully utilize electricity generated from renewable power sources, which is often generated at times when demand is low."

Stephentown Regulation plans to site, install and operate an interconnected system of energy storage devices utilizing flywheels, control equipment and substation switchgear, to convert transmission level electrical energy to kinetic rotary energy for short term storage and regulation. The facilities will be installed at a seven acre site which adjoins electric transmission facilities owned and operated by National Grid, and electric distribution facilities owned and operated by NYSEG *(Cases 09-E-0592 and 09-E-0628).*

Previously, in September of 2009, the Commission indicated that a proposed state-of-the-art energy storage facility in Rensselaer County would not need a mandated environmental impact study. The Commission had conducted its own environmental assessment, and concluded that its assessment, together with other supporting documentation, noted that the facility's construction would not result in any significant adverse environmental impacts.

In addition, the Town of Stephentown's separate environmental assessment review found the facility would not have a significant effect on the environment. It would not emit direct air pollutants to provide the increased electric power. The environmental impacts identified are limited to temporary impacts during construction and permanent loss of approximately two acres of woodlands that would be cleared at the project site (*Case 09-E-0592).*

<u>Kickstart of Renewable Energy Investments:</u>

In August of 2009, the Commission authorized approximately $95 million to be made available under its Renewable Portfolio Standard (RPS) program to develop large-scale renewable energy projects, including wind, biomass, and run-of-river hydroelectric projects.

> "Our decision to make money available for renewable energy projects reaffirms the important value we place on the development of the clean energy sector of New York's economy," said Commission Chairman Garry Brown. "Renewable energy, along with our energy efficiency efforts, provides our best hope toward ending dependency on fossil fuels, improving regional economies, and reducing global warming gases. Backed by the potential for significant public and private financial investments, we look forward to a brighter, cleaner energy future in New York."

As an added incentive, the RPS funding being made available would enable renewable energy developers in New York to leverage federal grants available under the American Recovery and Reinvestment Act of 2009. This leverage could result in a significant increase in the amount of federal funding coming to New York, providing an even greater building boost of renewable energy projects (*Case 03-E-0188).*

Renewable Energy Program Expanded, Strengthened:

The Public Service Commission took a major step in March of 2010 toward meeting its goal to increase the proportion of renewable generation to 30 percent of projected electricity consumption by 2015, and to ensure New York remains a leader in the development of renewable energy resources.

The Commission approved more than $279 million over a five-year period for customer-sited renewable energy projects as part of the state's Renewable Portfolio Standard (RPS) program. This funding will enable thousands of homeowners and businesses to install solar panels, fuel cells, wind turbines and other renewable energy devices. In addition, the Commission approved $150 million for large-scale solar photovoltaic, anaerobic digester and fuel cell projects in and around the lower Hudson Valley and the New York City metropolitan area.

The ratepayer-funded RPS initiative employs two programs to encourage the development of renewable energy. Both programs are administered by the New York State Energy Research and Development Authority (NYSERDA). The bulk of the electricity is obtained through competitive procurements for large-scale renewable resources, known as the main tier. The customer-sited tier promotes smaller, self-generation facilities located at residences and businesses.

The customer-sited tier is designed to encourage emerging technologies to play a role in diversifying the state's energy mix, improve the environment, reduce demand during peak load times, and stimulate economic development opportunities. The major benefits of the customer-sited tier include customer participation, technological innovation and commercialization, economic development, fuel diversity, environmental mitigation and strategic load reduction. It helps create market demand and new jobs and has enabled New York to attract new investments.

Technologies eligible for participation in the customer-sited tier include solar photovoltaic, anaerobic digesters, fuel cells and small wind. The Commission's decision added solar thermal hot water to the list of eligible technologies. Funding amounts are as follows: solar photovoltaic ($144 million); anaerobic digesters ($70.5 million); fuel cells ($21.6 million); small wind ($18.1 million); and solar thermal ($24.7 million).

> "The development of renewable energy projects strengthens New York's emerging clean energy economy, and provides opportunities for job creation at all levels of the renewable resources supply chain," said Chairman Garry Brown. "In these difficult economic times, we are keeping our focus on the long-term need to support the investment in renewable energy. The development and expansion of our critically important renewable energy resources will allow us to take greater control of our energy future."

