STATE OF NEW YORK

Public Service Commission

William M. Flynn, Chairman

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PSC Votes to Approve Comprehensive Plan for Corning Natural Gas

Plan Includes $1.4 million Credit to Customers
Designed to Ensure Safe, Reliable Service and Improve Company Operations

Albany, NY - 5/17/06 - The New York State Public Service Commission (Commission) today voted 4-1 to adopt, with modifications, the terms of an amended Joint Proposal on issues related to service provided by Corning Natural Gas. The Commission's comprehensive plan resolves several issues related to the rates and operations of the company and includes, among other things, a $1.4 million credit to customers for excessive gas commodity costs incurred by the company last winter, an end to the $1.50 per Mcf surcharge on gas costs as of May 31, new delivery rates that will take effect on June 1, 2006, and specific steps the company must take to improve operations. The Commission also voted to adopt terms that differ from the Joint Proposal, including the elimination of proposed rate recovery of salary increases and bonuses for executive officers.

"Back in October, there was a great deal of uncertainty and concern about Corning's ability to provide gas supply and service to its customers," said Commission Chairman William M. Flynn. "The plan adopted today specifies in great detail what must be done to improve the operations of Corning Natural Gas, and establishes a clear road map for the future by providing the resources necessary to provide safe and reliable gas delivery service. The performance targets, and the negative financial consequences the company will incur for failing to achieve them, will help to ensure that the necessary improvements are made."

An important feature of the rate plan is a $1.4 million credit to customers to account for excessive gas costs incurred by the company during last winter's heating season. Essentially, this credit reimburses customers for excessive gas costs resulting from the company's gas procurement, hedging and storage practices.

In order to ensure the company receives the necessary revenues required to effectively operate and maintain its gas distribution system, Corning's rates for gas delivery service will increase by $2.7 million per year, effective June 1, 2006. The $2.7 million revenue increase is based on an extensive cost-of-service evaluation that was conducted as part of the Commission's review of Corning's operations.

Generally, the additional revenue is needed because of increased costs associated with property taxes, inflation, pensions and other employee benefits, medical insurance, and higher costs for depreciation expense. Further, the additional revenues will strengthen the company's ability to repair and replace portions of the gas delivery system and to obtain financing to support the new gas asset management agreement under which gas procurement, pipeline capacity management and gas storage functions would be performed by Virginia Power Energy Marketing. The new asset management agreement will help to ensure that adequate supplies of gas are available for customers during the 2006-2007 winter heating season.

Once the new rates are in effect, Corning's annual gas service delivery rates will still be below the average of the other local gas delivery companies in New York State. Based on today's natural gas prices, the overall annual bill for an average residential heating customer - including delivery service and the cost of gas –will increase by approximately 11% once the new rates are in effect. Customer bill impacts will vary depending on the market price of natural gas and the amount used by individual customers.

"In the end, the Commission was faced with two choices: let Corning continue down a road towards continuing financial and operational difficulties, or adopt a plan that holds the company accountable for its actions and helps to assure safe and reliable service for customers," said Flynn. "Raising rates is never easy or popular, but the risks and uncertainty associated with the alternative were unacceptable. The Commission chose not to shirk its responsibility to the ratepayers."

The comprehensive plan also includes a number of terms, performance targets and incentive mechanisms designed to ensure that the company avoids a recurrence of the operating problems experienced in the past, and to ensure management improves operations in the future. The areas covered are diverse and well beyond what is normally necessary to ensure reasonable utility operations. To the extent that Corning fails to meet the performance standards for distribution system improvements, health and safety reporting, gas procurement, management of gas storage and transmission capacity, and accounting procedures, money that would otherwise go to company shareholders will be credited to customers. Under the incentive program, Corning will be at risk each year for more than $519,000, or approximately 100% of the company's expected annual profits.

Comments in support of the Joint Proposal and Amendment setting forth recommendations for resolving several issues presented in the Corning cases were submitted by: Corning Natural Gas; the Bath Electric, Gas & Water Systems; Multiple Intervenors (an association of over 50 industrial, large commercial and institutional energy consumers); and the New York State Department of Public Service staff. Fortuna Energy Inc. (a large gas producer) also supports part of the Joint Proposal. The Joint Proposal was filed March 16, 2006, and the Amendment was filed on April 14, 2006.

The proposed acquisition of Corning Natural Gas by C&T Enterprises was not addressed today and will require future consideration and action by the Commission. On May 15th, Corning and C&T filed a joint petition requesting Commission approval of their proposed transaction. That petition will be considered in the near future.

Corning Natural Gas Corporation provides natural gas service to approximately 14,500 customers in Steuben and Chemung Counties in the State of New York.

A copy of the Commission's written decision in Cases 05-G-1359, 05-G-1268 and 04-G-1032, when issued, will be available on the Commission's www.dps.state.ny.us Web site by accessing the Commission Documents section of the homepage. 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).

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