STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

OPINION NO. 00-9

CASE 99-G-0336 - Petition of Niagara Mohawk Power Corporation for Approval of a Gas Multi-Year Rate and Restructuring Proposal.

OPINION AND ORDER ADOPTING TERMS OF SETTLEMENT

Issued and Effective: July 27, 2000

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PUBLIC SERVICE COMMISSION

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BY THE COMMISSION:

INTRODUCTION

This proceeding concerns issues related to the gas service and restructuring of Niagara Mohawk Power Corporation (Niagara Mohawk or the company). On March 12, 1999, Niagara Mohawk filed a Gas Multi-Year Rate and Restructuring Proposal, which included a three-year rate plan with incremental increases in revenue requirement of $13,660,000 for the rate year ending October 31, 2000, $6,817,000 for the rate year ending October 31, 2001, and $4,576,000 for the rate year ending October 31, 2002. In addition, Niagara Mohawk presented numerous accounting, rate change,[1] and gas restructuring proposals.

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[1] Niagara Mohawk did not file revised tariff leaves in conjunction with its proposals.

Interested parties were encouraged to reach a negotiated resolution of the complex issues raised by the transition to a competitive market for the supply of gas.[1]

In accordance with our rules, all parties to this proceeding were notified in writing that settlement negotiations would commence, and notice of the impending negotiations was filed with us by letter dated March 19, 1999. Negotiations commenced on April 21, 1999 and additional conferences were convened through May 2000. As a result of those negotiations, the parties entered into a Gas Rate and Restructuring Settlement Agreement (Settlement) dated June 12, 2000, set forth as Appendix A. The following parties signed the Settlement: Niagara Mohawk, Staff, New York State Consumer Protection Board, Multiple Intervenors, Energetix, Inc., Agway Energy Services, Inc., Small Customers Marketer Coalition, TXU Energy Services, and Amerada Hess Corporation.

Statements in support of the Settlement were received from Niagara Mohawk, Staff, New York State Consumer Protection Board, Multiple Intervenors, Energetix Inc., and Agway Energy Services, Inc. No party opposed the Settlement. Afternoon and evening public statement hearings were held in Syracuse on June 29, 2000, at which one individual spoke. He repeatedly emphasized his opposition to Niagara Mohawk's monopoly status and asserted, among other things, that the company's customer service has deteriorated, its rates are high, and its estimated bills are very inaccurate. Finally, in a letter dated July 1, 2000, Local 97 International Brotherhood of Electric Workers (Local 97) set forth its opposition to the Settlement. Local 97 represents over one hundred utility workers in Niagara Mohawk's gas operations. Local 97 seeks modification or elimination of the customer migration incentive. In addition, Local 97 would

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[1] Cases 93-G-0932 and 97-G-1380, Restructuring of Natural Gas Market and Role of Local Distribution Companies, Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment (issued November 3, 1998), mimeo p. 8. (Policy Statement).

require Niagara Mohawk to employ utility workers, rather than private contractors, to carry out the cathodic protection program.

After reviewing the Settlement, the parties' statements, and the comments presented at the public statement hearings, and received in the mail, we find that the terms of the Settlement offer a sound regulatory framework within which Niagara Mohawk, its competitors, and its customers can receive the benefits of a more competitive gas service market.

OVERVIEW OF THE SETTLEMENT

The Settlement addresses three topics: revenue requirements, rate design, and market restructuring. Under its terms, current company-wide base rate gas revenue requirements (those in effect as of October 31, 1999) would remain in effect for the three-year and ten-month term of the agreement, i.e., through August 31, 2003. The proposed rate design revisions and revenue allocations would be implemented on a revenue-neutral basis and the company's overall base rate revenues would be neither increased nor decreased. The market restructuring portion of the Settlement would facilitate retail access to the competitive gas market by establishing backout rates, billing options, new balancing options, an ombudsman for marketers, a county aggregation grant program, and an outreach and education plan regarding gas retail access, including a geographically concentrated component. Niagara Mohawk would be given financial incentives to undertake various programs and achieve certain goals. Finally, Niagara Mohawk would be required to implement recent tax law changes, resulting from the 2000 legislative session, e.g., changes with respect to the gross receipts tax.

REVENUE REQUIREMENT

The parties agree on specific revenue and expense levels as forming the basis for calculating the company's revenue requirements, and the allocation of those revenues and expenses to the company's gas customers. As a result, Niagara Mohawk's gas delivery service rates would remain frozen at their current levels throughout the term of the Settlement without adjustment, except for limited revenue allocations, rate design changes (revenue-neutral overall), and unbundling changes (revenue neutral to S.C. Nos. 1, 2, and 3, i.e., Residential, Small General, and Large General services, respectively).[1]

Each rate year, Niagara Mohawk would compute its earned return on common equity and it would allocate any earnings in excess of the "Threshold Earnings Level" equally to Niagara Mohawk's shareholders and ratepayers. The customers' share would be deferred and ultimately used to benefit them. The Threshold Earnings Level would be no less than 10% nor more than 12% and would be calculated according to the methods established by the Settlement. In order to reach the 12%, Niagara Mohawk would have to earn incentives related to achieving certain levels of customer migration (up to 150 basis points) and customer awareness and understanding of gas competitive opportunities (up to 50 basis points). These two items are discussed infra.

With respect to the expense levels, the parties agree that they include funding for certain safety and operational measures the company would implement, including a cathodic protection program and a therm billing accuracy assessment. The parties have not resolved any rate issues regarding Niagara Mohawk's Customer Service System in the proposed Settlement.

[1] Niagara Mohawk would continue to have a monthly cost of gas mechanism, which provides for the recovery of gas commodity costs, pipeline capacity and variable costs, storage costs, producers' reservation charges and risk management costs. In addition, the company would introduce a merchant function service charge to recover certain costs that would be backed out of the existing rates as discussed infra.

Cathodic Protection Program
and Other Safety Programs

The parties support a program for Niagara Mohawk to cathodically protect, where economically appropriate, approximately 642 of 1100 miles of wrapped steel distribution main. Cathodic protection prevents corrosion, thereby significantly extending the useful life of steel pipe and reducing future maintenance costs for ratepayers. The parties plan to evaluate the results of the first three years of the program to determine whether it should continue.

Rates would be set to recover an annual expense allowance of approximately $2 million to fund the incremental cathodic protection program, which would be subject to reconciliation to actual expenditures but only if the company spends less than this amount. The difference would be credited to the Contingency Reserve Account.[1] To qualify as an actual expenditure, labor and contractual services for cathodic protection must be incremental to existing Niagara Mohawk gas operation and maintenance programs. If the program is discontinued or in the event of a stayout (i.e., if new rates are not established at the end of the Settlement period), the full expense level of $2 million would be credited to the Contingency Reserve Account on an annual basis until such time as base rates are reset.

For each year of the four-year program, the parties established mileage targets and minimum mileage levels of mains to be cathodically protected. For example, in the year 2001, the target mileage is 196, and the minimum mileage is 171. Penalties would apply if Niagara Mohawk does not reach the mileage levels. If the company fails to cathodically protect at least 171 miles of pipe, it would be assessed a penalty of 7.0 basis points to

[1] The Contingency Reserve Account was established in Cases 95-G-1095 and 95-G-0091, Niagara Mohawk Power Corporation - Gas Rates, Opinion No. 96-32 (issued December 19, 1996). As of October 31, 1999, the Contingency Reserve Account had a $40 million balance for the benefit of customers.

the pretax return on gas common equity. If Niagara Mohawk protects mains in excess of the minimum mileage level but not the target level, it would then be assessed from 1.2 to a maximum of 6.0 basis points, depending on the number of miles of main protected.

The Settlement also provides for annual penalties of up to 5.0 basis points of pre-tax return on common gas equity if Niagara Mohawk fails to carry out gas safety and reliability measures adequately. Such measures include timely response to one-call notices and reducing the backlog of gas leaks to be repaired.

Therm Billing Accuracy Assessment

Niagara Mohawk would establish a program to sample the content of gas delivered in its therm billing zones. Currently, the company determines its therm billing factors on the basis of its gate station flow data and a computer model of its gas flow to the therm billing zones. There is no testing of gas within each zone to determine the reasonableness of the billing factors used.

Under the terms of the Settlement, Niagara Mohawk would be allowed to purchase four measuring devices and recover from the Contingency Reserve Account up to a maximum of $70,000 for actual equipment purchases. The parties agree that all other costs of this program have been included in the calculation of the revenue requirements established pursuant to the Settlement.

The parties propose no further steps beyond assessing the accuracy of the therm billing factors. If problems are identified, however, we would not be precluded from considering remedial measures. In that event, Niagara Mohawk would be permitted to defer the incremental costs of any remedial measures in excess of $100,000 and would be allowed to petition for immediate recovery of costs from the Contingency Reserve Account.

Customer Service System Credits

The parties were not able to resolve rate issues regarding the Customer Service System, a computer based billing and customer record system. Therefore, they agreed that the level of this expense included in revenue requirements would be subject to a downward-only reconciliation to the amount that is ultimately allowed in a future determination. The Settlement sets forth the allowance for reconciliation purposes for each of the four years--$996,000 in the first-rate year, $1,087,000 in the second-rate year, and $1,177,000 in each of the third and fourth-rate years. In addition, a rate base allowance of approximately $8.5 million is included in each rate year for the Customer Service System.

RATE DESIGN AND REVENUE ALLOCATION

The major proposals in this section of the Settlement include a phase-in of rate changes that reduce the rate differential between customers of the former Syracuse Suburban Gas, Inc. and the company's other customers. (Syracuse Suburban Gas, Inc. was acquired by Niagara Mohawk in 1992 and is now a separate rate district known as NM Suburban.) In addition, several service classifications would be merged or changed, and the company's economic development discount rates would be revised. Other changes correct for lost revenues related to the unbundling process that Niagara Mohawk implemented on November 1, 1999, align rates with costs, and implement merchant backout rates.

Appendices B and C show the bill impacts that NM Suburban Gas customers and other Niagara Mohawk customers would experience.

NM Suburban Rates

Niagara Mohawk serves approximately 3,000 customers in the NM Suburban district. Niagara Mohawk would be allowed to adjust the rates to these customers to bring them in line with the rates it charges other customers. The elimination of the existing rate differential was endorsed in an earlier proceeding, but the actual phase-in was not undertaken.[1] In the instant proceeding, the parties propose a four-step phase-in to eliminate, during the Settlement period, two-thirds of the rate differentials in S.C. No. 1 - Residential, S.C. No. 2 - Small General Service, and S.C. No. 5 - Firm Transportation Service. Rate differentials in the other service classifications having them are small enough to be eliminated in one step.

Rate Reclassification

Pursuant to the Settlement, customers in S.C. No. 12 - Residential Aggregation Service and S.C. No. 13 - Small General Service Aggregation Service (both transportation oriented classes) would be reclassified as S.C. No. 1 - Residential and S.C. No. 2 - Small General Service, which would offer transportation service. In addition, S.C. No. 5 - Large Volume Interrupt Transportation Service would be reclassified as S.C. No. 6, which is currently unused and was reserved for future use.

Economic Development Discount Rates

Niagara Mohawk has three economic development programs: an Economic Development Rider, an Economic Development Zone Rider, and an Economic Revitalization Incentive Rider. The first two are growth-based programs and the last is a retention/revitalization-based program. The parties observe that the prevailing discount levels have not been modified since their inception in the mid-to-late 1980s, and rate design changes since that time have caused large disparities in these customers' bills. For example, Economic Development Zone Rider customers served under S.C. No. 2 have a discount of 9.5 cents per therm. This discount is higher than the tail block in effect as of November 1, 1999 and causes negative delivery service bills for

[1] Cases 95-G-1095 and 95-G-0091, Niagara Mohawk Power Corporation - Gas Rates, Opinion No. 96-32 (issued December 19, 1996), mimeo p. 7.

some customers. The parties propose to revise the discount levels to equal 50% of the transmission and distribution capacity costs from the embedded cost of service study for the twelve months ended October 31, 1997. They also agree that existing customers on the Economic Development Rider and the Economic Development Zone Rider should be grandfathered.

GAS RESTRUCTURING PLAN

The parties propose several measures to increase competition in Niagara Mohawk's gas service territory. Generally, they would encourage the company to scale back its gas supply operations, strengthen the ability of natural gas marketers to compete for residential and small commercial customers, and increase consumer awareness and understanding of the competitive options available to them.

Niagara Mohawk's Capacity-Related Incentives

Niagara Mohawk has agreed to a strategy that minimizes its pipeline and storage capabilities upstream of the CNG Transmission Corporation (CNG) system. Capacity upstream of CNG's system would be subject to the terms of a Capacity Incentive Program, which is discussed below. Since many upstream sources must flow through CNG's system to reach Niagara Mohawk's distribution system, contracts with CNG for storage and pipeline capacity would be maintained throughout the Settlement period. This CNG capacity and storage would be assigned on a mandatory basis to the marketers on behalf of firm customers migrating from sales to transportation service.

A Capacity Incentive Program would be established to provide Niagara Mohawk with an incentive to release capacity contracts. The mechanism allows Niagara Mohawk an opportunity to earn a share of the replacement capacity cost savings in relation to a target, and provides it a disincentive to incur replacement capacity costs in excess of a deadband.

Generally, savings within 80% and 100% of the targeted costs would be passed through entirely to the sales customers;

savings 5% below or costs 5% above the deadband would be shared 75% to the sales customers and 25% to the company. If actual capacity costs are greater than 5% above or below the deadband, there would be a 50%/50% sharing. The incentive (reward/penalty) has an annual cap of $2 million for shareholders. The ratepayers' portion of the reward or penalty would be flowed through to customers in their bills.

