STATE OF NEW YORK

Public Service Commission

William M. Flynn, Chairman

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PSC Votes to Approve Terms of Multi-year NYSEG Gas Delivery Rate Structure Changes

– No Revenue Increase for NYSEG; Realignment of Delivery Charges Among Customers to Better Reflect Costs to Serve Them –

Syracuse, NY – 9/22/04 – The New York State Public Service Commission today voted to approve the terms of a Joint Proposal that implements certain changes to New York State Electric and Gas Corporation's (NYSEG's) natural gas delivery service rates, while maintaining the same level of overall revenues from customers. The Joint Proposal also includes a natural gas economic development plan and the continuation of the company's natural gas Affordable Energy Program designed to assist low-income customers.

Commission Chairman William M. Flynn said, "These rate design changes are the latest in a series of efforts over the last several years to provide NYSEG customers fairer pricing for their particular level and location of delivery service as the natural gas industry evolves. The changes will produce more accurate pricing of NYSEG gas delivery services by more closely aligning those services with their actual costs without increasing overall revenues from customers. The enhanced economic development program is critically important to create jobs and help the economy not only in those places where the program already has created the most benefits, but throughout NYSEG's service territory."

For a number of historic reasons that date back several decades, NYSEG customers in the company's separate, non-connected service regions around the state have paid different rates for natural gas service. In addition, aside from geographic differences, customers in some service classifications have been paying more than the cost of serving them, while other classifications pay less. The delivery rate changes in the Joint Proposal are designed not only to consolidate customer rate groups and, in so doing, more precisely reflect actual costs, but also to be "revenue neutral" – that is, the changes will not increase the amount of overall revenue realized by NYSEG from delivering gas to customers.

The delivery service portion of a customer's bill appears separately from the cost of the gas itself, which is often referred to as the "commodity price." The Joint Proposal adopted today does not affect the commodity price of the natural gas, which was deregulated by Congress beginning in 1978 and is determined by market forces, not the Commission or local utilities.

The Joint Proposal, which addresses several outstanding issues from the multi-year gas rate plan approved by the Commission on November 20, 2002, was developed by the staff of the New York State Department of Public Service, NYSEG, and Multiple Intervenors, which represents large commercial and industrial customers. Consistent with NYSEG's current multi-year rate plan, the terms of the Joint Proposal will remain in effect at least through December 31, 2008.

To help retain and attract businesses in NYSEG's service territory, the Joint Proposal includes provisions for economic development incentive rate discounts. Under the Economic Development Incentive (EDI) and Economic Development Zone Incentive (EDZI), rate discounts will be available to qualified commercial and industrial customers for five- and ten-year terms, respectively. Under these programs, qualified customers will receive a discount on their delivery service rates based on usage. For example, for eligible large volume customers, the EDZI rate discounts on the delivery service portion of their bills will start at 60 percent and phase-down to 10 percent over time, and EDI rate discounts on the delivery service portion of their bills will start at 50 percent and phase-down to 10 percent over time. In addition, the Joint Proposal will require NYSEG to develop and implement an Infrastructure Investment Program to attract and retain business within its service territory.

The Joint Proposal will also continue NYSEG's Affordable Energy Program for qualified low-income natural gas customers at the current funding level of $1.75 million annually.

With respect to delivery rates, the Joint Proposal redesigns the rates that NYSEG charges its natural gas customers for delivering gas, including delivery to its full-service customers (that is, customers receiving delivery service and the natural gas commodity combined). The proposed changes do not increase the amount of revenue realized by NYSEG from its natural gas delivery business. Instead, the company's existing revenue requirement will be reallocated among various business and residential customer service classifications and among different rate areas. Also, certain customer service classifications will be eliminated, and most rates for the company's seven geographic rate areas (Binghamton, Champlain, Elmira, Goshen, Lockport, Owego and the "Combined" area) will be consolidated. NYSEG's "Combined" rate area is composed of nine (9) service districts: Auburn, Brewster, Cortland, Dansville, Geneva, Ithaca, Mechanicville, Oneonta and Plattsburgh.

Rate design changes for residential customers will be phased in over the period October 1, 2005 through October 1, 2008. Customer bill impacts associated with the revenue-neutral rate design changes will vary according to rate district, customer service classification, and individual usage patterns.

While NYSEG's overall level of revenue from delivering natural gas to customers will not change, revenue related to its different customer groups will change. For example, revenue from residential heating customers, including forecast gas commodity costs, is expected to range from an estimated average annual decrease of -0.91 percent in the Combined rate area to an average annual increase of 1.27 percent in the Binghamton rate area. Although the rate design changes for residential customers in all the rate areas include a $0.50 increase in the monthly customer charge in each year of the plan, the increase in revenue is completely offset annually by an equal reduction in the delivery usage charges to produce no increase in total revenues from residential customers.

Rate design changes for nonresidential business customers will be phased in over the period October 1, 2004 through October 1, 2008. Revenues from nonresidential customers, including forecast gas commodity costs, are expected to range from an estimated average annual decrease of -0.71 percent in the Combined rate area to an estimated average annual increase of 1.20 percent in the Binghamton rate area.

The Commission will issue a written Order detailing its approval of the terms of the Joint Proposal. The Order, when available, 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 01-G-1668. 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).