

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE

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September 28, 2001

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Hon. Janet Hand Deixler
Secretary
New York State Public Service Commission
Three Empire state Plaza
Albany, New York 12223-1350

Re: CASE 01-E-0011 – Joint Petition of Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, Central Hudson Gas & Electric Corporation, Constellation Nuclear, LLC and Nine Mile Point Nuclear Station, LLC for Authority under Public Service Law Section 70 to Transfer Certain Generating and Related Assets and for Related Approvals.

Dear Secretary Deixler:

Enclosed for filing please find the original and twenty-five copies of the Joint Proposal to the Public Service Commission between New York State Electric & Gas Corporation (NYSEG) and Department of Public Service Staff related to the above entitled proceeding. The Settling Parties' Statements in Support will be filed separately.

Copies of the Joint Proposal will be served on all active parties to this proceeding by NYSEG.

Sincerely,

Jean A. McDonnell
Assistant Counsel

cc: Hon. William L. Bouteiller, Administrative Law Judge
Active Parties to Case 01-E-0011

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**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

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CASE 01-E-0011 - Joint Petition of Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, Central Hudson Gas & Electric Corporation, Constellation Nuclear, LLC and Nine Mile Point Nuclear Station, LLC for Authority under Public Service Law Section 70 to Transfer Certain Generating and Related Assets and for Related Approvals.

**JOINT PROPOSAL TO
NEW YORK STATE PUBLIC SERVICE COMMISSION**

Between

New York State Electric & Gas Corporation

and

New York State Department Of Public Service Staff

JOINT PROPOSAL TO NEW YORK STATE PUBLIC SERVICE COMMISSION

Background:

The New York State Electric & Gas Corporation ("NYSEG") rate and restructuring plan approved by the New York Public Service Commission (the "Commission") provided that NYSEG "will propose to its cotenants the auctioning of the ownership of Nine Mile Point Unit 2 ("NMP-2"), and will vote for such auction."¹ Since that time, NYSEG has undertaken efforts to sell its interest in NMP-2 including related assets and liabilities. In an Order issued by the Commission in Case 99-E-0933, the proceeding on the petition of NYSEG and Niagara Mohawk Power Corporation ("Niagara Mohawk") to sell their respective interests in NMP-2 and in Nine Mile Point Unit 1 (NMP-1; collectively with NMP-2, the "Units") to AmerGen Energy Company, LLC,² the Commission said that it would resolve the ratemaking treatment of any sale of the Nine Mile facilities by following the principles established in the utilities' competitive opportunities/restructuring orders and that "the sale by the utilities of their [nuclear] generating facilities at current market values would constitute appropriate mitigation of their stranded costs...."³ As described in the Joint Petition to Transfer Certain Generating and Related Assets and for Related Approvals (hereinafter "Joint Petition"),⁴ NYSEG, Niagara Mohawk, Central Hudson Gas & Electric Corporation ("Central Hudson"), and Rochester Gas and Electric Corporation ("RG&E") (collectively the "Sellers") jointly engaged in a competitive auction process to sell the Units. Constellation Nuclear, LLC ("Constellation") was selected as the winning bidder and Constellation and the Sellers entered into an Asset Purchase Agreement for NMP-2 (the "APA") and Constellation and Niagara Mohawk entered into an Asset Purchase Agreement for NMP-1.

¹ Case 96-E-0891, New York State Electric & Gas Corporation's Plans for Electric Rate/Restructuring Pursuant to Opinion No. 96-12, Order Adopting Terms of Settlement Subject to Modifications and Conditions, Appendix A at 28 (issued January 27, 1998); Case 96-E-0891, *supra*, Opinion and Order Adopting Terms of Settlement Subject to Modifications and Conditions, Opinion No. 98-6 (issued March 5, 1998).

² That transaction was terminated.

³ Cases 99-E-0933, *et al.*, Joint Petition of Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation and AmerGen Energy Company, L.L.C. for Authority Under Public Service Law Section 70 to Transfer Certain Generating and Related Assets and for Related Approvals, Order Allowing Petitions to be Withdrawn (issued April 25, 2000), mimeo at. 7-8.