In addition to the Capacity Incentive Program, the parties propose incentives for capacity release, sales for resale, and portfolio management. Each of these incentives would allow Niagara Mohawk to retain 15% of the related revenues (with certain restrictions) and require flow-through of the remaining 85% to customers. For interruptible sales, Niagara Mohawk would retain 20% of the positive/negative difference between its net revenue targets and the actual net revenues. The remaining 80% share of the difference would be flowed through as an increase or decrease to customers.

The parties further propose that Niagara Mohawk be allowed full recovery of all stranded capacity costs, which would be funded through the Contingency Reserve Account. If that account were to be depleted, these costs would be recovered through a surcharge.

Provisions Benefiting Marketers

Gas marketers would benefit from the introduction of new monthly balancing programs, backout rates, billing options, bill formats, billing charges, and an ombudsman for marketers.

1. Balancing Options

The parties propose two new balancing services to replace existing services. These services help ensure that marketers match their supply of gas to the system with their withdrawals from the system. The first, the pooled balancing service, would implement daily balancing for daily-metered customers.

The second, the basic aggregation program, would implement monthly balancing and "no notice service" for monthly-metered customers. This program is designed around and offered in conjunction with CNG's new rate schedules, Delivery Point Operator and Citygate Swing Customer, which were recently approved by the Federal Energy Regulatory Commission (FERC). Upon the effective date of this service, Niagara Mohawk would transfer to each participating marketer the gas stored underground for customers currently being served by the marketer. The marketer would be required to pay for the storage gas transferred.

In the event a customer changes from transportation service to sales, the associated storage inventory would be returned to Niagara Mohawk, which would pay marketers the average commodity cost of gas in Niagara Mohawk's storage account. The parties also agreed to a one-time reconciliation of demand charges between the old and new balancing programs.

To provide the new balancing services, Niagara Mohawk would incur an estimated $345,000 of incremental annual operating and maintenance costs and a $508,000 capital cost. The operation and maintenance costs would be recovered monthly from the marketers, based on the volumetric usage of all customers the marketers serve. The actual amount of the capital costs would be recovered by Niagara Mohawk through the Contingency Reserve Account.

2. Backout Rates

Embedded in Niagara Mohawk's current gas delivery rates are the costs for gas uncollectibles and gas supply procurement, and the return on gas storage inventory. The new bills for sales customers would show the costs of these items as a separate component, a "merchant function service charge" of $0.02222 per therm. Customers who migrate to marketers would avoid this charge.

The $0.02222 rate reflects the full embedded costs of the three avoided expenditures. However, there is a lag between the time a sales customer takes transportation service and the time Niagara Mohawk avoids the costs. The company would be allowed to recover the difference from the Contingency Reserve Account.[1] Providing sales and transportation customers with an identical delivery service rate and a separate merchant function service charge, will make it easier for them to understand the costs that they can and cannot avoid by migrating to a gas marketer for commodity service and using Niagara Mohawk solely for transportation service.

3. Billing Options

To enable retail access customers to choose either combined or separate bills, the parties agree that Niagara Mohawk should offer marketers a choice of either a separate bill option (which would permit separate bills for the delivery and commodity charges) or a one-bill option (which would combine the two charges in a manner consistent with the bill format adopted in a recent order[2]). The parties could not agree on a marketer-provided one-bill option, but nothing in the Settlement precludes us from requiring Niagara Mohawk to provide such an option in the future.

The Settlement would allow Niagara Mohawk to charge a $0.50 fee per bill generated under the one-bill option. The

[1] For the purposes of such recovery, Appendix F of the Settlement includes a table of specific amounts for each percent of migration of the difference between the $0.02222 rate and the costs Niagara Mohawk will avoid. In the absence of auditable data on the actual level of avoided costs over time, use of the table is a pragmatic and administratively unburdensome methodology to effectuate the judgment of the parties as to the likely level of unavoided costs. However, in the long term beyond the transition period covered by the Settlement, as customer migration levels become more predictable, Niagara Mohawk will be able to more effectively reduce costs to match migration and the amount of unavoidable costs should decline or be eliminated.

[2] Case 99-M-0631, Customer Billing Arrangements, Order Providing for Customer Choice of Billing Entity, (issued March 22, 2000).

services it would provide include bill calculation, bill printing, mailing, call center support, payment processing, payment remittance, and collection processing. The company would be allowed to retain the revenues received from providing the one-bill option up to $1.0 million during the Settlement period with any excess being shared 50%/50% with the ratepayers. The ratepayers' portion would be credited to the Contingency Reserve Account. If the revenues are less than $800,000, Niagara Mohawk would be permitted to recover the shortfall from the Contingency Reserve Account.

4. Ombudsman

Niagara Mohawk would develop and conduct an annual survey of marketers' opinions concerning the gas transportation program. The company would also meet with the marketers semi-annually to review their concerns. In addition, the company would appoint an ombudsman, who would seek to resolve any of the concerns raised by the marketers in the survey or individually.

Consumer-Oriented Programs

The Settlement provides three major programs that would encourage Niagara Mohawk's gas customers to seek alternative gas suppliers: a county aggregation grant program, an overall outreach and education program, and a geographically concentrated outreach and education program.

1. Low-Income Customer Programs and Migration Incentive

The parties agree to eliminate the gas-only low-income minimum charge of $8.55, to implement a new county aggregation grant program, and to continue the Low Income Customer Assistance Program (LICAP) established in PowerChoice,[1] which contains the

[1] PowerChoice was established in Cases 94-E-0098 et al., Niagara Mohawk Power Corporation - Electric Rates, Opinion No. 98-8 (issued March 20, 1998).

electric customers' restructuring provisions. Niagara Mohawk's new monthly minimum charges for all residential customers exclusive of the NM Suburban district would be $11.64 for non-heating customers and $14.62 for heating customers.

The parties propose that up to $500,000 be made available to counties for consultant services and other assistance to develop gas aggregation programs for low-income customers. Niagara Mohawk would administer the program for eligible counties, which would receive a maximum of $50,000 each. Payments would be charged to the Contingency Reserve Account.

Niagara Mohawk has agreed to continue LICAP for the benefit of its gas-only customers. LICAP contains a comprehensive package of benefits, including billing based on the customer's ability to pay, weatherization assistance, budget counseling, energy efficiency education, and arrears forgiveness upon successful participation in the program.

Niagara Mohawk would earn, as an incentive, up to a maximum of 150 basis points for achieving certain overall customer migration targets, which include customers migrating under the county programs. The amount of the incentive would be based on a sliding scale directly linked to the percentage of the targeted migration levels. The first year's target level is roughly 50,000 customers and the target level would increase by approximately 50,000 in each succeeding year.

2. Outreach and Education - Gas Retail Access

Niagara Mohawk would conduct a gas retail access outreach and education program with a total four-year cost of $1,893,833. This program would supplement and not supplant existing customer education activities. The overall purpose of the program is to increase residential and small commercial customer awareness and understanding of six specified concepts related to the introduction of competition in the gas industry. The program would be periodically evaluated to measure the level of customer awareness and understanding achieved.

3. Geo-Campaign

The Settlement also establishes a separate geographically concentrated outreach and education program known as the Geo-Campaign. The parties propose that Niagara Mohawk spend up to a maximum of $1.0 million for activities, similar to those described above, targeted at one media market within Niagara Mohawk's gas service territory, comprising Rome, Utica, Herkimer, and the surrounding areas. The Geo-Campaign would be concentrated in a three-month period and coordinated with a marketing effort provided by marketers.

At the end of the Geo-Campaign, an information quiz would be sent to all the targeted customers, who would earn a $5 bill credit for completing the quiz. The quiz would also provide customers an opportunity to indicate interest in receiving further information from marketers. After the Geo-Campaign is completed, Niagara Mohawk will report on the successes and failures and consider whether a similar campaign should be conducted in other parts of the service territory.

The Settlement would provide Niagara Mohawk an incentive of up to 50 basis points if residential and commercial customer awareness and understanding of gas competitive opportunities improve from year to year, as measured by a survey it will conduct.

DISCUSSION AND CONCLUSION

The terms of the Settlement, summarized above, offer a sound framework for Niagara Mohawk, its competitors, and its customers in the transition to a competitive gas market. Settlements by their very nature involve compromise to satisfy diverse interests. This Settlement in particular reflects those diverse interests and it is endorsed by parties that usually take adverse positions such as the Consumer Protection Board, Staff, Niagara Mohawk, Multiple Intervenors and various marketers.

Not only does the Settlement reflect the agreement by normally adverse parties, but it also goes a long way towards meeting our vision of the future for the natural gas industry, as set forth in the Policy Statement. That vision is to "facilitate development of a competitive market; eliminate barriers to competition; provide guidance to LDCs and marketers, especially with regard to expiring capacity contracts; and address customer inertia.[1]"

In the Policy Statement, we also listed the following goals to be pursued in reaching this vision:

- -- effective competition in the gas supply market for retail customers;
- -- downward pressure on customer gas prices;
- -- increased customer choice of gas supplies and service options;
- -- a provider of last resort;
- -- continuation of reliable service and maintenance of operations procedures that treat all participants fairly;
- -- sufficient and accurate information for customers to use in making informed decisions;
- -- the availability of information that permits adequate oversight of the market to ensure its fair operation; and
- -- coordination of federal and state policies affecting gas supply and distribution in New York State.

First, the Settlement contains substantial enhancements to competition in the retail gas market, including unbundling, backout rates, new balancing options, and a new billing option.

Second, the Settlement benefits customers by freezing Niagara Mohawk's gas delivery rates for at least three years and ten months. That freeze follows a previous three-year agreement that provided for an annual $10 million rate decrease for Niagara Mohawk's customers. Thus, despite inflationary and numerous other upward cost pressures since November 1996, the company's

[1] Policy Statement, pp. 3, 4.

customers will reap the benefits of a prolonged period of delivery service rate stability, extending at least through August 2003. In this regard, Niagara Mohawk's gas rates are among the lowest in the State. The Settlement also benefits customers by requiring Niagara Mohawk to undertake an incremental cathodic protection program whose cost must be absorbed by the company within its current revenue requirements.

Third, the Settlement contains provisions that provide marketers a solid opportunity to do business in Niagara Mohawk's service territory, including revised balancing programs, a $0.02222 per therm merchant backout credit, a reasonably priced single bill option (utility-provided) for marketers to utilize if they desire, annual surveys of marketers, an officer level ombudsman, a county aggregation grant program, and a significant system-wide customer outreach and education program regarding choice, supplemented by an extensive, targeted program (the Geo-Campaign) in Niagara Mohawk's Valley Region.

Fourth, the Settlement allows customers who leave Niagara Mohawk's system to return.

Fifth, the Settlement contains significant financial disincentives to diminutions in gas safety, service reliability, and the quality of customer service.

Sixth, the Settlement provides for significant outreach and education efforts and for unbundled rates that will provide consumers accurate information to use in making informed decisions.

Seventh, we will continue to monitor and assess Niagara Mohawk's compliance. The company will file various documents with us and the parties will have an opportunity to review and challenge the company's position.

Eighth, the new balancing program for monthly metered customers is designed around and offered in conjunction with CNG's new rate schedules that were recently accepted by FERC.

Finally, we note that the Settlement permits a number of debits and credits to the Contingency Reserve Account. While we have no objection to the use of the Contingency Reserve

Account as set forth in the Settlement, we reserve the right to use it for other purposes such as a source of funds to finance a program to mitigate bill impacts.

Taking account of all these considerations, we find the terms of the Settlement to be in the public interest and we adopt them.

The Commission orders:

1. The terms of the Niagara Mohawk Power Corporation (Niagara Mohawk) Gas Rate and Restructuring Settlement Agreement are adopted and incorporated as part of this opinion and order.

2. Niagara Mohawk must submit a written statement of unconditional acceptance of the modifications and conditions, contained in this opinion and order, signed and acknowledged by a duly authorized officer of the company, by July 31, 2000. If such acceptance of this opinion and order is not so filed, the adoption of the terms of the Settlement may be revoked. This statement should be filed with the Secretary of the Commission and served on all parties in this proceeding.

3. Assuming acceptance pursuant to the preceding paragraph, Niagara Mohawk is directed to file tariff amendments at least one day before the implementation date as defined in the Settlement to become effective on not less than one day's notice on a temporary basis, to implement the terms of the Settlement. Any comments on the proposal must be received at the Commission's office within ten days of service of the company's proposal. The amendments shall not become effective on a permanent basis until approved by the Commission. The requirement of the Public Service Law that newspaper publication be completed prior to the effective date of the amendments is waived, but the company is directed to file with the Commission, not later than six weeks following the effective date of the amendments, proof that a notice of the changes set forth in the amendments and their effective date has been published for four consecutive weeks in a newspaper having general circulation in the service territory of the company.

4. This proceeding is continued.

By the Commission,

(SIGNED) JANET HAND DEIXLER
Secretary

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 99-G-0336 - Petition of Niagara Mohawk Power Corporation for Approval of a Gas Multi-Year Rate and Restructuring Proposal.

GAS RATE AND RESTRUCTURING SETTLEMENT AGREEMENT

Dated: June 12, 2000

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 99-G-0336 - Petition of Niagara Mohawk Power Corporation for Approval of a Gas Multi-Year Rate and Restructuring Proposal.

