

STATE OF NEW YORK

Public Service Commission

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PSC Votes to Approve Three-Year Gas Rate Plan for O&R

-Rate Plan Protects Customers and Long-Term Viability of Utility-

Albany, NY—10/18/06—The New York State Public Service Commission (Commission) today voted to approve a three-year gas rate plan commencing November 1, 2006, for Orange and Rockland Utilities, Inc. (O&R or the company). The comprehensive rate plan also includes provisions for customer service and safety performance standards, low-income and economic development programs, and the continuation of programs to ensure customer choice of energy suppliers.

"Today's decision by the Commission strikes an appropriate balance between the interests of protecting customers and the long-term viability of the utility," said Commission Chairman William M. Flynn. "Customer interests were addressed, first and foremost, by minimizing the level of the rate increases over three years, while at the same time improving the opportunity for O&R to recover its costs to serve customers. Evidence of this balance is the wide range of support—municipalities, an industrial customer organization, energy service companies—from parties with varying interests."

On November 28, 2005, O&R filed a proposal to increase its delivery rates for natural gas service by \$23.7 million for the 12 months ending October 31, 2007. The company's proposal represented an increase in delivery rates of approximately 26% based on company forecast data. According to the company's filing, rising operating costs, in particular, pensions and post-employment benefits, prompted its request for a rate increase. Approximately \$3.5 million of the delivery rate increase was due to the proposed shifting of revenue credits and expense recoveries between delivery rates and other charges, such as the Gas Supply Charge, so

that the bill impact of the requested rate increase was the equivalent to approximately \$20 million. The impact of these changes on customers' bills, including both delivery and gas commodity charges, was forecasted to be a 4.7% increase. The Commission held two public statement hearings on the rate proposal on April 25 and 26, 2006, in New City and Middletown, respectively.

In today's decision, the Commission approved a Joint Proposal put forth by O&R, Department of Public Service Staff and two intervenor parties. The order phases in increased rates over a three-year period commencing on November 1, 2006, through a combination of permanent delivery rate increases, the use of credits due and owing to customers, and a one-time surcharge. The order specifically provides annual delivery rate increases totaling \$14.8 million (\$6.5 million in Rate Years 1 and 2 and \$1.8 million in Rate Year 3) and a one-time surcharge of \$4.5 million during the third rate year. Of the overall increase, approximately, \$10.0 million is attributable to increases in direct labor and shared services, pensions and other post employment benefits, environmental cleanup costs, and information systems costs.

The impact of the ordered rates and surcharge on the total bill—delivery plus commodity—on an average residential customer using 112 Ccf of gas per month is 0.59% in Rate Year 1, 1.83% in Rate Year 2, and 1.51% in Rate Year 3. Approximately two-thirds of the Rate Year 3 increase is represented by the one-time surcharge designed to compensate O&R for the delay in revenues caused by the three-year phase-in of the rate increase. Additionally, the rate plan provides for tiered sharing of excess earnings above specified thresholds between customers and shareholders of 50/50 in the first tier, 65/35 in the second tier, and all earnings above 14% of common equity being returned to customers.

The comprehensive rate plan also includes an expanded natural gas Low Income Program. An additional 2,300 natural gas customers would be served under the expanded low-income program. Under the program, any O&R natural gas customer who also receives a grant under the Home Energy Assistance Program (HEAP) would receive a monthly bill credit of \$7.00 from the company. Also, the company would waive 50% of its reconnection fee (\$34.50) for any Low-Income Program participant who requests reconnection after termination for nonpayment.

The rate plan continues and strengthens customer service metrics and gas safety performance targets to ensure that customers receive a high level of service and reliability. The safety performance targets provide for infrastructure replacement, leak management, damage prevention and prompt emergency gas odor response. If customer service metrics and gas safety performance targets are not met, the rate plan provides for adjustments to the company's annual revenues.

In order to encourage economic development in O&R's service territory, the rate plan approved today establishes a Gas Economic Development Enhancement Pilot Program. This program is supported by several municipalities in the company's service territory, and allows O&R to fund projects that would, among other factors, lead to job creation, stimulate ancillary public and private investment, and retain or expand O&R's customer base.

The rate plan also continues to support outreach as an important means of educating customers generally about the nature of natural gas delivery and their opportunities to choose energy suppliers in O&R's service territory. To underscore the importance of ensuring that customers understand their choices for natural gas service, the Commission today approved an incentive, allowing the company to retain a percentage of potential excess earnings if it succeeds in ensuring customers understand their supply options. Before implementing such an incentive program, however, interested parties are required to develop modified standards for an incentive award.

Parties supporting the Joint Proposal, included: Multiple Intervenors (a group representing large industrial customers); the Small Customer Marketer Coalition; Orange and Rockland Utilities, Inc.; and Staff of the Department of Public Service.

The Commission will issue a written order reflecting today's vote. That order, when ready, can be obtained from the Commission's Web site at <http://www.dps.state.ny.us> by accessing the Commission Documents section of the homepage and referencing, Case Number 05-G-1494. Many libraries offer free Internet access. Commission orders can also be obtained from the Files Office, 14th floor, 3 Empire State Plaza, Albany, NY 12223 (518-474-2500).