Previously in June of 2009, the Commission adopted changes to the RPS program by reallocating and increasing funds for the solar PV program of the customer-site tier by $15 million in response to the continued increasing market demand for that specific renewable energy technology, and by making a corresponding $600,000 reallocation for increased evaluation of that program *(Case 03-E-0188).*

Also in January of 2010, the Commission had provided interim funding until June of 2010 of approximately $20.9 million for solar photovoltaic, anaerobic digester, fuel cell and small wind technology installations under customer-sited tier of the RPS program. Funding for these programs had expired in December of 2009. The Commission's funding decisions in March of 2010 provided funding for these installations and solar thermal hot water installations through December of 2011 *(Case 09-E-0188).*

Last year, the Commission expanded the RPS goal to increase the proportion of renewable generation in New York to 30 percent of projected electricity consumption by 2015. As part of that 2009 decision, the Commission authorized $200 million in main tier spending. The Commission's actions in March of 2010 further strengthened and secured the landmark RPS program, which has been New York's primary policy initiative to promote the development of new renewable energy resources since 2004.

The Commission's decision to increase funding for renewable energy projects will spur significant private sector renewable energy investments, including an estimated $626 million spent on customer-sited solar photovoltaic projects alone. In total, these new customer-sited projects will produce an estimated 466,000 megawatt hours of electricity over the five-year period, or enough electricity to supply 72,000 average-sized homes.

In addition to customer-sited tier, the funds for large-scale downstate projects would be directed at projects greater than 50 kW. These projects would be more cost-effective and located where distributed generation can do the most good. The size complements the solar photovoltaic installations that are already supported under the customer-sited tier, which must be 50 kW or less, and provides economies of scale.

To ensure the investments are being made wisely, the Commission's decision includes an evaluation component of the customer-sited tier to assess the contribution of the applicable technologies toward the overall RPS goal. This would include a market evaluation for each technology, as well as an impact evaluation to assess the accuracy of estimated energy generation based on actual production. These evaluations will help to inform the Commission on the overall success and cost-effectiveness of the program relative to other clean energy options as part of its 2013 review *(Case 03-E-0188).*

Net Metering Options Expanded:

The Commission in June of 2009 approved tariff filings, with modifications, for National Grid, NYSEG, RG&E and Central Hudson for implementation of net metering residential, farm service and non-residential wind electric generating systems in the service territories of four investor-00wned utilities in New York. Net metering enables customers to sell back power to the utility. The effective date of the modified net metering tariffs is July 1, 2009. Previously, Con Edison and Orange Rockland filed wind net metering tariffs which were approved by the Commission in the 2009 Net Metering Order *(Cases 09-E-0284, 09-E-0296, 09-E-0297, 09-E-0298, 08-E-1306 and 08-E1307).*

> Net metering encourages the use of small-scale renewable energy systems, which provide long-term benefits to the environment and the economy," said Commission Chairman Garry Brown. "By using net metering, a home or business owner is able to take excess electricity created by wind energy generation or other qualifying renewable generation and in effect either banks the electricity until it is needed or sells it back to the utility at its retail value, thereby providing a benefit for the customer and the environment."

Similarly, the Commission in February of 2010 approved tariff filings of the six investor-owned utilities in New York to encourage the installation of residential micro-combined heat and power (micro-CHP) and fuel cell electric generating systems that would enable homeowners to sell excess power to the utility.

To further encourage development of net metering opportunities, the Standardized Interconnection Requirements for distributed generation units operating in parallel with the electric utility distribution system that both utilities and customers are required to follow was revised to incorporate the net metering modifications for micro-CHP and fuel cell systems *(Case 08-E-1305).*

<u>Renewable Power Plant:</u>

In February of 2010, the Public Service Commission approved up to $35 million in financing to build a 9.6 megawatt, renewable-fueled electric and steam generation facility at Griffiss Business and Technology Park in Rome, Oneida County, to provide lower priced electric and steam service to tenants in the industrial park.

The power plant operator, Griffiss Utility Services Corporation, plans to install a biomass-fueled combined heat and power generation facility at the Griffiss Park. The facility is sized to meet electric and steam needs at Griffiss Park, where it will supply approximately 75 percent of the Park's electric demand and would replace the existing steam boilers, supplanting them as the source for meeting all steam load requirements. The power plant would remain interconnected to National Grid to obtain the remaining 25 percent of its electric needs *(Case 09-M-0776).*

Uniform Methodology for Renewable Developer Studies:

The Commission in October of 2009 adopted a uniform methodology for conducting generator energy deliverability studies by renewable developers. Also, each new applicant for a certificate of public convenience and necessity (CPCN) to construct a renewable energy project would be required to provide such study or seek an exemption from such requirement. A developer may rely on any recent New York Independent System Operator or transmission owner study that would indicate that the project's output would be deliverable and would not displace existing renewable energy, where such study exists.