GAS RATE AND RESTRUCTURING SETTLEMENT AGREEMENT

THIS GAS RATE AND RESTRUCTURING SETTLEMENT AGREEMENT (Agreement) is made the 12th day of June, 2000, by and among Niagara Mohawk Power Corporation (Niagara Mohawk), the Staff of the Department of Public Service (Staff), New York State Consumer Protection Board, Multiple Intervenors, Energetix, Inc., Agway Energy Services, Inc., Small Customer Marketer Coalition, TXU Energy Services, Amerada Hess Corporation, and such other parties as have executed a signature page appended hereto (collectively referred to herein as the "Signatory Parties").

I. BACKGROUND

On March 12, 1999, Niagara Mohawk filed with the New York State Public Service Commission (Commission) a Gas Multi-Year Rate and Restructuring Proposal, dated March 11, 1999 (Proposal). In the "Base Case" part of its Proposal, Niagara Mohawk proposed a three-year rate plan with incremental increases in revenue requirement of $13.660 million for the rate year ending October 31, 2000, $6.817 million for the rate year ending October 31, 2001, and $4.576 million for the rate year ending October 31, 2002. In addition, Niagara Mohawk made numerous accounting, rate change and gas restructuring proposals. Niagara Mohawk did not file revised tariff leaves in conjunction with its Proposal.

In accordance with Commission rules, all parties to this proceeding were notified in writing of the pendency of settlement negotiations, prior to their commencement, and notice of the impending negotiations was duly filed with the Secretary of the Commission by letter dated March 19, 1999.

Negotiations commenced at an in-person settlement conference held by the parties on April 21, 1999. Additional settlement conferences were held through May 2000. Settlement is now feasible because, after thorough investigation and discussion, the Signatory Parties hereto more fully understand their respective positions and recognize that reasonable settlement of those positions is possible. The Signatory Parties hereto believe that this Agreement will further the objective of giving fair consideration to the interests of customers and shareholders alike in assuring the provision of safe and adequate service at just and reasonable rates.

II. OVERVIEW OF THE AGREEMENT

This Agreement covers Niagara Mohawk's gas rates and service for the period November 1, 1999 through August 31, 2003. It results in a gas revenue requirement freeze at the level in effect as of October 31, 1999 for the full three years and ten months of the Agreement. This Agreement also makes provision for a continued revenue requirement freeze and a continuation of the Agreement’s other provisions after August 31, 2003, in certain instances.

This Agreement allows Niagara Mohawk to make certain revenue allocation and rate design revisions to its rates for gas service in the manner described herein, effectuating these changes on a revenue-neutral basis so that the Company's overall revenues are neither increased nor decreased beyond current levels referred to above.

This Agreement provides for balancing options, back-out rates, billing options, an Ombudsman for marketers, a County aggregation grant program, an outreach and education plan regarding gas retail access, including a geographically concentrated component, and other provisions to improve retail access to a competitive gas market.

This Agreement provides for explicit financial incentives to Niagara Mohawk related to customer service quality, gas safety and reliability, mitigation of capacity costs, capacity release, sales, and portfolio management, customer migration, and customer awareness and understanding of gas competitive opportunities.

In addition, programs to accelerate the evaluation and (where economically appropriate) reinforcement of the cathodic protection of wrapped steel distribution main, and to assess the accuracy of therm billing factors, are included as part of the overall settlement package.

III. DEFINITIONS

A. "First Rate Year" means the twelve months ending October 31, 2000.

B. "Second Rate Year" means the twelve months ending October 31, 2001.

C. "Third Rate Year" means the twelve months ending October 31, 2002.

D. "Fourth Rate Period" means the ten months ending August 31, 2003.

E. "CNG Capacity" means transmission and storage capacity services under contract to Niagara Mohawk from CNG Transmission Corporation (or any successor thereto), an interstate pipeline company, used to directly serve Niagara Mohawk's franchise territory.

F. "CRA" means the Contingency Reserve Account established in the Prior Rate Plan as modified in the Interim Order and this Agreement.

G. "Gas Delivery Service Rates" means Niagara Mohawk's approved rates and charges for all services associated with moving gas across its distribution system regardless of the supplier of the commodity that the customer purchases its gas supply from.

H. "Implementation Date" means the first calendar day of the month following the effective date of the Commission order approving the terms of this Agreement.

I. "Interim Order" means the Order in Cases 99-G-0170, 99-G-0591 and 99-G-0336 entitled *Order Approving Unbundling and Gas Adjustment Clause Filings With Modifications on an Interim Basis* (issued October 15, 1999).

J. "MCG" means the Monthly Cost of Gas mechanism established effective November 1, 1999 pursuant to the Interim Order and Commission regulations (16 NYCRR 720-6.5) which provides for automatic recovery from customers of the total cost of gas purchased by Niagara Mohawk, including but not limited to the commodity cost of gas, interstate pipeline capacity and variable costs, storage costs, producer reservation charges and risk management costs.

K. "Merchant Transition Costs" means the revenue lost due to the difference between the merchant back-out credit and the estimated avoided cost during the Settlement Period for those functions, which shall be recovered from the CRA.

L. "Post-Aggregation Customers" means SC12 and SC13 transportation customers who migrated from sales service to transportation service on or after October 1, 1996 pursuant to the terms of the Order in Case 93-G-0932 et al., issued March 28, 1996. (Pursuant to this Agreement, on the Implementation Date SC12 and SC13 customers will be reclassified as SC1 and SC2 customers not purchasing gas supply from Niagara Mohawk).

M. "Prior Rate Plan" means the Niagara Mohawk gas rate plan established in Cases 95-G-1095 and 95-G-0091 (Opinion 96-32) applicable through the twelve months ending October 31, 1999.

N. "Settlement Period" means the First Rate Year through the Fourth Rate Period, plus any Stayout period.

O. "Stayout" means that the level of rates established pursuant to this Agreement and the other provisions of this Agreement remain effective by default, without change or reaffirmation, beyond August 31, 2003.

P. "Stranded Capacity Costs" means costs to Niagara Mohawk of pipeline and storage capacity, including costs of CNG Capacity that is not assigned, that are not offset by capacity release revenues or off-system sales and that are no longer necessary for sales customers (including standby service transportation customers) due to migration and that, prior to the migration, were recovered from such customers.

Q. "Upstream of CNG Capacity" means transmission and storage capacity services under contract to Niagara Mohawk from interstate pipelines used to indirectly serve Niagara Mohawk's franchise territory through interconnections with facilities owned by CNG Transmission Corporation.

IV. GENERAL PROVISIONS

1. It is understood that each provision of this Agreement is in consideration and support of all the other provisions and each provision is expressly conditioned upon acceptance by the Commission of this Agreement in its entirety without change. If the Commission fails to adopt this Agreement according to its terms without change, then the parties to the Agreement shall be free to pursue their respective positions in this proceeding without prejudice.

2. The terms and conditions of the Agreement apply solely to, and are binding on each Signatory Party only in the context of, the purposes and results of this Agreement. None of the terms and provisions of this Agreement, nor any methodology or principle utilized herein, and none of the positions taken herein by any Signatory Party may be referred to, cited or relied upon by any other Signatory Party in any fashion as precedent or in any other proceedings before the Commission, or any other regulatory agency, or before any court of law for any purpose except in furtherance of the purposes and results of the Agreement.

3. The Signatory Parties agree to submit this Agreement to the Commission along with a request that the Commission expeditiously adopt the terms of this Agreement as set

forth herein.

4. The Signatory Parties recognize that certain provisions of this Agreement require that actions be taken in the future to effectuate fully this Agreement. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

5. The Signatory Parties agree that Niagara Mohawk will file tariffs in a manner consistent with the terms of this Agreement.

6. In the event of any disagreement over the interpretation of this Agreement or implementation of any of the provisions of this Agreement, which cannot be resolved informally among the Signatory Parties, such disagreement shall be resolved in the following manner: (a) the Signatory Parties shall promptly convene a conference and in good faith attempt to resolve any such disagreement; and (b) if any such disagreement cannot be resolved by the Signatory Parties, any Signatory Party may petition the Commission for resolution of the disputed matter.

7. This Agreement is being executed in counterpart originals, and shall be binding on each Signatory Party when the counterparts have been executed.

8. The term of this Agreement (and the effectiveness of all of its provisions) is from November 1, 1999 through August 31, 2003, plus any Stayout period.

V. RATE PLAN

A. Revenue Requirement

The Signatory Parties have agreed upon revenue and expense levels to be allowed as the basis for calculating revenue requirement, and the allocation of those revenues and expenses to Niagara Mohawk gas customers, the results of which is set forth in "Appendix A" attached hereto and made a part of this Agreement. Niagara Mohawk's Gas Delivery Service Rates will remain frozen at current levels through the end of the Fourth Rate Period of this Agreement, without adjustment up or down, except for certain revenue allocation and rate design changes (overall revenue-neutral as a package) and unbundling changes (revenue neutral to SC1, SC2, and SC3 revenues in effect on October 31, 1999) set forth in this Agreement. In the event of a Stayout beyond the Fourth Rate Period, the level of Niagara Mohawk’s Gas Delivery Service Rates in effect at the end of the Fourth Rate Period will continue to remain in effect through the end of the Stayout period, without adjustment up or down.

1. Cathodic Protection Program

The Signatory Parties agree that Niagara Mohawk will begin a program to evaluate and, where economically appropriate, cathodically protect approximately 642 of 1100 miles of wrapped steel distribution main in its system. The program is initially intended to cover four calendar/program years commencing with the Year 2000. Prior to January 1, 2003, the Signatory Parties will evaluate the results of the activity of the first three calendar/program years to determine whether the program should continue through the fourth calendar/program year, or in the event of a Stayout, should be extended throughout the Settlement Period.

The Signatory Parties agree that an annual expense allowance of $2 million ($2.107 million revenue requirement effect) to fund this incremental cathodic protection program has been included in the calculation of Gas Delivery Service Rates pursuant to this Agreement. The $2 million annual rate year expense allowance will be subject to downward only reconciliation to actual corresponding calendar/program year expenditures, the difference to be credited to the Contingency Reserve Account. To qualify as "actual expenditures," all labor and contractual services for cathodic protection must be incremental to existing Niagara Mohawk gas Operation and Maintenance programs. Niagara Mohawk will document all performance achievements and expenditures, including an economic analysis demonstrating why sections of mains evaluated were or were not protected, by March 31 of the following program year. Unexpended funds from any rate year will be permitted to be carried over, but in no event will any carryover extend beyond the end of the Fourth Rate Period, or the end of the Settlement Period if the program is extended. If the program is discontinued, or in the event of a Stayout, unless the program is extended, the full expense level of $2 million will be credited to the Contingency Reserve Account on an annual basis each rate year until such time as base rates are reset. In the event there is no Stayout, the program is continued through the fourth calendar/program year, and funds are expended in the fourth calendar year that exceed $1.85 million plus any carryover funds from prior years, Niagara Mohawk will recover the amount expended above the $1.85 million plus any carryover funds, up to a maximum of $0.15 million, from the CRA.

The cathodic protection program will follow the procedure detailed in Niagara Mohawk's Gas Operating Practice Bulletin dated June 1, 2000, GOPB 506 (copy attached hereto as "Appendix B"). Any change to the provisions contained in the aforementioned GOPB 506 must be approved by the Director of the Office of Gas and Water before they shall apply to the cathodic protection program.

The Signatory Parties agree to the following target mileage and minimum mileage levels for the four-year program, the target levels consisting of evaluation of sufficient sections of the system to insure cathodic protection of at least 642 miles of pipe over the four years:

Calendar Year	Targeted Mileage	Minimum Mileage
2000	75 miles	50
2001	196 miles	171
2002	196 miles	171
2003	175 miles	150

2. Low Income Customer Assistance Program

The Signatory Parties agree that Niagara Mohawk will continue to provide its Low Income Customer Assistance Program (LICAP), as described in Section 12.0 of the Power Choice plan established in Cases 94-E-0098 and 94-E-0099 (Opinion 98-8), for the benefit of its gas-only customers as well as its gas/electric and electric-only customers. No incremental funding for the LICAP program is provided for in this Agreement as the program is already fully funded by the Power Choice plan. It is the intention of the Signatory Parties that if the existing LICAP program expires prior to the end of the Settlement Period due to the expiration of the Power Choice plan, that a successor program be established (after discussions among the Signatory Parties) that is applicable to gas customers through the end of the Settlement Period. The incremental costs of such successor program, if any, over and above those costs already being incurred to fund the LICAP program for the benefit of gas customers, shall be recoverable by Niagara Mohawk, either through the CRA or if the CRA is depleted, as provided for by the Commission.

3. Construction, Operation, and Maintenance Services

Niagara Mohawk shall be authorized to provide construction, operation, and maintenance services to facilities (not including appliances, and provided that such services do not violate any Commission orders on appliance or repair services) owned by customers or others that are related to the delivery of gas. Such services shall be charged at Niagara Mohawk’s fully loaded costs and the profits therefrom will accrue to the benefit of ratepayers. Any such services provided by Niagara Mohawk shall also be subject to the following:

(a) Under no circumstances shall Niagara Mohawk's provision of such services impose a cost on its ratepayers or adversely impact Niagara Mohawk's provision of safe and adequate public utility service;

(b) Niagara Mohawk shall provide these services on a first-come, first-served basis on non-discriminatory terms and conditions, that is, similarly situated customers shall be charged the same rates;

(c) Niagara Mohawk will make customers aware if there are other entities that may be able to provide the requested services;

(d) Niagara Mohawk shall not provide or offer to provide services to customers that are ordinarily provided by Marketers or Energy Services Companies (ESCOs) such as energy audits, energy efficiency equipment, etc. without prior Commission approval;

(e) Niagara Mohawk will not hire any additional employees or purchase additional equipment in order to provide these services;

(f) Niagara Mohawk shall maintain records relative to all such services, including scope of work, costs incurred, and revenues received, and shall put appropriate policies and procedures in place to ensure these restrictions are followed;

(g) To the extent Niagara Mohawk’s provision of the services described above requires Commission authorization pursuant to Section 107 of the Public Service Law, such authorization is in the public interest and the Commission’s approval of the terms of this Agreement constitutes such authorization.

