STATE OF NEW YORK

Public Service Commission

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PSC Votes to Establish Six-Year NYSEG Gas Plan

—Avoids Delivery Rate Increase, Freezes Delivery Revenue Requirement for Six Years; Adopts Measures to Ease Bill Impacts of Moving to Market-Based Gas Supply Costs—

Albany, NY – 11/20/02 – The New York State Public Service Commission today voted to establish a six-year plan governing New York State Electric and Gas Corporation's (NYSEG) gas delivery service through 2008 and restructuring the way NYSEG operates its gas business and provides natural gas service to consumers.

The plan avoids a delivery rate increase and freezes NYSEG's current level of revenue requirement for delivering gas through 2008. NYSEG originally filed a request in October 2001 to increase delivery service rates to produce an increase in annual revenues of $22.8 million (7%), which it will forgo under the six-year plan established today.

The plan contemplates a second phase to examine several issues, including rate design changes that would affect some customers, additional competitive issues, marketer concerns, additional or enhanced low-income programs and other matters. However, any rate design changes resulting from Phase 2 would be revenue neutral – that is, no changes to the company's total revenue requirement for delivering gas will occur. Phase 2 is expected to produce recommendations to the Commission prior to July 2004.

Customers Have Not Been Paying Actual Gas Supply Costs

The plan provides for the "unbundling" or "itemizing" of the monthly bill so that residential customers can see the cost of the gas supplies they use separately from the cost of delivering that gas to them. The "supply charge" – that is, the cost of the natural gas itself – will appear on bills to identify what it actually costs NYSEG to obtain gas supplies for its customers. This gas supply charge will fluctuate with the market price of natural gas supplies throughout the country.

For a number of years, residential customers have been paying NYSEG a fixed price that has been less than what it costs the company to obtain supplies for those customers. Commercial and industrial customers have been paying actual market supply costs. All other New York State gas companies pass the actual cost of natural gas through to their customers.

Commission Bill Mitigation Efforts Cut Bill Impacts Significantly

In its decision today, the Commission voted to require the company to implement measures to ease residential heating bill impacts during the transition to market-based gas supply costs. Beginning December 1, 2002, increases in the cost of the gas itself, which varies among NYSEG's service rate areas, will be phased in over five to 10 months depending on service rate area.

Without the mitigation phase-in measures, customers would experience abrupt increases in winter bills. With the mitigation measures, residential heating bill impacts in the Binghamton area, for example, are estimated now to be about 11% this winter, in contrast to 32% with no mitigation. Similarly, bill impacts for residential heating customers in Owego are estimated to be 10%, in contrast to 29%; in Elmira, 7% in contrast to 14%; in Goshen, 11% in contrast to 33%; and in Lockport, about 8% in contrast to 23%. NYSEG serves customers in seven non-contiguous service rate areas throughout the state served by different interstate natural gas pipeline companies, which results in different costs.

More Competition Expected; Shopping for Gas Supplies Made Easier for Consumers

The plan requires NYSEG to take a number of actions to open its service rate areas to more competition and provide customers with more choice for obtaining gas supplies.

The requirement that NYSEG "unbundle" its monthly bills is designed to facilitate more competition. Currently NYSEG residential bills combine the supply and delivery charges, appearing on the bill as one charge. Beginning December 1, 2002, bills will be "unbundled" or "itemized," showing separate supply and delivery charges. This will make it easier for customers to shop for gas supplies because they will have a NYSEG price to compare to the prices of other suppliers who may sell gas in NYSEG's territory.

The plan requires NYSEG to continue and expand programs to assist its low-income customers, continue economic development programs, and take steps to help gas marketers compete in its service regions. Further, the plan provides that customers will share any excess earnings over a set amount equally with NYSEG shareholders. Customers will also share in the synergy savings from the recent merger of Energy East, NYSEG's parent company, and RGS Energy Group, parent of Rochester Gas and Electric Corporation.

The plan was developed by the staff of the New York State Department of Public Service, NYSEG, many natural gas marketers that are active in NYSEG's service territory, the State Consumer Protection Board and Multiple Intervenors. The Commission sought public comment on the plan and held three public statement hearings in NYSEG service areas at which 13 people spoke. In addition, over 100 people communicated their views using other means, including letters, electronic mail, and voice messages on a toll-free comment line.

The Commission will issue a written decision detailing today's vote. The decision in Commission Cases 01-G-1668/01-G-1683, 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).

NYSEG serves approximately 250,000 gas customers in a 17,000 square mile non-contiguous territory covering parts of the Southern Tier of New York, and western, central, southeastern and northeastern New York.

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