The Commission would use this information in balancing environmental impacts of the proposed project compared to the energy the project can produce and deliver, as part of its CPCN application evaluation. To help estimate where congestion will likely develop on the system, it is desirable to have the information on energy deliverability calculated on consistent assumptions and presented in the same format. For those projects that do not require a CPCN, the Commission's order does not impose any new requirements *(Case 09-E-0497).*

8 SAFETY

Con Edison Show Cause Order:

At its March 25, 2010 meeting, the Public Service Commission instituted a new proceeding and directed Consolidated Edison Company of New York, Inc. (Con Edison) to show why the Commission should not determine that four violations of gas safety regulations caused or constituted a contributing factor in bringing about the death of a resident of 8-50- 260th Street, Queens, New York. These four violations could result in a cumulative maximum civil penalty of $1 million. Con Edison personnel were on site before the explosion occurred, having responded to gas odors on the block. Following the incident Department of Public Service staff conducted an investigation and filed a report with the Commission on November 12, 2009 *(Cases 09-G-0380 and 10-G-0100).*

Homeowner and Contractor Safety Regulations:

Governor David A. Peterson proclaimed April 2009, to be "Dig Safely Month" in New York State as a way to remind excavators, contractors and homeowners that state law requires them to call one of the state's toll-free one-call centers before starting any excavation or digging project. Damages to utility facilities caused during excavation can result in loss of utility service, personal injury and property damage.

New York State established the One-Call Notification System as a fast, easy and comprehensive way to ensure underground facilities are properly marked before a digging or excavation project begins. The keys to preventing damage to underground facilities are the two "One-Call Notification Systems" that serve as communication links between contractors/excavators and local utilities and municipalities. These centers can be reached by simply dialing 811, for which there is no charge for the call.

Electric Safety Standards:

In June of 2009, the Commission received a report from staff of the Department of Public Service concerning electric utilities' compliance with electric safety standards. These standards were established by the Commission to help ensure the safety of the public from stray voltage and to enhance the reliability of the electric system in the State of New York.

The Commission's statewide electric safety standards implemented in January 2005, include requirements that the regulated electric utilities in the State annually test all of their publicly accessible transmission and distribution facilities for stray voltage and inspect all electric facilities at least once every five years. The testing and inspection cycles required under the standards were amended on a going-forward basis in December 2008.

Staff's report to the Commission indicated that stray voltage testing was performed on almost 4 million transmission and distribution facilities across the State. The 2008 test results reveal that testing of streetlights along public thoroughfares remains an issue of concern, particularly in Con Edison's service territory. The company plans to mitigate the problem by installing up to 163,000 isolation transformers and associated connectors in underground structures supplying street lamps and traffic signal in New York City and Westchester County *(Case 04-M-0159).*

LDCs Safety Record Report:

Staff of the Department of Public Service presented in June of 2009 its *2008 Gas Safety Performance Measures Report* (Staff Report) to the Commission examining natural gas local distribution companies'

(LDCs) performance in three areas pertaining to safety—damage prevention, emergency response and leak management. In addition, staff made recommendations where performance improvements were added.

Overall, the data suggests that company performance has substantially improved across the State during the past six years, as noted by the Commission. In accordance with staff's examination, damage prevention performance improved over 25 percent in 2008. For emergency response, 2008 was the first year every LDC met all three response targets for gas leak or emergency notifications. Also, the year-end backlog of potentially hazardous leaks improved 35 percent over 2007.

In 2009, LDCs expect to replace more than 300 miles of leak-prone pipe in New York. This effort will improve public safety and will help reduce the leakage rates LDCs experience *(Case 09-G-0454).*

9 SMART GRID

Smart Grid Conference:

The Public Service Commission held a Technical Conference in June of 2009 to explore issues associated with the development and deployment of smart grid technologies in New York, including utilization of federal funding.

> "With the goal of enhancing our State's power system and empowering customers with more information and the ability to control their energy costs, comes the responsibility to ensure that large expenditures for the deployment of a smart grid are in the public interest," said Commission Chairman Brown. "The introduction of computer technology designed specifically for the electric grid will spark a revolution in the way we use electricity, much like the revolution that occurred in telecommunications and the Internet."

The Commission indicated its interest in developing a base of knowledge related to utility smart grid technologies in New York through the Technical Conference to assist in the Commission's decision in determining whether to support investment in smart grid technologies. As smart grid technologies enhance two-way communication to improve electric grid operation, there are several opportunities for improvement in New York State including: reduction in power system losses; greater demand response; increased use of distributed generation; and better outage management systems.