⁴ Case 01-E-0011, Joint Petition of Niagara Mohawk Power Corporation, New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation, Central Hudson Gas & Electric Corporation, Constellation Nuclear, LLC and Nine Mile Point Nuclear Station, LLC for Authority Under Public Service Law Section 70 to Transfer Certain Generating and Related Assets and for Related Approvals, Joint Petition to Transfer Certain Generating and Related Assets and for Related Approvals (filed January 31, 2001) (the "Joint Petition").

The Joint Proposal:

This Joint Proposal to the Commission is entered into by and between NYSEG and New York State Department of Public Service Staff ("DPS Staff") (collectively, the "Settling Parties"). The Settling Parties agree that the terms set forth in this Joint Proposal will settle and resolve any and all matters relating to the sale of NMP-2 and the recovery by NYSEG of costs associated with NMP-2 known at this time, provided, however, that nothing herein shall limit the right to audit final transaction costs and reconciling adjustments (i.e., adjustments that reflect differences between projected and actual Closing amounts and costs) following the closing of the sale of NMP-2 to Constellation (the "Closing"). The matters resolved include all issues related to the transfer by NYSEG of its interest in the NMP-2 and rate and accounting issues, other than complete disposition of the gain, related to NMP-2, including but not limited to: compliance with the Commission's April 25, 2000 Order in Case 99-E-0933; compliance with NYSEG's commitments pertaining to NMP-2 as set forth in the Price Cap Plan approved by the Commission in Opinion No. 98-6 (the "Price Cap Plan"); the competitive auction process resulting in the selection of Constellation; operating practices; budgets; expenses (capital or non-capital); inventory, including materials and supplies inventory; transaction costs relating to this sale or other efforts to sell or transfer operations of NMP-2 (except adjustments in connection with the above-noted audit); pension and OPEB curtailments; the treatment of any investment tax credits related to NMP-2; the treatment of excess deferred Federal Income Taxes protected under Section 203(e) of the Tax Reform Act of 1986 related to NMP-2; NYSEG's responsibility for any past or future decommissioning costs; the value of NMP-2; ratepayer benefits from NMP-2; treatment of unidentified and unquantified costs and benefits realized after the Closing (e.g., Nuclear Electric Insurance Limited ("NEIL")); and the application of the proceeds to certain items identified in Attachment 1.

The Settling Parties agree that this Joint Proposal is not intended to be, and shall not be used or construed as, an admission of or acquiescence in any fact, circumstance or liability, but rather is an overall compromise of the issues related to NMP-2 and the sale thereof. The Settling Parties further agree that this Joint Proposal shall have no precedential value with respect to the ratemaking treatment associated with any other NYSEG generation assets and is limited to the terms set forth herein.

Subject to the terms set forth herein, the Settling Parties agree that NYSEG's sale of its interest in NMP-2 pursuant to the APA, as described in the Joint Petition and its Attachments, is prudent and in the public interest. The Settling Parties also agree that the prices contained in the Power Purchase Agreement ("PPA") are reasonable and the provisions of the Revenue Sharing Agreement ("RSA") are prudent. The Settling Parties further agree that NYSEG's participation in the Co-Tenant Agreement, the Selling Co-Tenant Agreement, the Property Tax Memorandum of Understanding ("MOU") and the resolution of issues in those agreements are reasonable, prudent and in the public interest. In addition, the Settling Parties agree that NYSEG's continued ownership of transmission facilities related to NMP-2 is prudent and in the public interest. Also prudent and in the public interest are the Transmission Owners Agreement entered into by NYSEG and Niagara Mohawk, and any similar agreement in substantially the same form as attached

to the Joint Petition, including the Interconnection and Reciprocal Easement Agreements and the Transmission Owners Agreement it may enter into with Niagara Mohawk and with LIPA if LIPA does not elect to sell its transmission interests.

The Settling Parties agree that the methodology for determining the accounting and ratemaking for the sale and the Asset Sale Gain Account ("ASGA") balance shall be as set forth in Attachment 1 attached hereto and incorporated herein.⁵

Except as stated specifically herein, this Joint Proposal will not otherwise affect or seek to modify Opinion No. 98-6.