4. Costs Associated With Termination of Gas Transportation and Peak Shaving Agreements

In Cases 94-E-0098 and 94-E-0099, the Commission extended through October 31, 1999 a mechanism to recover "lost revenues or additional costs incurred in connection with new peak shaving and gas transportation contracts" solely from gas customers (Opinion 98-8, Page 73). After November 1, 1999, the recovery mechanism was to be reevaluated based on the relative benefits to the electric and gas departments of restructuring the peak shaving and gas transportation contracts.

(a) Peak Shaving Replacement Costs

The mechanism will not be extended regarding the recovery of peak shaving replacement costs because effective November 1, 1999 prudently incurred charges for capacity and commodity costs can already be recovered through the reinstituted MCG. Such cost recovery for additional or replacement capacity cost is also subject to the Commission's *Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment* (Issued November 3, 1998).

(b) SC8 and SC9 Delivery Service Revenues

An imputation of $16,542,000 received from SC9 is explicit in the revenue requirement agreed upon as part of this Agreement. Revenues from Independent Power Producer's transportation contracts are included in this imputation. For each rate period, if revenues exceed $16,542,000 from these services, the excess will be credited to the Gas Delivery Service Rates of SC1, SC2, SC3, SC12 and SC13 customers (SC12 and SC13 will be reclassified) by means of a volumetric credit to their bill. If revenues are less, Niagara Mohawk will be kept whole to the level of the imputation by means of a volumetric surcharge to the Gas Delivery Service Rates of SC1, SC2, SC3, SC12 and SC13 customers (SC12 and SC13 will be reclassified).

(i) Transfers between SC8 and SC9

Effective on the Implementation Date, Niagara Mohawk will be entitled to retain all delivery service revenues up to the highest annual amount in the last three years ending on the Implementation Date associated with SC8 customers who may transfer to SC9. If the terms of the negotiated contract result in delivery service revenues generated by transferring customers exceeding the highest annual amount in the last three years ending on the Implementation Date, such excess revenues, net of any return on new investment incurred by Niagara Mohawk, will be passed through to ratepayers subject to the terms of this Agreement.

If a customer should transfer to SC8 from SC9, imputed delivery service revenues associated with that account, subject to the conditions cited above, will be credited to SC9 delivery service revenues as if there were no transfer.

(ii) Renegotiation of Existing SC9 Contracts

If Niagara Mohawk should renegotiate any contract containing Imbalance Services associated with customer designations 1, 3, 7 and 16 as contained in its letter of December 15, 1998 from the Manager, Revenue and Cost Allocation, to the Records Access Officer of the Commission, Niagara Mohawk may petition the Commission to have ratepayers assume the revenue shortfall under the terms of the sharing provisions associated with SC9 service. In its petition Niagara Mohawk must prove to the satisfaction of the Commission that the terms of the renegotiated contract are in ratepayer's interest. If during the term of this Agreement the delivery service revenue shortfall from a renegotiated rate should result in total delivery service revenues collected from the class which are less than $16,542,000 per year (target), ratepayers will only be responsible to absorb 50% of the shortfall below the target.

(iii) New SC9 Contracts

Effective May 16, 1999, all new contracts for electric generation of at least fifty (50) MWs will be subject to the terms and conditions of SC14. After the Implementation Date, Niagara Mohawk will be entitled to retain delivery service revenues from SC9 contracts at locations which have no pre-existing facilities or whose facilities are not adequately sized to accommodate the new demand. Delivery service revenues retained by Niagara Mohawk must be incremental to those which may be obtained from existing gas equipment, provided that service to such new locations require investments by Niagara Mohawk in excess of those required for service lines, regulation and metering. If construction of a main extension is required, and such extension is off a main installed to serve an existing or past SC9 customer, a portion of the delivery service revenues generated by the new contract will be shared with ratepayers. The allocation between Niagara Mohawk and ratepayers shall be established using principles associated with the Commission's gas main extension policy.

5. Therm Billing Accuracy Assessment

During the Settlement Period, Niagara Mohawk will conduct a program to sample the heat content of gas delivered within its therm billing zones. The purpose of the program is to assess whether the therm factors developed by Niagara Mohawk for billing both Niagara Mohawk and transportation customers for gas supply service are reasonably accurate. Currently, therm billing factors are derived by Niagara Mohawk from its gate station flow data and computer-modeled gas flow allocations to therm billing (Btu) zones, but there is no testing of gas within zones to test the reasonableness of the billing factors used. No further steps beyond assessment of the accuracy of the therm billing factors are anticipated during the Settlement Period. If problems are identified, however, the Commission would not be precluded from considering whether remedial measures are warranted. Niagara Mohawk may defer the incremental costs of any remedial measures in excess of $100,000, and if Niagara Mohawk wishes immediate recovery, may petition the Commission for recovery from the CRA.

Niagara Mohawk will use gas Btu measuring devices to analyze samples of gas taken from locations within its therm billing zones for comparison to the billing factors derived by its current methods. Four measuring devices will be purchased for the program. Niagara Mohawk will solicit bids from equipment suppliers and actual equipment purchase costs of up to a maximum of $70,000 will be recovered by Niagara Mohawk from the CRA. The Signatory Parties agree that all other Niagara Mohawk costs, including personnel costs, to implement the program have been included in the calculation of revenue requirement pursuant to this Agreement and will not be subject to an additional allowance.

Staff and Niagara Mohawk will cooperatively develop an implementation plan for the program by September 1, 2000. The plan will include the type of equipment to be used, the locations on the distribution system where gas samples are to be taken, the frequency of sampling at each location, and a plan for data analysis and reporting. Staff will have access to monitor gas sampling operations.

6. Allowance for Funds Used During Construction

For purposes of determining the Allowance for Funds during Construction (AFC) rate during the Settlement Period, the gas portion of the weighted overall cost of common equity will be assumed to be 10.0%.

7. Exercise of Commission Authority

Nothing in this Agreement shall prohibit the Commission (upon its own motion or upon motion of a Signatory Party) from exercising its ongoing statutory authority to act on the level of Niagara Mohawk's gas rates in the event of unforeseen circumstances that, in the Commission’s judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to Niagara Mohawk's gas operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service.

B. Deferrals

No deferrals will be allowed during the Settlement Period except as set forth in this Agreement. Deferrals will occur for the following items:

1. SIR Costs

The deferral balance for site investigation and remediation (SIR) costs existing on October 31, 1999 pursuant to the Prior Rate Plan will not be added to or netted against the Contingency Reserve Account balance as originally contemplated in the Prior Rate Plan. Instead, the deferral balance existing on October 31, 1999 pursuant to the Prior Rate Plan will continue to be deferred in a SIR deferral account separate from the Contingency Reserve Account, with interest accruing at the unadjusted customer deposit rate.

Niagara Mohawk will recover 100% of costs incurred during the Settlement Period for SIR activities, except to the extent that recovery of such costs was disallowed under the Prior Rate Plan or previous Commission action. At the end of the First Rate Year, the Second Rate Year, and the Third Rate Year, Niagara Mohawk will true up its actual SIR costs in the applicable rate year to the $2.250 million annual expense allowance level established in this Agreement. Any difference will be added to or netted against the SIR deferral account, as appropriate. If there is no Stayout, the annual SIR allowance will be pro-rated based on monthly operating revenues and the true up provisions above will apply to actual SIR costs incurred in the Fourth Rate Period. In the event of a Stayout, the annual true up provisions will continue for any Stayout period, to be applied, if necessary, on a pro-rata basis based on monthly operating revenues. The factors to be applied to determine pro-ration by monthly operating revenues are attached hereto as "Appendix C" and made a part of this Agreement. At the end of the Settlement Period and the final true up, the disposition of any balance remaining in the SIR deferral account, owed either to Niagara Mohawk or to customers, will be made in a manner to be determined by the Commission.

Costs allowed in the SIR deferral mechanism shall be offset by the net revenues described below and by any net recoveries from insurers and third parties for SIR costs not already flowed-through to customers. Net gains recognized during any annual or pro-rated true up period from the sale or transfer to Non-utility Property of Niagara Mohawk land included in rate base or from the sale of stone, gravel, sand, or timber from such land, or any net gains recognized from the leasing of such land or from the sale or lease of mining or drilling rights to such land, will be credited to the SIR deferral account referenced above to help offset total SIR costs. For a transfer of land to Non-utility Property, the net gain shall be determined utilizing an appraisal by a Member Appraisal Institute (MAI) certified appraiser.

2. Contingency Reserve Account

The Contingency Reserve Account (CRA), as established in the Prior Rate Plan, had a balance for the benefit of customers as of October 31, 1999 of $40 million. As of November 1, 1999, the prior CRA mechanisms ended and the $40 million balance was deferred for customer benefit, without a cap, with interest accruing at the unadjusted customer deposit rate. The CRA balance as of the Implementation Date, including said carrying charges since November 1, 1999, will continue to be deferred in a separate CRA, but will be used as a ratebase offset, in effect receiving carrying charges at the overall rate of return, for the Settlement Period. At the end of the Settlement Period, the disposition of any balance remaining in the CRA will be made in a manner to be determined by the Commission. The CRA will be used as described elsewhere in this Agreement, with the associated dollar levels identified.

3. Rate Base Impact of the Use of the CRA

For the purpose of calculating the revenue requirement effect of using the CRA, the annual expense allowance level established in this Agreement assumes that one-third of the CRA balance would be depleted in the First Rate Year, one-third in the Second Rate Year and one-third in the Third Rate Year, with no additional funds being available in the Fourth Rate Period and beyond. Thus, the beginning, end, and average rate year balance assumptions reflected in this Agreement are as follows:

	CRA Balance		$000s
	Beginning	End	Average
First Rate Year	$40.000	$26.667	$33.334
Second Rate Year	$26.667	$13.333	$20.000
Third Rate Year	$13.333	$0	$6.667
Fourth Rate Period	$0	$0	$0

These balances are reflected as a reduction to rate base and thus as a reduction to the return on rate base assumed in the revenue requirement calculation. The actual use of the CRA is expected to be different than assumed above, and the Signatory Parties agree to true up the effect to actuals and to defer the revenue requirement effect of the actual CRA use by applying the following formula:

(Actual Average CRA Balance

- Assumed Average CRA Balance)

* Pre-tax Rate of Return

= Use of Contingency Reserve Revenue Requirement Deferral

For purposes of this calculation the pre-tax rates of return are assumed to be 10.28% in the First Rate Year, 10.40% in the Second Rate Year, and 10.33% for the duration thereafter of the Settlement Period.

4. Customer Service System Credits

The expense levels allowed as the basis for calculating revenue requirement as part of this Agreement (see Appendix A) include certain expenses (both rate base and depreciation expense) for Niagara Mohawk's Customer Service System (CSS). The Signatory Parties agree that a resolution of rate issues regarding CSS was beyond the scope of negotiations leading to this Agreement. Therefore, the Signatory Parties agree that pending a future determination by the Commission as to the allowable level of CSS expenses (both rate base and depreciation expense), the level of the gas portion of CSS expenses shall be capped at the level shown in Appendix A, and included in revenue requirement subject to downward-only true up to the amount actually allowed by the Commission in such future determination. Any credit due to gas customers as a result of a future determination by the Commission as to the allowable level of the gas portion of CSS expenses (both rate base and depreciation expense) will be deferred, with interest accruing at the unadjusted customer deposit rate, until reflected in gas rates in a manner to be determined by the Commission. In the event that the actual allowance determined by the Commission in the future is higher than the expense levels (both rate base and depreciation expense) shown on Appendix A, Niagara Mohawk will not be entitled to any upward reconciliation or recovery of the gas portion of said expense levels.

5. Gas Safety and Service Reliability Incentive

Any penalty accruing as a result of the gas safety and service reliability incentive mechanism (described elsewhere in this Agreement) will be deferred, with interest accruing at the unadjusted customer deposit rate, until reflected in rates in a manner to be determined by the Commission.

6. Legislative, Regulatory and Related Actions

To the extent that mandatory regulatory, legislative or accounting changes not specifically addressed herein (including income, gross receipts tax, or other state or federal tax expense, but excluding local real property tax) become effective during the Settlement Period covered by this Agreement, the revenue requirement impacts of each specific change will be quantified separately and, to the extent that each separate item exceeds 1% of gas net income in an annual amount, it shall be deferred, with interest accruing at the unadjusted customer deposit rate, for refund to or recovery from customers in a manner to be determined by the Commission. This provision shall not prohibit refund or recovery of the revenue requirement impacts of such changes to the extent expressly authorized by applicable law.

7. Generic Policy Case Actions

To the extent that mandatory changes not specifically addressed herein due to generic policy decisions of the Commission become effective during the Settlement Period covered by this Agreement, the revenue requirement impacts of each specific change will be quantified separately and, to the extent that each separate item exceeds $100,000 in an annual amount, it shall be deferred, with interest accruing at the unadjusted customer deposit rate, for refund to or recovery from customers in a manner to be determined by the Commission. The same treatment shall be afforded non-mandatory changes adopted by Niagara Mohawk as a result of generic policy decisions of the Commission. Consistent with the foregoing, the parties recognize that generic policy decisions of the Commission will be applicable to Niagara Mohawk according to their terms (unless stayed by the Commission or a court or provided otherwise by the Commission) during the Settlement Period.

