STATE OF NEW YORK

Public Service Commission

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NATURAL GAS DISTRIBUTION COMPANIES AUDITED

— Con Edison, NYSEG Natural Gas Operations to Be More Fully Reviewed —

Albany, NY—12/16/10—The New York State Public Service Commission (Commission) today decided to institute a proceeding for Consolidated Edison Company of New York, Inc. (Con Edison) to review its accounting and reporting practices related to its natural gas delivery business. The Commission also decided to institute a proceeding for New York State Electric and Gas Company (NYSEG) to review its overall stranded natural gas capacity costs more fully.

"During the course of each annual filing cycle, staff reviews each natural gas company's annual reconciliation of gas costs filing for compliance with Commission regulations," said Commission Chairman Garry Brown. "As a result of this review, staff discovered a number of errors, mostly minor, that were brought to the attention of the natural gas companies. The estimated impacts reflect the introduction of this year's annual reconciliation rate to be surcharged or refunded."

Gas distribution companies and gas municipalities in New York State are required to file their annual reconciliation of gas costs by October 15th of each year. This year's annual filings reconcile purchased gas costs to actual gas cost recoveries for the 12 months ended August 31, 2010. The difference is then either refunded or collected via surcharge over a 12-month period beginning January 1, 2011.

The total statewide annual purchased gas expense for this reconciliation period is $3 billion. This year's annual reconciliation results in 11 gas companies refunding approximately $43.2 million and 12 gas companies surcharging approximately $89.6 million. The difference results in a statewide aggregate net surcharge of approximately $46.4 million, compared to an aggregate net refund of approximately $13.3 million last year. The net surcharge of $46.4 million represents 1.54 percent of the total statewide purchased gas expense.

As a result of this year's annual reconciliation filings, the most significant negative bill impact for large gas distribution companies will be experienced by KeySpan Energy Delivery of New York customers. A typical KEDNY heating customer will see an average increase of about $55 in their total annual bill. The reason for this bill impact is that KEDNY's actual gas sales were less than those forecasted resulting in lower gas capacity cost recoveries. The greatest customer decrease among large companies is for the customers of NYSEG's Lockport district with an average decrease of about $91 in their total annual bill.

Upon review, Con Edison discovered an anomaly in its recent historic and current Lost and Unaccounted for (LAUF) gas. Con Edison was including gas that did not belong in the LAUF calculation. Therefore, Con Edison will be ordered to perform an analysis of the error and its impact on the company's customers. Con Edison will also be required to provide a proposal for an appropriate remedy to correct the anomaly and its consequences.

Con Edison has deferred a LAUF incentive of approximately $1 million in its revised filing while it evaluates the impact of the anomaly on the LAUF incentive. The Commission directed Con Edison provide the results of its analysis and propose a remedy to the Commission within 60 days of the order.

Meanwhile, a review of the filing of NYSEG reveals that NYSEG's company-wide stranded capacity costs have generally been increasing on a monthly basis for the last several years, despite a 2007 Commission requirement of mandatory assignment of capacity by LDCs to retail marketers.

NYSEG has indicated to staff that it may have made an ongoing error in its calculation of the charge to customers by not including capacity release credits in its surcharge. Accordingly, the Commission opted to establish a second proceeding examining NYSEG's stranded capacity, including an explanation for any increases in the amount of such capacity, how the associated costs have been calculated, and how NYSEG has mitigated such costs.

Based on the foregoing, a new proceeding was initiated to conduct a thorough review of NYSEG's stranded capacity costs, and NYSEG will be required to file a report within 60 days of the order. If NYSEG has made any errors in the calculation and/or allocation of stranded capacity costs to customers, it should also explain the details regarding such errors, and provide a proposed plan for remediating the situation.

The Commission's decision today, when issued, may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.state.ny.us and entering Case Number 10-G-0467 in the input box labeled "Search for Case/Matter Number." Many libraries offer free Internet access. Commission orders may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).

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