I. Asset Sale Gain Account

A. Creation of Asset Sale Gain Account

At Closing, NYSEG will establish an ASGA with an estimated pre-tax initial balance of \$113 million as shown on Attachment 1, based on a July 1, 2001 Closing date. This \$113 million reflects the application of the gain to two items identified on Appendix 1, Schedule F. This amount also reflects an ASGA grossed up for taxes in accordance with SFAS-109. The item shown on Attachment 1, Schedule A identified as "Increase to Net Gain" shall not be includable as an expense in NYSEG's calculations of electric regulatory earnings under its Price Cap Plan.

B. Interest on ASGA

NYSEG will accrue interest monthly on the monthly average unamortized after-tax balance in the ASGA at the compounded annual interest rate of 12%. This amount will be added to the pre-tax balance of the ASGA. Deferred taxes will be recorded on the interest and added to the SFAS-109 deferred tax account. NYSEG will cease accruing interest under this provision of this Joint Proposal when NYSEG electric rates that supersede the Price Cap Plan become effective. NYSEG will include interest on the ASGA as an expense in its calculation of electric regulatory earnings under its Price Cap Plan.

If, as a result of other regulatory proceedings or actions within three years of the Closing Date, the "After Tax Net Proceeds from Sale of Coal Facilities" shown on Attachment 1, Schedule E, Page 2 of 2 changes, the interest on the ASGA will be recalculated based on the revised numbers. The period for the recalculation shall be from the date of Closing to the date the recalculation is made. NYSEG contends that the treatment of Accumulated Deferred Investment Tax Credits ("ADITC") and Excess Deferred Federal Income Taxes ("EDFIT") relating to the sale of the coal facilities is no longer open.

⁵ The figures used in Attachment 1 are estimates used to demonstrate the agreed-to methodology for determining the ASGA balance. These estimates will be replaced by actuals and will be subject to audit.

C. Disposition of ASGA

The ASGA will be used as determined by the Commission, after consultation with NYSEG and interested parties, in a financially responsible manner.

D. Uplift Adjustment

Under no circumstances will NYSEG be required to incur or pay or credit for the benefit of customers any Uplift costs (as defined below) for the first twelve months following the Closing (the "Initial Year"). Commencing the first month following the end of the Initial Year, NYSEG will increase the before-tax ASGA by an adjustment (the "Uplift Adjustment") equal to \$1.78 million per month. Deferred taxes will be recorded on the Uplift Adjustment and added to the SFAS-109 deferred tax account. NYSEG will not be required to make this Uplift Adjustment after NYSEG electric rates that supersede the Price Cap Plan become effective. Any Uplift Adjustment amount is includable as an expense in NYSEG's calculation of electric regulatory earnings under its Price Cap Plan.

E. Final Closing Adjustments

Final Closing Adjustments associated with the sale of NMP-2 will be added to or subtracted from the ASGA as appropriate at the time the cash associated with the Final Closing Adjustment is received or paid, or the accounting entries are made. A report showing all Final Closing Adjustments will be filed with the Commission within 90 days after the Closing is complete. This report will include a revised Attachment 1 to incorporate actual results and will include all supporting workpapers.

F. Capital Structure/Cost of Capital

The Settling Parties expressly acknowledge that neither this Joint Proposal nor the implementation of its terms constitutes an agreement that the sale of NMP-2 affects NYSEG's capital structure or cost of capital.

II. Accounting and Ratemaking Treatment

A. Purchase Price

Article III of the APA sets forth the amount of the purchase price and identifies or describes possible purchase price adjustments. In accordance with the terms of the APA, both the actual purchase price for NMP-2 and the adjustments thereto will change depending on the Closing date. These changes and adjustments are anticipated and consistent with the terms of this Joint Proposal. The analysis underlying this Joint Proposal was based upon an estimated July 1, 2001 closing date and estimates of certain adjustments to the purchase price using available information. The amounts actually accounted for and charged to the ASGA will be based upon the actual purchase price and actual adjustments. In addition, the amount of the ASGA will change based on factors described herein and in Attachment 1. Such changes include changes in book value,

transaction costs, the number of employees who transfer to Constellation, etc., and are further delineated on Attachment 1.