8. Interest On Deferrals

The Signatory Parties agree that Niagara Mohawk will apply interest on a monthly basis to all deferral credit and debit balances contemplated by this Agreement until they are reflected in rates, either directly or through amortization. Unless otherwise stated, the interest rate to be applied to these booked amounts will be the unadjusted customer deposit rate as determined from time to time by the Commission.

9. Regulatory Deferral Amortizations

The chart below sets forth the amortization during the Settlement Period of existing Regulatory Deferrals. The amortizations of the OPEB Regulatory Asset, VERP Costs and the Labor 53rd Week Accrual will be as shown on the chart. The Pension Gain amortization of ($132,000) in the First Rate Year is based on the actual amount amortized during November and December, 1999. The remaining balance of the Pension Gain at January 1, 2000 of ($2,167,341) will be amortized over the Settlement Period consistent with the current practice of totally offsetting OPEB expense.

Amortization of Regulatory Deferrals ($000)				
	First Rate Year	Second Rate Year	Third Rate Year	Fourth Rate Year
OPEB	$660	$660	$660	$550
VERP Costs	$563			
Pension Gain Amortization	($132)			
Labor 53rd Week Acrual	$128	$128	$128	$107

C. Adjustments and Reconciliations

No adjustments or reconciliations will be allowed during the Settlement Period except as set forth in this Agreement or as authorized by the Commission. Adjustments and reconciliations will occur for the following items:

1. Gas Cost and Weather Normalization Adjustments

-- Actual commodity costs as provided for in 16 NYCRR 720-6.5, through the MCG;

-- Actual capacity costs for sales customer demands as provided for in 16 NYCRR 720-6.5, through the MCG (subject to the Capacity Incentive Program);

-- "Upstream of CNG" capacity release revenues (not including releases resulting from migration of Post-Aggregation Customers), through the MCG subject to 85/15 sharing between ratepayers and shareholders;

-- "Upstream of CNG" capacity release revenues resulting from migration of Post-Aggregation Customers, through the MCG;

-- CNG Capacity release revenues (not including assignments of capacity or releases resulting from migration of Post-Aggregation Customers), through the MCG subject to 85/15 sharing between ratepayers and shareholders);

-- CNG Capacity release revenues due to assignments of capacity or releases resulting from migration of Post-Aggregation Customers, through the MCG;

-- Sales for resale revenues (a.k.a. "off system sales", not including sales resulting from migration of Post-Aggregation Customers), through the MCG subject to 85/15 sharing between ratepayers and shareholders;

-- Sales for resale revenues resulting from migration of Post-Aggregation Customers, through the MCG;

-- Revenues from third party managers of gas portfolios (not including assignments of capacity or releases resulting from migration of Post-Aggregation Customers), through the MCG subject to 85/15 sharing between ratepayers and shareholders;

-- Revenues from third party managers of gas portfolios due to assignments of capacity or releases resulting from migration of Post-Aggregation Customers, through the MCG;

-- Weather normalization adjustments as discussed in Section VI. A., through a line item on the customer bill; and

-- Research and Development surcharge in compliance with Rule 30 of PSC 218 Gas and the Commission's Order issued February 14, 2000 in Case 99-G-1369, through the MCG.

2. Reconciliations

-- Revenues from Gas Delivery Service Rates to SC4 and SC5I customers, as an adjustment to Gas Delivery Service Rates of SC1, SC2, SC3, SC12 and SC13 customers subject to 80/20 sharing between ratepayers and shareholders (SC5I, SC12 and SC13 will be reclassified);

-- Revenues from Gas Delivery Service Rates to SC9 customers, as an adjustment to Gas Delivery Service Rates of SC1, SC2, SC3, SC12 and SC13 customers (SC12 and SC13 will be reclassified);

-- SIR costs, to the separate SIR deferral account;

-- Credit of unexpended Cathodic Protection Program costs, to the CRA in certain circumstances;

-- Credit of Customer Service System (CSS) adjustments, both rate base and depreciation expense, to a separate CSS deferral account; and

-- Rate Base Impact on the use of the CRA, to the CRA.

3. Adjustments to Contingency Reserve Account to Fund Certain Costs

-- Allowed Balancing Program Capital Costs;

-- Allowed Stranded Capacity Costs;

-- Allowed Merchant Transition Costs;

-- Allowed Outreach and Education Plan Costs;

-- Allowed Geographically Concentrated Component Costs;

-- Allowed County Aggregation Grant Program Costs;

-- Allowed Therm Billing Accuracy Capital Costs;

-- Allowed One Bill Option (Utility-Provided) Costs; and

-- Allowed Tax Law Changes Costs.

D. Earnings Sharing

Following each twelve-month period ending October 31, 2000, 2001, 2002, and 2003, Niagara Mohawk will make a computation of its gas rate of return on common equity (ROE) for the applicable twelve-month period. In the event of a Stayout beyond October 31, 2003, Niagara Mohawk will make the computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period. The computations and the underlying data will be made available to the Signatory Parties and filed with the Commission not later than January 31 following the end of the applicable twelve-month period. The filings will include supporting workpapers and the ROE calculation based on traditional ratemaking practices and methodologies applicable to Niagara Mohawk as to includable costs, revenues and appropriate capital structure. The computation of gas rate of return on common equity will be calculated from Niagara Mohawk's books of account for the applicable twelve-month period, except that Commission-approved incentive benefits and penalties applicable to the twelve-month period covering customer service incentives (gas pro-rata portion), gas safety and service reliability incentives, capacity cost mitigation incentive program incentives, and capacity release, sales for resale, and portfolio management incentives, will be excluded from the earnings calculations. Any disagreements about Niagara Mohawk's ROE calculation and capitalization that cannot be resolved by the Signatory Parties shall be referred to the Commission for resolution. For each twelve-month period covered by this Agreement, Niagara Mohawk will allocate the revenue equivalent of its gas earnings, if any, in excess of the "Threshold Earnings Level" in any rate year as follows:

- fifty percent of such excess will be retained by Niagara Mohawk (shareholders); and
- fifty percent of such excess will be deferred to be applied to the benefit of customers in a manner to be determined by the Commission. The Signatory Parties agree that they will be free to make any argument as to the manner in which those deferred amounts should be used for customer benefit.

If there is no Stayout, earnings for the twelve-month period ending October 31, 2003 will be pro-rated based on monthly operating revenues and the earnings sharing provisions above will apply only to the earnings pro-rated to the Fourth Rate Period. In the event of a Stayout, the earnings sharing provisions will continue for any Stayout period, to be applied, if necessary, on a pro-rata basis based on monthly operating revenues. The factors to be applied to determine pro-ration by monthly operating revenues are attached hereto as "Appendix C" and made a part of this Agreement. The Threshold Earnings Level shall be not less than 10.0 percent nor more than 12.0 percent (200 basis point variable band). The actual level will be calculated for any particular twelve-month period according to the methodologies established in this Agreement for the customer migration (up to 150 basis points) and customer awareness and understanding of gas competitive opportunities incentives (up to 50 basis points).

E. Incentives

1. Customer Service

The Signatory Parties agree that the existing customer service incentive program, which is applicable to customer service provided by Niagara Mohawk to both electric and gas customers, part of the Niagara Mohawk Power Choice plan established in Cases 94-E-0098 and 94-E-0099, will not be modified by this Agreement. It is the intention of the Signatory Parties that if the existing customer service incentive program expires prior to the end of the Settlement Period, due to the expiration of the Power Choice plan, that a successor customer service incentive program be established (after discussions among the Signatory Parties) that is applicable to gas customers through the end of the Settlement Period. The incremental costs of such successor program, if any, over and above those costs already being incurred to fund the existing program for the benefit of gas customers, shall be recoverable by Niagara Mohawk, either through the CRA or if the CRA is depleted, as provided for by the Commission.

2. Gas Safety and Service Reliability

A gas safety and service reliability incentive mechanism will be in effect during the Settlement Period unless discontinued by the Commission. The maximum penalty for any annual measurement period will equal twelve (12) basis points of pre-tax return on common gas equity (revenue requirement equivalent). If there is a penalty applicable in any period, it will be reflected in rates in a manner to be determined by the Commission.

(a) One-Call Notices

Commencing with the First Rate Year, and through the end of the Settlement Period, Niagara Mohawk will be assessed three (3) basis points of pre-tax return on gas common equity (revenue requirement equivalent) for failure, measured within Calendar Year 2000, and subsequent calendar years, to respond on three (3) or more occasions to Rule 753-3.1 one-call notices within the time frame required by Rule 753-4.5, other than failures to respond as a result of emergency notice notifications. With concurrence of the Department of Public Service's Director of the Office of Gas and Water, exceptions may be permitted where conditions prevent compliance. Each rate year will stand on its own and there will be no carryover or averaging of any kind in calculating any assessments regarding one-call notices.

(b) Leak Backlogs

Commencing with the First Rate Year (using the end of calendar year 2000 as the measurement interval for the First Rate Year), and through the end of the Settlement Period, Niagara Mohawk will be assessed two (2) basis points of pre-tax return on gas common equity (revenue requirement equivalent) for failure to reduce the number of leaks in backlog pending repair, not including leaks repaired but pending recheck, of Type 1, 2 and 2A leaks so that backlog levels do not exceed 300 by December 31, 2000, 250 by December 31, 2001, and 200 by December 31 of subsequent years, such 200 level in subsequent years continuing through the Settlement Period.

(c) Cathodic Protection

i. Failure to Achieve Minimum Levels

For the First Rate Year, Niagara Mohawk will be assessed seven (7) basis points of pre-tax return on gas common equity (revenue requirement equivalent) for failure, measured within Calendar Year 2000, to cathodically protect at least 50 miles of pipe (the minimum mileage level to be achieved for that year). For the Second Rate Year, Niagara Mohawk will be assessed seven (7) basis points of pre-tax return on gas common equity (revenue requirement equivalent) for failure, measured within Calendar Year 2001, to cathodically protect at least 171 miles of pipe. For the Third Rate Year, Niagara Mohawk will be assessed seven (7) basis points of pre-tax return on gas common equity (revenue requirement equivalent) for failure, measured within Calendar Year 2002, to cathodically protect at least 171 miles of pipe. For the Fourth Rate Period, Niagara Mohawk will be assessed seven (7) basis points of pre-tax return on gas common equity (revenue requirement equivalent) for failure, measured within Calendar Year 2003, to cathodically protect at least 151 miles of pipe. Each rate year or period will stand on its own and there will be no carryover or averaging of any kind in calculating any assessments regarding failure to achieve minimum protection levels.

ii. Failure to Achieve Target Levels

For the First Rate Year, measured within Calendar Year 2000, if Niagara Mohawk cathodically protects at least 50 miles of pipe (the minimum mileage level to be achieved for that year), but less than 75 miles of pipe (the target mileage level to be achieved for that year), Niagara Mohawk will be assessed the number of basis points of pre-tax return on gas common equity (revenue requirement equivalent) corresponding to the actual mileage level achieved shown on the following table:

Year 2000

Miles Achieved	Basis Point Assessment
50 to 54	6.0
55 to 59	4.8
60 to 64	3.6
65 to 69	2.4
70 to 74	1.2

Any assessment incurred for failure to achieve target levels in calendar year 2000 can be offset to the degree that miles achieved in calendar year 2001 exceed the calendar year 2001 target of 196 miles. No offset will be permitted beyond calendar year 2001.

For the Second Rate Year, measured within Calendar Year 2001, if Niagara Mohawk cathodically protects at least 171 miles of pipe (the minimum mileage level to be achieved for that year), but less than 196 miles of pipe (the target mileage level to be achieved for that year), Niagara Mohawk will be assessed the number of basis points of pre-tax return on gas common equity (revenue requirement equivalent) corresponding to the actual mileage level achieved shown on the following table:

Year 2001

Miles Achieved	**Basis Point Assessment**
171 to 175	6.0
176 to 180	4.8
181 to 185	3.6
186 to 190	2.4
191 to 195	1.2

Any assessment incurred for failure to achieve target levels in calendar year 2001 can be offset to the degree that miles achieved in calendar year 2002 exceed the calendar year 2002 target of 196 miles. No offset will be permitted beyond calendar year 2002.

For the Third Rate Year, measured within Calendar Year 2002, if Niagara Mohawk cathodically protects at least 171 miles of pipe (the minimum mileage level to be achieved for that year), but less than 196 miles of pipe (the target mileage level to be achieved for that year), Niagara Mohawk will be assessed the number of basis points of pre-tax return on gas common equity (revenue requirement equivalent) corresponding to the actual mileage level achieved shown on the following table:

Year 2002

Miles Achieved	Basis Point Assessment
171 to 175	6.0
176 to 180	4.8
181 to 185	3.6
186 to 190	2.4
191 to 195	1.2

Any assessment incurred for failure to achieve target levels in calendar year 2002 can be offset to the degree that miles achieved in calendar year 2003 exceed the calendar year 2003 target of 175 miles. No offset will be permitted beyond calendar year 2003.

