

STATE OF NEW YORK

Public Service Commission

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10088/09-E-0715,09-G-0716,09-E-0717,09-G-0718

PSC SETS RATE PLANS FOR NYSEG AND RG&E

— Multi-Year Rate Plan for Electric and Gas Services —

Albany, NY—09/16/10—The New York State Public Service Commission (Commission) today established a three-year, four-month rate plan (aligning the companies' rate years to the calendar year) for electric and gas service provided by New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG&E). The new rate plan is effective September 25, 2010 through December 31, 2013.

Positive benefit adjustments (PBAs) of \$260 million resulting from Iberdrola, SA's acquisition of the Energy East companies (NYSEG and RG&E) in 2008 were used to moderate increases in rates.

“The concerns expressed in the public comments, especially those focusing on the distressed economy and the affordability of utility bills, were utmost in the Commission's deliberations to carry out its statutory obligation to reasonably balance the companies' need to collect legitimate business costs to ensure the safety and reliability of the system with the interests of ratepayers,” said Commission Chairman Garry Brown. “To help enhance affordability of utility bills, and in recognition of the difficult economic times many families face, low-income program budgets have been increased substantially.”

The legitimate business costs or drivers increasing rates for NYSEG and RG&E electric and gas services, include among others, increased costs of pensions and other post employment benefits (OPEBs), property taxes, vegetation management programs, return on equity, and low-income programs.

Rates and Revenue Requirements

The rate plan calls for delivery rate increases for NYSEG and RG&E as follows: NYSEG electric service, approximately \$16.4 million (2.5 percent), \$27.8 million (4.2 percent), and \$29.3 million (4.3 percent); NYSEG gas service, approximately \$9.9 million (6.0 percent), \$10.3 million (5.8 percent), and \$10.5 million (5.6 percent); RG&E electric service, \$15.6 million (4.1 percent), \$10.2 million (2.6 percent) and \$13.2 million (3.2 percent) and RG&E gas service, \$10.9 million (8.0 percent), \$10.9 million (7.3 percent), and \$10.8 million (6.9 percent).

The increased delivery rate amounts were moderated and levelized through the use of over \$260 million in positive benefits adjustments (PBAs) that were required and set aside for the benefit of ratepayers when NYSEG and RG&E were acquired by Iberdrola, SA in 2008. Additionally, \$19.2 million in annual net savings from the companies' workforce reduction and related labor cost-cutting initiatives, as well as one percent annual productivity adjustment contributed to moderating the companies' revenue requirement.

The Commission last granted an increase in base electric and gas rates for the companies in 1993, as part of a three-year rate plan; and in 2003, RG&E was granted a slight increase (\$5 million) in its gas rates, as well as a slight increase (\$7 million) for each of the companies' electric and gas services in 2004.

In early 2009, the companies filed petitions to increase rates for electric and gas services which were dismissed because under the conditions of the 2008 Iberdrola Merger Order, the companies were not entitled to file for a rate increase until September 2009.

Earnings Sharing

The companies' revenue requirements were designed to produce a 10 percent allowed rate of return on equity (ROE), applied to an equity ratio of 48 percent for each of the businesses. Should earnings exceed the allowed return, a tiered earnings sharing mechanism (ESM) will capture a portion of the excess for ratepayers' benefit. In addition, the ESM is subject to specified downward adjustments if the companies miss certain reliability and customer service

measures to help ensure reliable and adequate service. Further, the companies' ability to share in earnings will be restricted if they fail to provide safe and adequate service.

Performance Standards

Key components of the rate plan include electric reliability performance mechanisms, gas safety performance measures, customer service quality metrics and targets, and electric distribution vegetation management programs that establish threshold performance targets for each of the companies. There will be downward revenue adjustments for companies' failure to meet the targets, as well as annual reporting requirements.

Low Income Program

Low-income program budgets have been increased to approximately \$12.3 million for NYSEG and \$6.9 million for RG&E. All home energy assistance program (HEAP) recipients will be eligible for the program, with discounts to be provided on monthly bills. The arrears forgiveness portion of the program will be available to customers with arrears between \$240 and \$750 who have made at least three customer payments in the last twelve months.

Also, the companies will waive service reconnection fees no more than one time per customer per year for customers participating in the low-income program. Additionally, all low-income program customers will be referred to NYSERDA's Empower program for energy efficiency and/or budget counseling or a similar program. Lastly, all the companies are required to file quarterly reports with the Commission on a number of low income program-related topics.

Revenue Decoupling Mechanisms

New revenue decoupling mechanisms (RDMs), intended to remove company disincentives to promoting increased energy efficiency will be established. The electric RDMs for NYSEG and RG&E are based on revenue per customer class, while gas RDMs are based on revenue per customer. Verification of the number of customers used in the revenue per customer RDMs is also addressed in the rate plan.

Background

In September 2009, NYSEG and RG&E filed a petition with the Commission to increase rates for both electric and gas service by \$383 million effective August 17, 2010. The requested increases for NYSEG were \$169.7 million (26.4 percent) and \$63.4 million (39.5 percent), for electric and gas, respectively; for RG&E, they were \$87.4 million (23.9 percent) and \$62.9 million (47.1 percent).

On July 14, 2010, as a result of negotiations, a Joint Proposal resolving all outstanding issues was filed with the Commission. The Joint Proposal was signed by staff of the Department of Public Service, NYSEG and RG&E, Multiple Intervenors (an organization representing large customers) and Nucor Steel Auburn.

Public statement hearings were held in April 2010 in Rochester, Geneva, Binghamton, and Lancaster, and in August 2010 in Rochester and Binghamton. Additionally, the public could comment on the rate plan via letters to the Secretary of the Commission, the Commission's Toll-free Opinion line or the Internet.

A copy of the Commission's written decision, when issued, may be obtained by going to the Documents Search section of the Commission's Web site at www.dps.state.ny.us and entering Cases 09-E-0715, 09-G-0716 for NYSEG or Cases 09-E-0717 and 09-G-0718 for RG&E in the input box labeled "Search for Case/Matter Number." Many libraries offer free Internet access. A copy of the Commission's decision can also be obtained from the Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).