Any differences between the actual ASGA created at closing and the estimated amount shown on Attachment 1 will be reflected in the final adjustments as applicable.

B. Interest on Purchase Price

The APA provides that Constellation shall pay 50% of the purchase price at Closing, and the balance in five equal annual installments. For accounting purposes, the entire purchase price will be credited to the ASGA at Closing. NYSEG is entitled to retain and credit to income all interest. Any interest received will not be includable in NYSEG's calculation of electric regulatory earnings under the Price Cap Plan.

C. Nuclear Insurance

All future distributions by NEIL to NYSEG will be flowed through to customers net of any incremental post-Closing insurance premiums paid by NYSEG to NEIL to ensure NYSEG's eligibility to access future NEIL distributions. Any distributions that occur prior to the end of the Price Cap Plan will not be includable in NYSEG's calculation of electric regulatory earnings under that Price Cap Plan. If at any point in time, through the demutualization of NEIL or otherwise, the Policyholder Record Account (as that term is defined in the NEIL by-laws) becomes accessible to or convertible by NYSEG into an asset, that amount will be flowed through to customers net of any costs or expenses incurred to access or convert such amount in a manner consistent with NYSEG's then-current electric rate plan. Until such time as electric rates that supersede the Price Cap Plan become effective, NYSEG will flow through amounts due to customers by increasing the ASGA balance.

To the extent economically justified, post-Closing insurance premiums paid by NYSEG to NEIL to ensure NYSEG's eligibility to access future NEIL distributions are prudent.

Any retrospective adjustment or call on premiums for nuclear policies related to NMP-2 held by Niagara Mohawk pre-Closing, to which NYSEG may be required to contribute will be fully recoverable by NYSEG either as a reduction of the pre-tax ASGA, or from customers if there is no remaining unamortized ASGA, in accordance with NYSEG's then-current electric rate plan.

D. Spent Fuel Obligations and Retained Litigation

The APA provides that NYSEG will remain liable to the Department of Energy ("DOE") for its proportionate share of all spent nuclear fuel fees that are calculated based on electricity generated at NMP-2 and sold prior to the Closing. NYSEG will also continue to pay annually its proportionate ownership share of all DOE decontamination and decommissioning fees relating to nuclear fuel purchased and consumed at NMP-2 prior to the Closing. Those annual payments are scheduled to terminate in 2007. Until such time as electric rates that supersede the Price Cap Plan become effective, the annual payments and any costs and expenses incurred for the retained spent nuclear fuel obligations are recoverable by NYSEG, as a reduction of the pre-tax ASGA. If there is no remaining ASGA, these costs will be recovered in a manner consistent with NYSEG's then-current electric rate plan.

Pursuant to Section 2.2(g) of the APA, NYSEG retains the right to any cause of action, claim or defense relating to the spent nuclear fuel obligations. Whether to pursue litigation of any claim will be the judgment of NYSEG, with input from Staff. Any proceeds of such litigation or claim, or any refund received by NYSEG related to the spent nuclear fuel fees will be flowed through to customers net of reasonable costs or expenses incurred in relation to realizing such proceeds. The proceeds will be added to the ASGA, or, if there is no remaining unamortized ASGA, applied in accordance with NYSEG's then-current electric rate plan.

To the extent NYSEG retained the right to pursue certain claims related to NMP-2 after the Closing, any proceeds of such litigation, net of reasonable costs and expenses, will be added to the ASGA, or, if there is no remaining unamortized ASGA, will be flowed through to customers in accordance with NYSEG's then-current electric rate plan.

E. Retained Liabilities

The Settling Parties agree that it is and was reasonable and prudent for NYSEG to retain in the sale to Constellation the liabilities specified in the APA. NYSEG will be authorized to recover payments arising from its share of any liability and any reasonable costs and expenses associated with defending any claims either as a reduction of the ASGA or, if there is no remaining unamortized ASGA, in a manner consistent with NYSEG's then-current electric rate plan. Questions of prudence arising from or in connection with a payment on a retained liability may only be raised in connection with NYSEG's acts or omissions that are not known as of the effective date of the Joint Proposal.

