STATE OF NEW YORK

Public Service Commission

William M. Flynn, Chairman

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PSC Votes to Approve Extension of NFG Rate Plan

-- Customers' Natural Gas Delivery Rates to Remain Stable for Sixth Straight Year Since Decrease in 1998; Existing $5 Million Bill Credit to Continue --

Albany, NY – 9/17/03 – The New York State Public Service Commission today voted to extend National Fuel Gas Distribution Corporation's (NFG's) existing rate plan and to preserve current natural gas delivery rates for customers through September 30, 2004, a sixth straight year of delivery rate stability following a $7.2 million decrease in 1998.

The extension maintains an existing annual credit on customers' bills of approximately $5 million. Moreover, the plan requires NFG to absorb approximately $10 million in increased costs in the coming year, $8 million of which is related to increased pension costs that would have been deferred for future recovery from customers.

"Today's vote is the latest in a series of Commission decisions over the last half-decade to benefit NFG customers," Commission Chairman William M. Flynn stated. "Not only have we approved over $45 million in combined rate reductions and bill savings for customers during this time, but we have created an environment in NFG's region to provide more opportunities for customers to shop for their natural gas supplies."

"This agreement is good news for National Fuel Gas customers," said Teresa Santiago, Chairperson and Executive Director of the New York State Consumer Protection Board. "We're especially pleased that the Consumer Protection Board was able to help negotiate this rate extension through our proposal that NFG use approximately $10 million to help prevent future

rate increases. The agreement also continues the pro-consumer aspects of the existing regulatory plan, such as service quality safeguards and a low income assistance program."

In 1998, the Commission approved a two-year plan that reduced rates and provided other customer bill benefits totaling approximately $13.2 million. In October 2000, the Commission approved the current three-year rate plan that provided about $32.1 million in bill savings through September 2003. Subsequent to that decision, the Commission issued decisions in 2001 and 2002 to restructure NFG's operations and open up the company's service territory to more competition to allow customers more choices for their natural gas supplies. Furthermore, the 2002 decision included a provision that fostered the use of gas produced locally in western New York, designed to stimulate investment in gas operations and produce economic benefits in that region and added energy security in the state.

Today's decision to continue rate stability for another year affects delivery rates. NFG customers' bills reflect a number of components, including the market price of the natural gas used by the customer (the "supply price") and the delivery of it by NFG (the "delivery rate"). Neither the New York State Public Service Commission nor regulatory agencies in other states or at the federal level have authority over the market price of natural gas, which is set by the competitive national and international markets and represents a major portion of a customer's bill. About 98 percent of the gas consumed in New York State comes from outside the state, principally from the Gulf states in the southwest and from Canada. The Commission ensures that regulated utilities such as NFG do not charge customers any more than what it costs the utility to secure gas supplies for its customers. In other words, NFG makes no profit on the sale of gas supplies.

In addition to the customer delivery rate and bill credit benefits, the extension of the rate plan maintains service quality and safety performance measurements that subject NFG to penalties for failing to meet specified standards. Further, the plan provides for a low-income residential assistance discount program and a program for assisting elderly, blind and disabled customers.

The plan will continue to provide a “competition backout credit” at current levels to marketers that provide services to customers who otherwise would receive those services from NFG. The credit is designed to reduce a customer’s NFG bill when the customer decides to obtain gas supplies from a marketer. The amount of the credit will vary depending on services performed by the marketer. With regard to another element of the current rate plan – sharing of

earnings between the company and ratepayers – the extension lowers the earnings' threshold for such sharing.

NFG serves approximately 517,500 customers in Allegany, Cattaraugus, Chautauqua, Erie, Genesee, Livingston, Monroe, Niagara, Ontario, Steuben and Wyoming Counties in western New York.

The Commission will issue a written decision detailing today's vote and the plan's provisions. The decision in Commission Case 00-G-1858 (Proceeding on Motion of the Commission as to Rates, Charges, Rules and Regulations of National Fuel Gas Distribution Corporation), 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 also can be obtained from the Files Office, 14th floor, 3 Empire State Plaza, Albany, NY 12223 (518-474-2500).

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