

STATE OF NEW YORK

Public Service Commission

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PSC Votes to Maintain RG&E Electric Rate Levels

— Votes to Limit Gas Delivery Rate Increase to \$5.1 Million (1.7%) —

Albany, NY – 3/5/03 – The New York State Public Service Commission today voted to approve a plan governing Rochester Gas and Electric Corporation's (RG&E) electric and gas services. Today's decision means that the average electric customer using about 600-kilowatt hours of electricity a month will see no bill impact. RG&E had requested an electric rate increase request of \$40.2 million (5.6%).

The electric rate plan will maintain overall rate levels for each customer class and allow for revenue-neutral rate design changes that will adjust service charges to more accurately reflect the cost of service. The Commission also voted to limit an increase in gas delivery rates to \$5.1 million (1.7%), achieved through rate design changes. RG&E had requested an increase of \$19.3 million (6.8%).

"Today's decision on rates provides RG&E adequate revenues to cover long-term debt, allow for a fair return on equity, and manage its operating costs to maintain services for customers. It will help to keep electric and gas delivery rates stable at a time when there is tremendous upward pressure on energy prices," Commission Chairman William M. Flynn stated. "Further, the Commission's decision today includes a strengthening of a quality assurance program designed to provide reliable services to RG&E's customers."

Energy prices throughout the United States have been dramatically affected by world events, weather, consumer demand and other forces on the energy markets. In general, fuel costs, including natural gas, are significantly higher when compared to last winter. The price of natural gas and other fuels also influences electricity prices to the extent that the fuels are used to generate energy. The Commission has no regulatory authority over fuel prices.

"This decision is welcome news for RG&E's customers. It reflects Governor George Pataki's continuing commitment to hold down prices for regulated energy services. I congratulate the Public Service Commission on this decision," stated Teresa A. Santiago, Chairperson and Executive Director of the New York State Consumer Protection Board. "Today's decision is also a reminder that all utilities in New York State need to continue to work diligently to reduce costs for New Yorkers, especially in these difficult economic times."

Strengthening Customer Service Quality Performance Program

In addition to the rate issues, the Commission today voted to strengthen RG&E's Service Quality Performance Program by increasing the rate adjustment in the event the company fails to meet service quality targets. The RG&E Service Quality Performance Program measures the company's performance in six service areas: retail billing accuracy, Public Service Commission complaint rate, estimated meter reads, calls answered within 30 seconds, appointments kept, and the satisfaction of those customers who have been in contact with RG&E representatives. In a related matter, the Commission also set new targets – and rate adjustments for failing to meet those new targets – designed to maintain the reliability of the company's electric system.

Reaching Out to Assist More Low-Income Households

The Commission voted to modify a low-income electric and gas customer program to assist more households. The Residential Energy Consumer Assistance Program (RECAP) currently provides about 900 qualified low-income electric and gas heating households budget counseling and related services and makes their service more affordable by reducing their monthly bills by \$20. Under the modified program, the number of eligible households receiving RECAP benefits will double to 1,800, and the monthly benefit will be reduced. On a related issue, the Commission voted to continue the practice of providing a discount on the monthly minimum charge for eligible low-income nonheating gas customers. Eligible customers will not be affected by the \$1.50 increase to \$13.50 in the minimum monthly service charge and will continue to pay \$5.81 as a monthly minimum service charge.

Continuing Economic Development Efforts

RG&E will continue its commitment to economic development through a \$13 million Economic Development Fund. RG&E will also conduct a comprehensive review of its programs, with input from interested parties and local and state economic development agencies. The Commission's staff will analyze the review and report on it to the Commission.

Electric and Gas Rate Design Changes to More Fairly Reflect Costs

As a part of the plan approved today, RG&E will revise the pricing of its electric and gas services – that is, make rate design changes – in keeping with sound ratemaking principles and the State Energy Plan's goal to ensure that the price of utility services more closely reflects the true costs of providing the services. The revisions to its electric rate design will be revenue neutral – in other words, while some customers who impose higher costs on the system will pay more, other customers will pay less, and the company will realize no additional revenue from the changes.

As a result of the electric rate design changes, RG&E will decrease energy usage rates while increasing – and, in some instances, introducing for the first time – the minimum monthly service charge that is designed to cover fixed costs associated with maintaining its customers' connections to the local electric distribution system. These rate design changes will affect customers differently depending on electricity usage. For example, the usage rate will decrease by an amount to achieve overall revenue neutrality from the residential customer class as the monthly service charge increases by \$1.50, more closely aligning the latter with actual fixed costs of maintaining customer

connections to the electric system. The average residential electric customer using about 600 kilowatt hours of electricity in a month will see no bill increase as a result of these changes. Those who use more will actually see a decrease in their monthly bills, while those who use less will see a slight increase.

RG&E also will implement gas rate design changes. The company will decrease gas usage rates while increasing the monthly minimum charge to increase overall revenues by \$5.1 million. The impact of the changes will vary with customers depending on their usage and rate category. As with electric rate design changes, the residential usage rate will decrease. The monthly service charge will increase by \$1.50, more closely aligning it with actual fixed costs to maintain customers' connections to the local gas distribution system. As a result of these changes, based on recent gas prices, the monthly bill for a typical residential heating customer who uses about 300 therms of gas in a month will increase about 92 cents to \$287.68. A monthly bill for a customer in the commercial category using about 3,000 therms will increase about 47 cents to \$2,550.71.

While the impact of changing the monthly minimum charge for delivering gas will be slight, customers' bills have been affected this winter by the price of natural gas itself, over which the Commission has no regulatory authority. Natural gas prices throughout the country have risen dramatically as a result of a number of market forces. As is the case in other utility service areas, RG&E's monthly bills include a gas adjustment clause (GAC) to reflect gas price changes and ensure customers pay only the actual cost of the natural gas they use. Local distribution utilities such as RG&E do not realize any profit from the sale of the gas itself.

RG&E Proposal to Close Customer Service Centers: Decision to Come Later

RG&E's proposal to close seven of its Customer Service Centers surfaced during the public examination of the company's rate requests. The Commission instituted a separate public proceeding on December 3, 2002, to examine RG&E's service center closure proposal and will consider it at a later date. Further, the Commission determined today that the result of any closings will be reflected in a future rate case.

The Commission will issue a written decision detailing today's vote. The decision in Commission Cases 02E0198/02G0199, when available, can be obtained from the Commission's website at <http://www.dps.state.ny.us> 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).

RG&E serves approximately 350,000 electric and 280,000 natural gas customers in Allegany, Cayuga, Genesee, Livingston, Monroe, Ontario, Orleans, Wayne and Wyoming counties in upstate New York.