There will be no flow through of costs, expenses, proceeds or liabilities incurred by Constellation after the Closing with respect to Assumed Liabilities and Obligations as specified in the APA; provided, however, that NYSEG shall be entitled to recover all reasonable costs and expenses incurred by NYSEG in defending against any claims or litigation arising out of such Assumed Liabilities and Obligations.

F. Curtailment Amounts

As a result of the sale of NMP-2, Niagara Mohawk must calculate a curtailment and/or settlement amount as required by SFAS No. 88 and SFAS No. 106. The Co-Tenant Agreement provides that any curtailment/settlement gains or losses associated with the sale will be calculated on an employee-by-employee basis and shared among the selling Co-Tenants in accordance with the Co-Tenants' proportionate ownership shares. The Co-Tenant Agreement further provides that curtailment gains for 1999 shall be recalculated, with any difference between the amounts received by Co-Tenants in 1999 and the recalculated amounts netted against the gain or loss associated with the pending sale. NYSEG's net curtailment amount, consisting of the curtailment amount associated with the sale of NMP-2 offset by the reduction to that amount resulting from the recalculation of the 1999 curtailment gain, will be added to the ASGA at the time of Closing.

G. Transmission Owners Agreement

NYSEG is authorized to recover the reasonable costs that it incurs in connection with the Transmission Owners Agreement either by reducing the ASGA or, if there is no remaining unamortized ASGA, in a manner consistent with NYSEG's then-current electric rate plan.

H. Replacement Power Costs

So long as the Price Cap Plan remains in effect, NYSEG will not make any adjustments to reflect variances in purchased power costs between actual costs and the level of costs reflected in rates for power previously provided from NMP-2 as a result of NYSEG's ownership interest in NMP-2.

I. Revenue Sharing Agreement

NYSEG and Constellation entered into an RSA for NMP-2. All benefits of any revenues received by NYSEG from the RSA will be flowed through to customers in accordance with NYSEG's then-current electric rate plan. Under no circumstances will NYSEG be held responsible or otherwise accountable if the RSA fails to produce benefits.

J. Accumulated Deferred Investment Tax Credits and Excess Deferred Federal Income Taxes

NYSEG recognized as income, below-the-line, the unamortized balance of ADITC and EDFIT associated with NMP-2. No issues regarding ADITC or EDFIT associated with NMP-2 may be relitigated in any future Commission proceedings.

K. Closing Date Adjustment

In the event the Closing occurs after June 30, 2001, NYSEG will continue depreciating the plant and amortizing the associated deferred taxes at a daily rate of \$53,396 per day and accrue decommissioning costs at a daily rate of \$11,129. The additional depreciation expense will serve to reduce the "Net [Generation Plant] Balance at June 30, 2001" and the "Net Transmission Plant [Balance] at June 30, 2001" included in Attachment 1, Schedule E, Page 2 of 2 and the additional decommissioning expense will serve to reduce the "Decommissioning Price Adjustment" included in Attachment 1, Schedule B. All capital expenditures, including nuclear fuel, related to NMP-2 that NYSEG incurs between July 1, 2001 and the Closing will be added to the net plant balances in Attachment 1. Further, the Purchase Price shown on Attachment 1, Schedules A and B will be adjusted in accordance with Schedule 3.2 of the APA.

L. Additional Adjustments

To the extent not caused by imprudence by NYSEG, NYSEG will be permitted to recover from customers the following NMP-2-related cost changes, that at this time either are unforeseen or cannot be estimated: the outcome of federal and state tax audits; a possible adverse determination concerning the deductibility of nuclear costs under New York State tax laws; any adverse tax consequences and/or IRS rulings associated with the transfer of NYSEG's decommissioning fund to Constellation or associated with any decommissioning fund sharing mechanism agreed to by Constellation and Staff in a separate Joint Proposal between those parties, including but not limited to reasonable costs incurred in connection with defending and resolving disputes, litigation or claims brought against NYSEG other than by NYSEG's shareholders arising out of such adverse tax consequences and/or IRS rulings; changes in DOE decommissioning and decontamination funding requirements; changes in environmental costs and regulations; any default on installment payments by Constellation that are not recovered from Constellation through litigation or otherwise; and any default on the payment of NMP-2 decommissioning costs that are ultimately paid by NYSEG. These items will be added to or deducted from the ASGA, or if there is no remaining ASGA, in a manner consistent with NYSEG's then-current electric rate plan.