The Commission was also interested in utility smart grid investment strategies, including associated ratepayer costs and utilization of federal funding available from the recently enacted American Recovery and Reinvestment Act of 2009 or ARRA *(Case 09-E-0310).*

Smart Grid Projects for New York:

On July 15, 2009, the Commission received an oral report from staff of the Department of Public Service regarding Staff's review of smart grid projects proposed by several electric utilities which may qualify for stimulus funding from the U.S. Department of Energy under the American Recovery and Reinvestment Act of 2009 which would cover up to 50 percent of the total costs of the proposed smart grid projects. These projects represented a total cost of approximately $1 billion or a ratepayer 50 percent matching cost of approximately $500 million.

On July 24, 2009, the Commission voted to approve a wide-range of advanced smart grid initiatives as proposed by six major electric utilities in New York with a total cost of about $825 million and ratepayer matching funding of approximately $390 million.

> "These projects represent an opportunity to move New York's electricity system into the 21st century," said Commission Chairman Garry Brown. "With federal cost-sharing being offered, now is the perfect time to move forward because it will minimize the financial impact on ratepayers. In addition, we anticipate a greater likelihood of success in winning the federal grant if the utility has already secured non-federal funding sources for projects."

The utilities seeking ratepayer recovery for matching funding of smart grid investments, and the amounts of such funding approved by the Commission included: Con Edison for $175 million; National Grid $145 million; RG&E $36 million; NYSEG $20 million; Central Hudson $10 million; and Orange and Rockland $5 million. The ratepayer-matching funding would be provided through a temporary surcharge to be implemented upon completion of each project.

Smart Grid Management Award to PSC:

In September of 2009, the Public Service Commission (PSC) announced it was awarded more than $1.2 million in federal stimulus money to help strengthen oversight of upcoming improvements to the State's electric grid being made possible by the federal American Recovery and Reinvestment Act. This award ensures New York can capitalize on federal stimulus funding for smart grid technology, with minimal ratepayer impact.

In addition to strengthening our regulatory review, the federal funding will further improve the Commission's ability to examine the potentially significant impacts plug-in electric vehicles, demand response initiatives and state-of-the-art energy storage concepts might have on the electric grid.

10 TELECOMMUNICATIONS

315 Area Code Relief Not Needed:

The Public Service Commission in June of 2009 held in abeyance is proceeding to determine how best to create an additional area code in the 315 area code region. The North American Numbering Plan Administrator (NANPA), the entity designated by the Federal Communications Commission to administer area codes throughout the United States, indicated the 315 area code would not exhaust as quickly as initially predicted. Due primarily to the slowing of the economy, the exhaust date estimated by NANPA was extended until the first quarter of 2013.

Area Code for NYC Outer Boroughs:

Verizon New York Inc. and all other carriers providing local exchange service in the 718/347 area of New York City were directed by the Public Service Commission in December of 2009 to activate a new area code for this area. The actual three-number area code would be assigned by the North American Plan Code Administrator (NANPA) at a later date. The NANPA in October of 2008 indicated that the geographic area served by area codes 718 and 347 were running out of assignable telephone numbers.

After receiving public comments, the Commission in May 2009 determined an overlay plan would be used to superimpose the new area code on the present 718/347 area codes for the outer Boroughs of New York City so that all existing telephone numbers would remain unchanged, while new telephone numbers would be assigned the new area code. All local calls within and between the 718/347 area codes and the new area code would continue to be dialed by using 1+10 digit dialing.

Manhattan Phone Numbers Made More Portable:

In April of 2009, the Commission authorized Verizon New York Inc. (Verizon) to consolidate the three rate zones for the Borough of Manhattan. This consolidate allows customers in area codes 212, 646, and the Manhattan customers in area code 917, who move within the Borough of Manhattan to keep their same telephone number. This change would not result in any rate increases and is anticipated to be effective in August 2009. Also, the Commission's authorization to consolidate certain rate zones for Verizon places the company on equal footing with its wireless competitors; and is an approved method to conserve telephone numbers within an area code.

Residential Rate Increase for Verizon Customers:

The Commission in June of 2009 authorized Verizon New York Inc. (Verizon) to increase its monthly charges for certain residential local exchange access lines by $1.95 a month. The rate increase would generate much needed additional short-term revenues as Verizon faces the dual financial pressures created by competitive access line losses and the significant capital it is committing to it New York network. As part of this action, the Commission reiterated its commitment to ensuring that affordable and reliable telecommunications services are universally available to residential customers.

Telephone Service Commendations:

The Commission issued in March of 2010 letters of commendations to 51, out of a possible 73, local telephone companies or telephone company operating divisions throughout the state for providing excellent service to customers in 2008. Most small incumbent local exchange carriers qualify for a commendation, as do most eligible competitive local exchange carriers. In addition, one of 11 operating divisions for Verizon New York Inc. and Windstream New York, Inc.'s two divisions are recommended to receive commendations.