For the Fourth Rate Period, measured within Calendar Year 2003, if Niagara Mohawk cathodically protects at least 150 miles of pipe (the minimum mileage level to be achieved for that year), but less than 175 miles of pipe (the target mileage level to be achieved for that year), Niagara Mohawk will be assessed the number of basis points of pre-tax return on gas common equity (revenue requirement equivalent) corresponding to the actual mileage level achieved shown on the following table:

Year 2003

Miles Achieved	Basis Point Assessment
150 to 154	6.0
155 to 159	4.8
160 to 164	3.6
165 to 169	2.4
170 to 174	1.2

Any assessment incurred for failure to achieve target levels in calendar year 2003 cannot be offset.

iii. Successor Incentive

It is the intention of the Signatory Parties that if the cathodic protection program is discontinued for the Fourth Rate Period, and in the event of a Stayout, that a successor gas safety and reliability incentive mechanism worth seven (7) basis points be established (after discussions among the Signatory Parties) that is applicable to gas service through the end of the Settlement Period, in lieu of the cathodic protection component described above.

3. Capacity Incentive Program

A capacity incentive program will be in effect beginning November 1, 1999, and continuing throughout the Settlement Period. The mechanism provides indirect and direct incentives to Niagara Mohawk to mitigate Stranded Capacity Costs. Indirectly, the mechanism provides Niagara Mohawk an incentive to release capacity contracts so as to create an opportunity to earn a direct incentive related to replacement capacity costs. Directly, the mechanism allows Niagara Mohawk an opportunity to earn a share of replacement capacity cost savings in relation to a target, and provides a disincentive to incur replacement capacity costs in excess of the deadband. The incentive (reward/penalty) has an annual cap of $2 million for shareholders. Any reward or penalty will be flowed through to SC1, SC2, and SC3 sales customers via the MCG and to SC8 transportation customers taking standby sales service as an adjustment to their SC8 D1 Demand Charge. The full incentive mechanism is attached hereto as "Appendix D" and made a part of this Agreement.

4. Capacity Release, Sales for Resale and Portfolio Management

All capacity release and sales for resale sharing mechanisms of the Prior Rate Plan shall end as of October 31, 1999. A capacity release, sales for resale and portfolio management incentive mechanism will be in effect beginning November 1, 1999, and continuing throughout the Settlement Period, as follows:

(a) "Upstream of CNG" Capacity Release

Niagara Mohawk will be entitled to retain for the benefit of its shareholders, as an incentive, fifteen percent (15%) of all revenues derived from the release of capacity "upstream of CNG" not including releases resulting from migration of Post-Aggregation Customers. The remaining eighty-five percent (85%) share will be flowed through to SC1, SC2, and SC3 sales customers via the MCG and to SC8 transportation customers taking standby sales service as a credit to their SC8 D1 Demand Charge. Revenues derived from the release of capacity "upstream of CNG" resulting from migration of Post-Aggregation Customers will not be shared or subject to an incentive.

(b) CNG Capacity Release

Niagara Mohawk will be entitled to retain for the benefit of its shareholders, as an incentive, fifteen percent (15%) of all revenues (or cost offsets to CNG’s charges) derived from the release of CNG capacity not including assignments of capacity or releases resulting from migration of Post-Aggregation Customers. The remaining eighty-five percent (85%) share will be flowed through to SC1, SC2, and SC3 sales customers via the MCG and to SC8 transportation customers taking standby sales service as a credit to their SC8 D1 Demand Charge. Revenues (or cost offsets to CNG’s charges) derived from the release of CNG Capacity resulting from assignments or migration of Post-Aggregation Customers will not be shared or subject to an incentive.

(c) Sales for Resale

Niagara Mohawk will be entitled to retain for the benefit of its shareholders, as an incentive, fifteen percent (15%) of all net revenues derived from sales for resale (a.k.a. "off system sales") not including sales resulting from migration of Post-Aggregation Customers. The remaining eighty-five percent (85%) share will be flowed through to SC1, SC2, and SC3 sales customers via the MCG and to SC8 transportation customers taking standby sales service as a credit to their SC8 D1 Demand Charge. Revenues derived from sales for resale resulting from migration of Post-Aggregation Customers will not be shared or subject to an incentive.

(d) Portfolio Management

Niagara Mohawk will be entitled to retain for the benefit of its shareholders, as an incentive, fifteen percent (15%) of revenues derived from a third party manager of its gas portfolio. The incentive will apply only to those assets in the portfolio relating to Upstream of CNG Capacity and CNG Capacity which exclude capacity resulting from migration of Post-Aggregation Customers or capacity assignments. The remaining revenues will be flowed through to SC1, SC2, and SC3 sales customers via the MCG and to SC8 transportation customers taking standby sales service as a credit to their SC8 D1 Demand Charge . Revenues derived from the release of CNG Capacity resulting from assignments or migration of Post-Aggregation Customers will not be shared or subject to an incentive.

(e) Interruptible Sales

As an incentive, Niagara Mohawk will retain for shareholders/refund to customers, twenty percent (20%) of the positive/negative difference between the net revenue targets set forth below and the actual net revenues received from Gas Delivery Service Rates to SC4 (Large Volume Interruptible Sales) and SC5I (Interruptible Large Volume Transportation) customers (SC5I will be reclassified). The remaining eighty percent (80%) share of the difference will be flowed through as an increase or decrease to the Gas Delivery Service Rates of SC1, SC2, SC3, SC12 and SC13 customers (SC12 and SC13 will be reclassified). In the event the Settlement Period ends with the final period being less than a full rate year, the targets will be allocated to the individual months based on monthly interruptible margins. The factors to be applied to determine pro-ration by monthly interruptible margins are attached hereto as "Appendix C" and made a part of this Agreement.

NET REVENUE TARGETS	
Service Class	Annual Target
SC4	$556,000
SC5I	$5,552,000

5. Customer Migration

A customer migration incentive mechanism will be in effect during the Settlement Period. The incentive mechanism will allow Niagara Mohawk to increase its Threshold Earnings Level for the applicable period by up to a maximum of 150 basis points based on actual customer migration levels achieved. The amount of the incentive will be based on a sliding scale between 0 and 150 basis points directly linked to the percent actually achieved of targeted migration levels set forth below (100% of target = 150 basis points).

As of October 31 in the years 2000, 2001, 2002, and 2003, Niagara Mohawk will measure the total number of customers at October 31 in Service Classifications SC1 buying gas from other than Niagara Mohawk (Residential Transportation) and SC2 buying gas from other than Niagara Mohawk (Small General Transportation). In the event of a Stayout beyond October 31, 2003, Niagara Mohawk will again conduct the October 31 measurement for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period. A report of the results, including raw results and computations, will be made available to the Signatory Parties and filed with the Commission not later than January 31 following the applicable October 31. Any disagreements about Niagara Mohawk's calculations that cannot be resolved by the Signatory Parties shall be referred to the Commission for resolution.

Following each October measurement in the years 2000, 2001, 2002, and 2003 (and in the event of a Stayout beyond October 31, 2003, following each subsequent resultant measurement) Niagara Mohawk will be awarded an increase in its Threshold Earnings Level up to a maximum of 150 basis points for the applicable period based on the following formula:

$$\frac{\text{(Total number of SC1 and SC2 customers buying gas from other than Niagara Mohawk at October 31)}}{\text{(Migration Target)}} * \text{150 Basis Points}$$

CUSTOMER MIGRATION TARGETS (Cumulative)	
First Rate Year	47,441
Second Rate Year	102,727
Third Rate Year	153,974
Subsequent Years	Prior Year's Target Plus 50,000

6. Customer Awareness and Understanding of Gas Competitive Opportunities

A customer awareness and understanding of gas competitive opportunities incentive mechanism will be in effect during the Settlement Period. The incentive mechanism will allow Niagara Mohawk to increase its Threshold Earnings Level for the applicable period by up to a maximum of 50 basis points for good performance.

Prior to October 1, 2000, Niagara Mohawk will develop surveys, in consultation with Staff, to measure residential and commercial customer awareness and understanding of gas competitive opportunities in Niagara Mohawk's service territory. The surveys will separately measure the following four items:

- -- residential customer awareness;
- -- commercial customer awareness;
- -- residential understanding; and
- -- commercial understanding.

The surveys will be designed to achieve confidence levels of 95 percent with margins of error of plus or minus 3.5 percent or less. The residential and commercial results will be combined on a weighted basis, based on the total number of residential and commercial customers, to produce separate weighted average results for awareness and understanding. The surveys and survey results will be public, not proprietary information. During the month of October, 2000, Niagara Mohawk will conduct the surveys to establish a baseline level. If the baseline survey is accomplished by October 31, 2000, Niagara Mohawk will earn the full 50 basis point incentive for the First Rate Year.

During the month of October in the years 2001, 2002, and 2003, Niagara Mohawk will again conduct the surveys to measure levels of customer awareness and understanding. In the event of a Stayout beyond October 31, 2003, Niagara Mohawk will again conduct the October surveys to measure levels of customer awareness and understanding for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period.

A report of all survey results, including raw results and computations, will be made available to the Signatory Parties and filed with the Commission not later than January 31 following the end of the applicable October. Any disagreements about Niagara Mohawk's calculations that cannot be resolved by the Signatory Parties shall be referred to the Commission for resolution. In conjunction with its reports, Niagara Mohawk will annually advise Staff on its activities to increase public awareness and understanding including: its messages; samples of materials under production; and use of audiences' and customers' input in program content, method and design.

Following each October survey in the years 2001, 2002, and 2003 (and in the event of a Stayout beyond October 31, 2003, following each subsequent resultant survey), Niagara Mohawk will be awarded an increase in its Threshold Earnings Level for the applicable period (example: October 2001 survey results apply to Second Rate Year) of up to a maximum of 50 basis points, calculated as follows:

-- Second Rate Year:

For each percentage point increase in customer awareness above the First Rate Year base level, Niagara Mohawk will be awarded an increase of "A" basis points in its Threshold Earnings Level, up to a maximum of 25 basis points.

Factor "A" = 25/((90-X)*1/3)

("X" equals the actual First Rate Year weighted average results for customer awareness)

For each percentage point increase in customer understanding above the First Rate Year base level, Niagara Mohawk will be awarded an increase of "B" basis points in its Threshold Earnings Level, up to a maximum of 25 basis points.

Factor "B" = 25/((75-X)*1/3)

("X" equals the actual First Rate Year weighted average results for customer understanding)

-- Third Rate Year:

For each percentage point increase in customer awareness above the First Rate Year base level, Niagara Mohawk will be awarded an increase of "C" basis points in its Threshold Earnings Level, up to a maximum of 25 basis points.

Factor "C" = 25/((90-X)*2/3)

("X" equals the actual First Rate Year weighted average results for customer awareness)

For each percentage point increase in customer understanding above the First Rate Year base level, Niagara Mohawk will be awarded an increase of "D" basis points in its Threshold Earnings Level, up to a maximum of 25 basis points.

Factor "D" = 25/((75-X)*2/3)

("X" equals the actual First Rate Year weighted average results for customer understanding)

-- Subsequent Years:

For each percentage point increase in customer awareness above the First Rate Year base level, Niagara Mohawk will be awarded an increase of "E" basis points in its Threshold Earnings Level, up to a maximum of 25 basis points.

Factor "E" = 25/((90-X)*3/3)

("X" equals the actual First Rate Year weighted average results for customer awareness)

For each percentage point increase in customer understanding above the First Rate Year base level, Niagara Mohawk will be awarded an increase of "F" basis points in its Threshold Earnings Level, up to a maximum of 25 basis points.

Factor "F" = 25/((75-X)*3/3)

("X" equals the actual First Rate Year weighted average results for customer understanding)

VI. REVENUE ALLOCATION AND RATE DESIGN

A. General Ratemaking Requirements

1. Monthly Cost of Gas (MCG)

During the Settlement Period, and thereafter unless changed by Commission, Niagara Mohawk will continue use of the Monthly Cost of Gas mechanism established by the Commission in the Interim Order effective November 1, 1999, subject to any modifications set forth in this Agreement.

(a) Gas Lost and Unaccounted for Factor

Beginning with the Implementation Date or the October 2000 billing cycle, whichever is earlier, the gas lost and unaccounted for factor will be 1.76% based on an average of the twelve months ending August 30, 1997, 1998 and 1999.

(b) Weather Normalization Adjustment

Niagara Mohawk will maintain its current weather normalization clause (WNC) as set forth in PSC 218, Rule 27 (including updated Degree Day Factors and Base Loads), with the exception that it be modified such that the priceout will be calculated using the rate block at which the customer’s usage ends rather than the tail block rate of the individual service class. The WNC will be extended to apply to SC5F (Firm Large Volume Transportation) and SC7 (Firm Small Transportation) customers whose heating load represents fifty percent or more of their total gas consumption in these classifications. For purposes of this Agreement, a customer's heating load represents fifty percent or more of its total gas consumption if fifty percent or more of its gas consumption occurs during the months of November through March. These changes shall take effect beginning with the first billing cycle of October 2000.

(c) Sales for Resale

Regarding Sales For Resale (SFR), gas supply commodity costs will be fixed on the first day that the SFR transaction is made. Such fixed cost shall continue at this level until the end of the month (or until the transaction term ends, if sooner). If the transaction term extends into a subsequent month, the gas supply commodity cost will be re-set for each subsequent month on the first day of the month. SFR transactions will only occur under the following conditions:

- SFR transactions will only be performed with excess pipeline capacity or gas supply that Niagara Mohawk has under contract;
- SFR transactions will operate within Niagara Mohawk's monthly operating plans. For example, excess capacity would be determined by a given month's operating plan which includes factors such as estimated demand, flowing supply and storage injection/withdrawal target ranges; and
- If Niagara Mohawk contracts for a gas supply with reservation charges to specifically perform SFR transactions, such reservation charge will be a gas cost in the net revenue calculation.