Any other prudently incurred unforeseen or unanticipated NMP-2-related costs shall be recoverable upon submission to the Commission of a compliance filing detailing the nature of the cost and proposed rate treatment consistent with this Joint Proposal.

III. Additional Provisions

A. Settlement of NYSEG Issues

1. The provisions of this Joint Proposal are intended to apply only to NYSEG and are not intended and shall not be construed to apply to any other Sellers.

2. This Joint Proposal represents a negotiated agreement and, except as otherwise expressly stated herein, none of the parties shall be deemed to have approved,

agreed to, or consented to any principle, methodology or interpretation of law underlying or supposed to underlie any provision hereof, and this Joint Proposal shall not be cited or relied upon in any proceeding before the Commission or any other judicial or regulatory body with respect to any matters other than those specifically addressed herein.

3. The Signatories agree that the Joint Proposal addresses and resolves all issues related to the mitigation of stranded costs and risk reduction raised by the Commission in its April 25, 2000 Order.

B. Provisions Not Severable

The Settling Parties have negotiated and accepted this Joint Proposal in its entirety with each provision in consideration for, in support of, and dependent on the others. If this Joint Proposal is rejected by the Commission or approved with modifications unacceptable to any of the Settling Parties, any Settling Party may withdraw its acceptance of this Joint Proposal by serving written notice on the other parties and each reserves its rights to oppose any such alteration and pursue its position in this proceeding without prejudice.

C. Suspension of Litigation/Reservation of Rights

Following the execution of this Joint Proposal, all litigation among the Settling Parties relating to any issues associated with the sale of NYSEG's interest in NMP-2, including interlocutory appeals, shall be suspended until Commission action on the Joint Proposal. In the event that the Commission issues an order which rejects the Joint Proposal or approves the Joint Proposal subject to conditions or modifications that any of the Settling Parties finds unacceptable, any of the Settling Parties may withdraw its acceptance of this Joint Proposal by serving written notice on the other parties. Upon receipt of such written notice, the Settling Parties are permitted to pursue their litigation positions in this proceeding without prejudice.

IV. Commission Approval

The Settling Parties request that the Commission approve this Joint Proposal and find that:

1. The Joint Proposal represents an equitable balancing of the interests of NYSEG's customers and investors, and all stakeholders.

2. The ratemaking and accounting treatment set forth herein, including the principles pursuant to which later determinations will be made as to actual rates, are consistent with just and reasonable rates and are in the public interest.

3. The APA and the associated agreements, including the PPA and RSA, are reasonable, prudent and in the public interest.

- 4. NYSEG's participation in the Co-Tenant Agreement and in the Selling Co-Tenant Agreement is reasonable, prudent and in the public interest.
- 5. The Transmission Owners Agreement and the Interconnection Agreement are reasonable, prudent and in the public interest.
- 6. The Property Tax Memorandum of Understanding did not adversely affect the purchase price of NMP-2.
- 7. The Joint Proposal is approved as in the public interest.

Executed as of this ____ day of September, 2001.

New York State Electric & Gas Corporation

By: *P. R. Zulawski*
9-27-01

New York State Department of Public Service Staff

By: _____

4. NYSEG's participation in the Co-Tenant Agreement and in the Selling Co-Tenant Agreement is reasonable, prudent and in the public interest.
5. The Transmission Owners Agreement and the Interconnection Agreement are reasonable, prudent and in the public interest.
6. The Property Tax Memorandum of Understanding did not adversely affect the purchase price of NMP-2.
7. The Joint Proposal is approved as in the public interest.

Executed as of this 27 day of September, 2001.