The commendations for excellent service are based on telephone companies' performance in relation to service quality standards established by the Commission. The criteria used to grant a commendation for excellent service included an evaluation of customer trouble report rates (CTRR) and the number of consumer complaints received by the Commission. This year marks the 22nd year that the Commission has recognized companies for providing exemplary service. The 51 companies or operating divisions on the attached list met the criteria for Commendation for Excellent Service Quality provided in 2009.

Year 2009 Service Quality Commendations for Telephone Companies and/or Various Operating Divisions

Company	Threshold CTRR [1]	PSC Complaint Rate [2]	Consecutive Year's Made
Armstrong	100%	0.00	Fourth
AT&T - ACC Corporation	100%	0.00	Fifth
AT&T- AT&T Local Services	100%	0.00	Seventh
AT&T Long Distance	100%	0.00	Fourth
Berkshire [3]	100%	0.00	First
Broadview Networks	100%	0.05	First
Cablevision Lightpath	97%	0.00	Twelfth
Cassadaga	100%	0.00	Seventeenth
Champlain	100%	0.00	Eleventh
Chautauqua & Erie [3]	99%	0.00	First
Chazy & Westport	100%	0.00	Fourth
Choice One Communications	98%	0.02	Fourth
Citizens of Hammond	100%	0.00	Fourteenth
Conversent Communications	100%	0.00	Third
Crown Point	100%	0.00	Seventeenth
Delhi	100%	0.00	Fifth
Deposit	98%	0.00	Eighteen
Dunkirk & Fredonia	100%	0.00	Twenty One
Edwards	100%	0.00	Fourth
Empire	100%	0.00	Fourth
Fishers' Island	100%	0.00	Twentieth
Frontier Communications of America	100%	0.00	Eighth
Frontier of AuSable Valley	100%	0.00	First
Frontier of Sylvan Lake	100%	0.00	Sixth
Global Crossing Local Services	100%	0.00	Seventh
Hancock	100%	0.00	Twenty One
Margaretville	100%	0.00	Twenty One
Middleburgh	100%	0.00	Fifteenth

[1] Customer Trouble Report Rate (CTRR) is based on 95% or more of a company's monthly central offices performance results in a given year per central office being in the performance range of 0-3.3 reports per 100 lines (RPHL).

[2] PSC Complaint Rate is the number of complaints per 1,000 access lines per year; the commendation level is 0.075 or less.

[3] Met Incentive Plan which includes any service-related requirements of a multi-year rate plan, an incentive plan or separate Commission Order directing service improvements.

Year 2009 Service Quality Commendations for Telephone Companies and/or Various Operating Divisions

Company	Threshold CTRR [1]	PSC Complaint Rate [2]	Consecutive Year's Made
Newport [3]	100%	0.00	Eleventh
Nicholville	100%	0.00	Eleventh
Ogden	100%	0.07	Twenty Two
Oneida County	100%	0.00	Twentieth
Ontario	100%	0.00	Sixth
Oriskany Falls	100%	0.00	Twelfth
PAETEC Business Services	100%	0.00	Fifth
PAETEC Communications	100%	0.02	Fifth
Pattersonville	100%	0.00	Twenty Two
Port Byron	100%	0.00	First
Primelink, Inc.	100%	0.00	Third
RCN Telecom	100%	0.00	Eleventh
State	100%	0.00	Fifth
Tech Valley Communications	100%	0.00	Sixth
Township	100%	0.00	Sixth
twtelecom	100%	0.00	Ninth
Verizon - Manhattan South	100%	0.05	Seventh
Vernon	100%	0.00	Sixth
Warwick Valley	100%	0.08 *	Third
Windstream (Fulton)[3]	98%	0.00	Sixth
Windstream (Jamestown) [3]	96%	0.00	Fourth
Westelcom Networks	100%	0.00	Fourth
XO Communications	100%	0.00	Fourth

[1] Customer Trouble Report Rate (CTRR) is based on 95% or more of a company's monthly central offices performance results in a given year per central office being in the performance range of 0-3.3 reports per 100 lines (RPHL).

[2] PSC Complaint Rate is the number of complaints per 1,000 access lines per year; the commendation level is 0.075 or less.

[3] Met Incentive Plan which includes any service-related requirements of a multi-year rate plan, an incentive plan or separate Commission Order directing service improvements.

* Result is above the .075 commendation level, but only involves 1 complaint.

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