2. Unbundling

Niagara Mohawk will continue the use of unbundled Gas Delivery Service Rates and Gas Supply Charges for its SC1, SC2, and SC3 customers purchasing gas supply from Niagara Mohawk (including both commodity cost of gas and interstate pipeline fixed capacity cost and storage cost). These unbundled Gas Delivery Service Rates were established by the Commission effective November 1, 1999 and are subject to modification due to the establishment of back-out rates for certain services, and to adjust rates by service classification for lost revenue related solely to the unbundling process, as set forth in this Agreement.

B. Revenue-Neutral Package

1. Rate Reclassification

Effective on the Implementation Date, the adjustments set forth below to existing Gas Delivery Service Rates in PSC No. 218 will apply. SC5I, SC12 and SC13 will be reclassified to SC6, SC1 and SC2 respectively. Hereafter in this Agreement, SC5I, SC12 and SC13 will be referred to as SC6, SC1 and SC2 respectively. The Gas Delivery Service Rates for Residential and Small General service will be the same regardless of the commodity provider. Effective on the Implementation Date, SC5I, SC12 and SC13 will be deleted from the Company’s PSC No. 218 Gas Tariff.

2. Rate Changes by Service Classification- Exclusive of NMSuburban Gas Customers

(a) <u>SC1 - Residential</u>

(i) SC1 rates will be reduced by 2.222 cents per therm related to a Merchant Function Charge which will then be displayed as a separate line item under the Gas Supply Section of the customer's bill for customers who purchase their gas supply from Niagara Mohawk. For SC1 Customers who do not purchase their gas supply from Niagara Mohawk, the Merchant Function Charge will not apply.

(ii) Gas Delivery Service Rates will be increased by $.00048 per therm in order to recover the revenue requirement lost when gas rates were unbundled on November 1, 1999.

(iii) The new SC1 rate structure will be as follows:

First 3 Therms or Less,	$11.64(Non Heat);
First 3 Therms or Less,	$14.62(Heat);
Next 47 therms,	$.35291/therm;
Over 50 therms,	$.05264/therm.

(b) <u>SC2 - Small General Service</u>

(i) SC2 rates will be reduced by 2.222 cents per therm related to a Merchant Function Charge which will then be displayed as a separate line item under the Gas Supply Section of the customer's bill for customers who purchase their gas supply from Niagara Mohawk. For SC2 Customers who do not purchase their gas supply from Niagara Mohawk, the Merchant Function Charge will not apply.

(ii) Gas Delivery Service Rates will be increased by $.00030 per therm in order to recover the revenue requirement lost when gas rates were unbundled on November 1, 1999.

(iii) The new SC2 rate structure will be as follows:

First 3 Therms or Less, $19.14;
Next 277 therms, $.26673/therm;
Next 4720 therms, $.15999/therm;
Over 5000 therms, $.02583/therm.

(c) <u>SC3 - Large General Service</u>

(i) Gas Delivery Service Rates for SC3 customers will remain unchanged from Gas Delivery Service Rates which became effective November 1, 1999. Specifically, these monthly rates will remain as follows for the Settlement Period:

First 5000 Therms or Less, $773.60;
Over 5000 Therms, $.04577/therm.

(ii) Capacity Gas Supply Charges and twenty cents per therm of Commodity Gas Supply Charges provided for in 16 NYCRR 720-6.5, recovered through the Monthly Cost of Gas Rate (MCG Rate) will now be applied to Billed usage in therms rather than Metered usage. The Remaining Commodity Gas Supply Charges (equal to Commodity Gas Supply Charges less 20 cents per therm) will be recovered as a separate line item on the customer's bill and will be multiplied by Metered Usage. Metered Usage is equal to the CCF associated with the customers monthly billing period (25-35 days) multiplied by the applicable BTU conversion factor. Billed usage is the higher of (1) Metered Usage or (2) Racheted Usage where Ratcheted Usage is equal to one-third of the highest monthly usage taken by the customer during any monthly billing period in the previous months of January through March inclusive.

For example:

Customer's Metered Usage	10,000 therms
Customer's Ratchet Usage	15,000 therms

Monthly Cost of Gas Rate = $.42 per therms
($.12 fixed and $.30 commodity)

Delivery Charges

First 5000 therms or less	$ 773.60
Last 10,000 therms @ $.04577 per therm	$ 457.70
	$1,231.30

Gas Supply Charges

15,000 Therms x $.32 per therm	$4,800.00
10,000 Therms x .10 per therm	$1,000.00
	$5,800.00

Total Cost for Gas Service =	$7,031.30

(d) SC4 - Large Volume Interruptible Sales Service

(i) The Contract Facilities Charge of $300 for SC4 will remain unchanged. The SC4 commodity rate will continue to be set monthly based on current PSC 218 tariff provisions which provide for this rate to be set monthly.

(e) <u>SC5 - Firm Transportation Service - Capable of Consuming 250,000 therms up to 1,000,000 therms Annually</u>

(i) The initial block for the firm part of SC5 will be changed from 1,000 therms, to 100 therms, such that the new rate structure will be as follows:

First 100 therms or less, $350;
Over 100 therms, $.05154/therm.

(f) <u>SC5 - Large Volume Interruptible Transportation Service Capable of Consuming 2,500,000 therms Annually (to be SC6)</u>

(i) Effective on the Implementation Date, the interruptible part of SC5 will be redesignated into a new service classification to be called "SC6". The charge in the SC5 initial block will be changed from $300, to $350, such that the new rate structure will be as follows:

First 100 therms or less, $350;
Over 100 therms, "Marketprice$"/therm,
where the "Marketprice$" will be set monthly
between a minimum of $.010/therm and
a maximum ceiling price per therm.

(ii) The maximum ceiling price per therm for each customer will be the effective annual SC8 firm rate (exclusive of the $700 initial block charge) for like consumption based on monthly consumption for the historical period twelve months ending May of each year. In no case will the ceiling price exceed $.05154/therm, exclusive of the $350 initial block charge.

(iii) The monthly price for each matrix price will be posted by the fifteenth day of the preceding month. If the fifteenth day is on a holiday or weekend, the prices will be posted on the next business day.

(iv) Language set forth on Leaf 148 of PSC No.218 related to SC5 Special Contracts will be deleted from Niagara Mohawk's tariff.

(g) <u>SC6 - (Previously Reserved for Future Use)</u>

(i) The SC6 classification previously reserved will be taken up by SC5 Large Volume Interruptible Transportation Service Capable of Consuming 2,500,000 therms Annually, as discussed above.

(h) <u>SC7 - Small Volume Transportation - Minimum Annual Quantities of Not Less than 50,000 therms</u>

(i) The SC7 rate will remain unchanged at $300.00 for the first 2,100 therms or less and $.10222 for over 2,100 therms per month.

(i) <u>S.C. 8 - Transportation Service - Capable of Consuming 1,000,000 therms Annually</u>

(i) The SC8 - Transportation rate will be divided into four separate blocks, the first being for the first 100 therms or less at a charge of $700 per month, the second block being the next 99,900 therms at the current charge of $.05154/therm, the third block being the next 400,000 therms at a lower rate of $.04666/therm, and the tail block at the rate of $.04000/therm, such that the new rate structure will be as follows:

First 100 therms or less, $700;
Next 99,900 therms, $.05154/therm;
Next 400,000 therms, $.04666/therm;
Over 500,000 therms, $.04000/therm.

Standby sales usage in therms will be combined with Transportation Service for billing purposes using the above blocks. A D1 Demand charge will be applicable to the Standby quantity only. The Standby Commodity Cost of Gas will be billed directly to the Customer's Marketer.

(j) <u>SC12 - Residential Aggregation Service and SC13 Small General Service Aggregation Service</u>

(i) SC12 and SC13 will be reclassified as SC1 and SC2 respectively.

(k) <u>SC14 Transportation Service for Dual-Fuel Electric Generators</u>

(i) Delivery service revenues from the two existing SC14 customers (Albany and Oswego Steam Stations) are reflected in the revenue requirement incorporated in this Agreement and will be retained by Niagara Mohawk.

(ii) The Signatory Parties could not come to a consensus regarding the treatment of delivery service revenues, if any, that may be obtained from additional SC14 customers that may be added during the Settlement Period. Any Signatory Party shall be free to petition the Commission for any resolution of such issue as they shall desire, so long as all Signatory Parties are served with such petition in a timely manner. The treatment of all delivery service revenues from any future SC14 contract shall only be in accordance with the Commission's resolution of such a petition.

3. Rate Changes by Service Classification - Former NMSuburban Gas Customers

(a) Eligibility for NMSuburban Rates

NMSuburban rates will be applicable to customers located in the district formerly served by NMSuburban Gas Inc. within the Village of East Syracuse and within the Town of DeWitt, Onondaga County, New York. This change in eligibility for NMSuburban rates will take place prospectively only and Niagara Mohawk will not be obligated to provide refunds to customers placed on Niagara Mohawk rates since November of 1996. Within 60 days after the Implementation Date, customers (including customers added during the Settlement Period) located in the district formerly served by NMSuburban Gas, but on Niagara Mohawk rates, will be placed on NMSuburban rates.

(b) SC1 - Residential

(i) SC1 rates will be reduced by 2.222 cents per therm related to a Merchant Function Charge which will then be displayed as a separate line item under the Gas Supply Section of the customer’s bill for customers who purchase their gas supply from Niagara Mohawk. For SC1 customers who do not purchase their gas supply from Niagara Mohawk, the Merchant Function Charge will not apply.

(ii) Gas Delivery Service Rates will be increased by $.00048 per therm in order to recover the revenue requirement lost when gas rates were unbundled on November 1, 1999.

(iii) The minimum charge and the energy block rates will be increased by 1/6 the difference between the NMGas and NMSuburban rates each year through August 1, 2003.

(iv) Effective on the Implementation Date, the charge in the initial block for SC1 non-heating customers will be increased from $9.60 to $9.87. On August 1, 2001, the charge in the initial block for non-heating customers will be increased to $10.21. On August 1, 2002, the charge in the initial block for non-heating customers will be increased to $10.55. On August 1, 2003, the charge in the initial block for non-heating customers will be increased to $10.89.

(v) Effective on the Implementation Date, the charge in the initial block for SC1 heating customers will be increased from $12.66 to $12.92. On August 1, 2001, the charge in the initial block for heating customers will be increased to $13.24. On August 1, 2002, the charge in the initial block for non-heating customers will be increased to $13.57. On August 1, 2003, the charge in the initial block for non-heating customers will be increased to $13.90.

(vi) The new SC1 rate structure will be as follows:

Implementation Date:
First 3 therms or less, $9.87 (non-heating);
First 3 therms or less, $12.92 (heating);
Next 47 therms, $.24041;
Over 50 therms, $.05028.

August 1, 2001:
First 3 therms or less, $10.21 (non-heating);
First 3 therms or less, $13.24 (heating);
Next 47 therms, $.26291;
Over 50 therms, $.05075.

August 1, 2002:
First 3 therms or less, $10.55 (non-heating);
First 3 therms or less, $13.57 (heating);
Next 47 therms, $.28541;
Over 50 therms, $.05122.

August 1, 2003:
First 3 therms or less, $10.89(non-heating);
First 3 therms or less, $13.90 (heating);
Next 47 therms, $.30791;
Over 50 therms, $.05170.

(c) SC2 - Small General Service

(i) SC2 rates will be reduced by 2.222 cents per therm related to a Merchant Function Charge which will then be displayed as a separate line item under the Gas Supply Section of the customer's bill for customers who purchase their gas supply from Niagara Mohawk. For SC2 Customers who do not purchase their gas supply from Niagara Mohawk, the Merchant Function Charge will not apply.

(ii) Gas Delivery Service Rates will be increased by $.00030 per therm in order to recover the revenue requirement lost when gas rates were unbundled on November 1, 1999.

(iii) The energy block rates will be increased by 1/6 the difference between the NMGas and NMSuburban rates each year through August 1, 2003.

(iv) The new SC2 rate structure will be as follows:

Implementation Date:
First 3 therms or less, $19.14;
Next 277 therms, $.22923;
Next 4720 therms, $.14752;
Over 5000 therms, $.02241;

August 1, 2001:
First 3 therms or less, $19.14;
Next 277 therms, $.23674;
Next 4720 therms, $.15002;
Over 5000 therms, $.02310;

August 1, 2002:
First 3 therms or less, $19.14;
Next 277 therms, $.24424;
Next 4720 therms, $.15252;
Over 5000 therms, $.02379;

August 1, 2003:
First 3 therms or less, $19.14;
Next 277 therms, $.25174;
Next 4720 therms, $.15501;
Over 5000 therms, $.02447;

(d) SC5 - Firm Transportation Service - Capable of Consuming 250,000 therms up to 1,000,000 therms Annually

(i) Effective on the Implementation Date, the initial block for the firm part of SC5 will be changed from 1,000 therms, to 100 therms, and the charge in the tail block will be increased by 1/6 the difference between the NMGas and NMSuburban rates each year through August 1, 2003, such that the new rate structure will be as follows:

August 1, 2000:
First 100 therms or less, $350;
Over 100 therms, $0.04609/therm.

August 1, 2001:
First 100 therms or less $350;
Over 100 therms $.04718 / therm.

August 1, 2002:
First 100 therms or less, $350;
Over 100 therms, $0.04827/therm.

August 1, 2003:
First 100 therms or less $350;
Over 100 therms $.04936 / therm.

(e) <u>SC5 - Large Volume Interruptible Transportation Service (to be SC6)</u>

(i) Effective on the Implementation Date, the interruptible part of SC5 will be redesignated into a new service classification to be called "SC6". The new rate structure will be as follows:

Market Price Per Therm,
Where the Marketprice $ is set monthly between a minimum of $.010/therm and a maximum ceiling price per therm.