New York State Electric & Gas Corporation

By: _____

New York State Department of Public
Service Staff

By: Jim Donnell

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**New York State Electric & Gas Corporation
Estimated Net Proceeds from the Sale of Nine Mile 2
Index**

<u>Schedule</u>	<u>Description</u>
A	Estimated Net Proceeds
B	Estimated Purchase Price
C	Estimated Net Transaction Costs and Associated Credits
D	Estimated Federal Capital Gains Tax
E	Estimated Balance of Regulatory Assets & Liabilities
F	Estimated Cost of Certain Uncontrollable & Mandated Costs Recoverable Pursuant to the Terms of NYSEG's Restructuring Agreement

New York State Electric & Gas Corporation
Sale of Nine Mile 2
Estimated Net Proceeds
(\$ 000)

	<u>Backup Schedule</u>	<u>Net-of-Tax</u>	<u>Tax Gross-up</u> 40%	<u>Before Tax</u>
Purchase Price	B	123,238		
Net Transaction Costs and Associated Credits	C	<u>(6,000)</u>		
Proceeds Net of Transaction Costs		117,238		
Federal Capital Gains Tax	D	<u>(20,250)</u>		
Net Proceeds Available After FIT		96,988		
Deduct Unamortized Net Balance of Regulatory Assets & Liabilities	E	<u>(52,628)</u>		
Net Gain		44,360	29,573	73,933
Increase to Net Gain		30,000	20,000	50,000
Offset Certain Mandated Costs	F	<u>(6,600)</u>	<u>(4,400)</u>	<u>(11,000)</u>
Initial Asset Sale Gain Account		<u>67,760</u>	<u>45,173</u>	<u>112,933</u>

**New York State Electric & Gas Corporation
Sale of Nine Mile 2
Estimated Purchase Price
(\$ 000)**

	<u>At Closing</u>	<u>July 1, 2002</u>	<u>July 1, 2003</u>	<u>July 1, 2004</u>	<u>July 1, 2005</u>	<u>July 1, 2006</u>	<u>Total</u>
<u>Principal</u>							
Total Purchase Price for 82% of Plant							581,000
NYSEG Share (18% / 82%)							<u>21.95%</u>
NYSEG Amount	63,768	12,754	12,754	12,754	12,754	12,754	127,538
<u>Decommissioning Price Adjustment</u>							
Qualified Target at Closing							176,700
NYSEG Percentage							<u>21.95%</u>
NYSEG Amount							38,788
NYSEG Qualified Funds Transferred at Closing							<u>34,488</u>
Decommissioning Price Adjustment	<u>(2,150)</u>	<u>(430)</u>	<u>(430)</u>	<u>(430)</u>	<u>(430)</u>	<u>(430)</u>	<u>(4,300)</u>
<u>Net Purchase Price</u>	<u>61,618</u>	<u>12,324</u>	<u>12,324</u>	<u>12,324</u>	<u>12,324</u>	<u>12,324</u>	<u>123,238</u>

(1) The APA provides that Constellation shall pay 50% of the purchase price to the Sellers at closing and that the balance will be paid in five equal annual installments. Constellation may prepay any or all installments without penalty.

(2) The APA provides that the purchase price will be reduced if less than a specified funding amount is transferred at closing. Based on a July 1 closing, NYSEG's external decommissioning fund to be transferred will be lower than its pro rata share of the specified funding amount.

New York State Electric & Gas Corporation
Sale of Nine Mile 2
Estimated Net Transaction Costs and Associated Credits
(\$ 000)

Legal, Consulting, Auction Manager and Miscellaneous Costs	6,500
Human Resource Costs	700
MATS Termination Cost	600
Payment from NMPC for NYSEG Share of Pension & OPEB Curtailment	<u>(1,800)</u>
Total	<u>6,000</u>

New York State Electric & Gas Corporation
Sale of Nine Mile 2
Estimated Federal Capital Gains Tax
(\$ 000)

Net Proceeds Before FIT	117,238
Deductions:	
Land	(53)
Materials & Supplies	(8,605)
Remaining Tax Basis in Generation & Transmission Plant	(40,858)
Remaining Tax Basis in Fuel	<u>(9,866)</u>
Taxable Income	57,856
Capital Gains Tax Rate	<u>35%</u>
Capital Gains Tax	<u>20,250</u>

The Sellers and Constellation intend to request a letter ruling from the Internal Revenue Service affirming that the transfer of the qualified decommissioning funds does not result in a taxable event for any party. In the event taxes are owed in any way as a result of the transfer, or for any other reason associated with the sale, such taxes shall be offset against the sale proceeds.

New York State Electric & Gas Corporation
Sale of Nine Mile 2
Estimated Balance of Regulatory Assets & Liabilities
(\$ 000)

		<u>Gross</u>	Deferred <u>Taxes</u>	<u>Net</u>
Net Plant and Deferred Taxes	(1)	46,178	(10,276)	35,902
Fuel Inventory		8,318		8,318
Materials & Supplies	(2)	8,605		8,605
Internal Decommissioning Reserve		(1,961)	686	(1,275)
Prepayments to NYSERDA for Disposal of Radioactive Wastes		1,994		1,994
Accrued Balance for Refueling Outage Costs		(700)	279	(421)
Miscellaneous Deferred Tax Balances			(495)	(495)
Total		<u>62,434</u>	<u>(9,806)</u>	<u>52,628</u>

(1) Developed on Page 2 of Schedule E.

(2) The cotenants will purchase their share of the M&S inventory from Niagara Mohawk immediately before the sale of NMP2 to Constellation.

New York State Electric & Gas Corporation
Sale of Nine Mile 2
Estimated Net Plant and Deferred Taxes (1)
(\$ 000)

	<u>Gross Plant</u>	<u>Depreciation Reserve</u>	<u>Net Plant</u>	<u>Deferred Taxes</u>	<u>After Tax</u>
<u>Net Generation Plant at June 30, 2001</u>					
Net Generation Plant at June 30, 1999 Before Write-Downs	756,514	(187,416)	569,098	(123,114)	445,984
After-Tax Net Proceeds from Sale of Coal Facilities (2)		(483,517)	(483,517)	104,600	(378,917)
After-Tax Net Pension & OPEB Curtailment and Reversal of Accrued Vacation "		(10,966)	(10,966)	2,372	(8,594)
Depreciation & Tax Amortization from July, 1999 through June, 2001		(39,219)	(39,219)	6,647	(32,572)
Construction Expenditures from July, 1999 through June 2001	<u>6,723</u>	<u>(74)</u>	<u>6,649</u>		<u>6,649</u>
Net Balance at June 30, 2001	763,237	(721,192)	42,045	(9,495)	32,550
<u>Net Transmission Plant at June 30, 2001</u>	<u>5,537</u>	<u>(1,404)</u>	<u>4,133</u>	<u>(781)</u>	<u>3,352</u>
<u>Total</u>	<u>768,774</u>	<u>(722,596)</u>	<u>46,178</u>	<u>(10,276)</u>	<u>35,902</u>

(1) Pursuant to SFAS-121, for accounting purposes only, NYSEG wrote off all of the NMP-2 nuclear generation plant and deferred taxes that were left on the books after the write-downs made possible by the sale of the coal plants and NYSEG has been charging capital expenditures since that date to expense. For purposes of calculating the regulatory gain, the net plant balance reflects the write-down made possible by the sale of the coal plants, but does not reflect the SFAS-121 accounting charge.

(2) The write-down from the coal sale have been allocated between net plant and deferred taxes in proportion to the balances before the write-downs.

New York State Electric & Gas Corporation
Estimated Cost of Certain Uncontrollable & Mandated Costs
Recoverable Pursuant to the Terms of NYSEG's Restructuring Agreement
(\$ 000)

	Actual Costs	Estimated Cost Through June 30, 2001		
	Through May, 2001	Before-Tax	Deferred Taxes @ 40%	After-Tax
<u>Economic Development Mandates</u>				
- Mandated Contracts	1,100	1,100	(440)	660
<u>NYPA Costs</u>				
- Transmission Access Charges	9,200	9,900	(3,960)	5,940
<u>Total</u>	<u>10,300</u>	<u>11,000</u>	<u>(4,400)</u>	<u>6,600</u>

These costs will be updated to actual after Closing and NYPA Transmission Access Charges incurred after Closing will be deferred for future recovery.

The Company may propose that the ASGA be used to recover the retail access adders in the event that NYSEG is successful in its legal or regulatory challenges. This in no way implies Staff's acquiescence to either NYSEG's position in its legal or regulatory challenges or any proposal it may make with respect to the ASGA on this matter.