(ii) The maximum ceiling price per therm for each customer will be the effective annual SC8 firm rate (exclusive of the $700 initial block charge) for like consumption based on monthly consumption for the historical period twelve months ending May of each year. In no case will the ceiling price exceed $.05154/therm.

(iii) Customers will have the same Term of Service Offerings, Monthly; Quarterly; Semi-Annual and Annual, as all other NMPC customers. The same matrix pricing as all other S.C. 6 NMPC customers based on alternative fuel type and price; geographic location; Tax Exempt/Non Exempt Status; size and other market conditions.

(f) SC6 - (Previously Reserved for Future Use)

(i) The SC6 classification previously reserved will be taken up by SC5 Large Volume Interruptible Transportation Service Capable of Consuming 2,500,000 therms Annually, as discussed above.

(g) SC7 - Small Volume Transportation - Minimum Annual Quantities of Not Less Than 50,000 therms

(i) SC7 - The first 2,100 therms or less will increase from $275 to $300 on the Implementation Date.

(h) SC8 - Transportation Service - Capable of Consuming 1,000,000 therms Annually

(i) The SC8 - Transportation rates to be charged former NM Suburban customers shall be the same as the Niagara Mohawk gas customer rates, such that the new rate structure will be as follows:

First 100 therms or less, $700;
Next 99,900 therms, $.05154/therm;
Next 400,000 therms, $.04666/therm;
Over 500,000 therms, $.04000/therm.

(ii) Standby Sales usage in therms will be combined with Transportation Service for billing purposes using the above blocks. A D1 Demand Charge will be applicable to the Standby quantity only. The Standby Commodity Cost of Gas will be billed directly to the Customer's Marketer.

(i) SC12 - Residential Aggregation Service and SC13 Small General Service Aggregation Service

(i) SC12 and SC13 will be reclassified as SC1 and SC2 respectively.

4. Low Income Rate Discontinued

The SC-1 minimum charge reduced rate of $8.55 for customers designated by Niagara Mohawk as gas-only low income customers will be discontinued as of the Implementation Date.

Eligible customers have received appropriate credits through October 31, 1999. Additional credits applicable to the period from November 1, 1999 through the Implementation Date will be applied as soon as practicable after the Implementation Date.

5. Economic Development Discount Rates

Niagara Mohawk currently has three economic development programs: Economic Development Rider (EDR), Economic Development Zone Rider (EDZR) and Economic Revitalization Incentive Rider (ERIR). All three programs will continue under this Agreement. EDR and EDZR are growth-based programs while ERIR is a retention/revitalization based program. Niagara Mohawk's EDZR and ERIR programs were implemented in May of 1987 at the existing discount levels. The EDR Rider was implemented in October of 1986. The Signatory Parties agree that Niagara Mohawk will implement revised per therm discount levels on the Implementation Date, except that existing customers on the EDR and ERIR Riders will be grandfathered at the discount levels in effect prior to the Implementation Date. These revised discount levels are being reset based on 50% of the Transmission and Distribution Capacity Classified Costs from the embedded cost of service study for the twelve months ended October 31, 1997. These discount levels have not been modified since their inception and rate design changes since that time have caused extreme disparities in the bills of these customers. For example, SC2 EDZR customers have a discount rate of 9.5 cents per therm. This discount rate is higher than the tail block in effect as of November 1, 1999 causing negative delivery service bills for some customers.

Program = EDR Growth Based Program

1) Applicable to: SC 2, 3, 5 & 8

2) Rates:

Service	Discount Per Therm				
Class	Year 1	Year 2	Year 3	Year 4	Year 5
SC 2	$.05	$.04	$.03	$.025	$.015
SC 3	$.03	$.025	$.02	$.015	$.01
SC 5&8	$.03	$.025	$.02	$.015	$.01

Program = ERIR Retention - Revitalization

1) Applicable to:SC 3, 5 & 8
2) Rates:

Service	Discount Per Therm				
Class	Year 1	Year 2	Year 3	Year 4	Year 5
SC 3	$.03	$.025	$.02	$.015	$.01
SC 5&8	$.03	$.025	$.02	$.015	$.01

Note: The total dollars available for all discounts for ERIR programs will be $600,000.

Program = EDZR Growth Based Program

1) Applicable to: SC 2, 3, 5, 7 & 8
2) Rates:

Service Classification	Discount Per Therm
SC 2	$.05
SC 3	$.03
SC 5 and 8	$.03
SC 7	$.05

6. Implementation of Tax Law Changes

The Signatory Parties agree that Niagara Mohawk will implement the tax law changes resulting from the 2000 Legislative Session on the Implementation Date through tariff changes, automatic surcharge adjustments, deferral mechanisms, and the CRA if needed because offsetting deferrals could not be accomplished, as necessary to avoid overall bill increases. Such implementation will be done in a manner that is consistent with statewide implementation.

VII. GAS RESTRUCTURING PLAN

A. Upstream Gas Costs

The following table shows Niagara Mohawk’s portfolio of pipeline, storage and peak-shaving capabilities. The table also shows the expiration dates of each contract and the applicable notice date for terminating those contracts at their expiration date.

Pipeline	Volume/Day	Expiration Date	Notice Date
Texas Eastern	23,389	10/31/02	10/97 (5 Yr.)
Tennessee-1	50,467	11/1/00	10/99 (1 Yr.)
Tennessee-2	89,663	11/1/00	10/99 (1 Yr.)
CNG-FTNN	305,922	3/31/02	3/01 (1 Yr.)
CNG-FTNN-GSS	434,078	3/31/02	3/01 (1 Yr.)
CNG-GSS	425,021	3/31/02	3/00 (2 Yr.)
CNG-GSS II	9,057	3/31/02	3/00 (2 Yr.)
Texas Gas	51,004	10/31/05	10/04 (1 Yr.)
Iroquois	50,000	10/31/11	None
Transco	8,116	10/31/12	10/11 (1 Yr.)
Peak Shaving	42,500	--	--

Niagara Mohawk has provided notice to Texas Eastern of its desire to terminate its contract on October 31, 2002. Also, Niagara Mohawk has given notice to Tennessee to terminate contract 1, effective November 1, 2000, and to reduce contract 2 to 56,131 DT/Day, effective for the period November 1, 2000 to March 31, 2001, and then further reduce to 32,381 DT/Day, effective April 1, 2001 to October 31, 2001. The next earliest contracts up for noticing are the CNG storage contracts. CNG has noticed Niagara Mohawk of its desire to either terminate these contracts or extend them for a period of three years. Other CNG-FT contracts can be noticed in March 2001 to be effective in March 2002. The longer term contracts are Texas Gas with an expiration date of October 2005; Iroquois with an expiration date of October 2011; and Transco with an expiration date of October 2012.

The Signatory Parties agree that Niagara Mohawk, during the Settlement Period, will follow a strategy of keeping upstream of CNG contracts to a minimum, as necessary to meet its sales obligations unless a fully liquid market exists at pooling points into CNG that make it unnecessary to hold firm upstream capacity. Capacity upstream of CNG will not be assigned but will be subject to the terms of the Capacity Incentive Program set forth in Section V.E.

The Signatory Parties agree that contracts with CNG for storage and pipeline capacity will be maintained through the Settlement Period and that during the Settlement Period the CNG capacity and storage will be assigned on a mandatory basis to Marketers on behalf of firm customers migrating from sales to transportation service.

The Signatory Parties agree that the system may require additional peak day capacity to meet customer requirements. If needed, there is no consensus on how this additional capacity should be provided. If Niagara Mohawk determines that it must supply the capacity, cost recovery would be subject to the Commission's Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment (issued November 3, 1998).

B. Recovery of Stranded Capacity Costs

During the Settlement Period, Niagara Mohawk shall receive full recovery of all Stranded Capacity Costs. Niagara Mohawk's recovery of such costs will be funded through the CRA. If the CRA becomes depleted, Stranded Capacity Costs will be recovered through a volumetric surcharge to the Gas Delivery Service Rates of SC1, SC2, SC3, SC5 DCA customers and SC7 DCA customers and through an adjustment to the SC8 D1 demand charge. The cost assigned to the SC8 customers will be a ratio of their elected D1 demand for standby service to the forecasted system peak day demand multiplied by the total stranded cost. There will be no gap in Niagara Mohawk's recovery of Stranded Capacity Costs during the Settlement Period.

C. Balancing Options

1. General

The Signatory Parties agree that Niagara Mohawk will implement new balancing programs for transportation customers effective on September 1, 2000, or on the Implementation Date, whichever is later. Program revisions include termination of Niagara Mohawk's current Pooled Balancing service and substitution with a new Pooled Balancing service (applicable to daily metered customers); modifications to Niagara Mohawk's current Basic Aggregation service (applicable to monthly metered customers); and termination of its existing Balanced Aggregation service (applicable to monthly metered customers). Details of the new balancing programs are set forth in Appendix E, Schedule 1.

2. New Monthly Balancing Program

The new balancing program for monthly metered customers ("Basic Aggregation") is designed around and offered in conjunction with CNG Transmission's ("CNG") new rate schedules, Delivery Point Operator ("DPO") and Citygate Swing Customer ("CSC"), pursuant to FERC Docket No. RP00-21-000. In an order issued March 31, 2000, FERC determined that CNG's proposed Rate Schedules DPO and CSC were accepted, as modified and subject to certain conditions, to be effective upon the later of April 1, 2000, or a motion by CNG to place the tariff sheets in effect. The Signatory Parties expect that CNG's DPO and CSC tariffs will be implemented by September 1, 2000 or the Implementation Date, whichever is later.

Upon the effective date of the Basic Aggregation program, Niagara Mohawk will transfer to each participating Marketer the gas stored underground for customers currently being served by the Marketer. The amount of gas in storage to be transferred will represent one seventh of the winter storage requirement (based on the months of November through March) for each month from April 1st to the effective date of the Basic

Aggregation program. If the effective date of the Basic Aggregation program is later than October 31, 2000, the amount of gas in storage to be transferred will be reduced by 10% for November, 24% per month for December, January and February, and 18% for March 2001. Each Marketer participating in Basic Aggregation will be required to pay Niagara Mohawk for storage gas transferred and all taxes and pipeline fees associated with moving or transferring the storage gas to the Marketer.

The Storage Gas Transfer Rate for customers migrating after the Implementation Date shall be the sum of (1) Niagara Mohawk's estimated average commodity cost of gas in storage, plus (2) the Demand Transfer Recovery Rate (DTR Rate). The DTR Rate shall be equal to the System Average Unrecovered CNG Demand Charge revenue per therm beginning in the month of April through the initial month that storage capacity is released to the Marketer. The System Average Unrecovered CNG Demand Charge revenue shall equal the sum of the differences between the average CNG demand charge revenues collected and the average CNG fixed demand costs incurred beginning the month of April through the initial month that storage capacity is released to the Marketer. The DTR Rate shall be filed with the Commission not less than three (3) days prior to the beginning of the month for which the rate shall be in effect.

The Storage Gas Transfer Rate shall be billed to the Marketer based on the amount of gas transferred from Niagara Mohawk's storage account to the Marketer's storage account in the event additional customers join the Marketer's Basic Aggregation pool under SC11. The amount of gas in storage to be transferred will represent one seventh of the winter storage requirement (based on the months November through March) for each month from April through October, and then reduced by 10% for November, 24% per month for December, January and February, and 18% for March. As an example, if a customer selects a Marketer on September 10, 2000, the Marketer will pay the Storage Gas Transfer Rate which is equal to the effective DTR Rate for September plus Niagara Mohawk's estimated average cost of gas in storage as of September 30, 2000, on six sevenths of the storage inventory transfer. The storage transfer would take place and the Marketer would begin serving the customer as of October 1, 2000.

In the event of a customer switching from transportation to sales, storage inventory shall be returned to Niagara Mohawk unless mutually agreed upon between Niagara Mohawk and the Marketer. Niagara Mohawk will pay the Marketer the average commodity cost of gas in Niagara Mohawk's storage account effective with the date of transfer. The Marketer shall be responsible for all taxes and pipeline fees associated with moving or transferring the storage gas to Niagara Mohawk.

Estimated Storage Gas Transfer Rates by month showing an assumed average commodity cost of gas and an estimated storage transfer rate are set forth in Appendix E, Schedule 3. An example of the Monthly Storage Gas Transfer Rate Statement, and supporting work-papers, is set forth in Appendix E, Schedule 4.

All revenues received or payments made from such storage gas transfers shall be reconciled in the Annual Surcharge or Refund Mechanism set forth in Rule 17.7 of PSC No. 218 Gas.

3. One-Time Reconciliation of Demand Charges Between Old and New Balancing Programs

Niagara Mohawk agrees to reconcile the new Basic Aggregation program with the old Balanced Aggregation program as if the new program went into effect on April 1, 2000. Upon the effective date of the Basic Aggregation program, each Marketer currently participating in Balanced Aggregation will receive a one-time credit for the difference between demand charges billed to customers and their Marketers under Niagara Mohawk's current Balanced Aggregation program and those which would have been billed assuming implementation of the Basic Aggregation program on April 1, 2000. The per therm credit will be based on the difference between (1) the sum of the Storage Utilization Charge Revenue billed to customers in each month preceding the effective date of the Basic Aggregation program for each therm of Maximum Balancing Quantity (MBQ) in the Marketer's pool and the CNG Capacity Charges released to and billed to each Marketer for each therm of Upstream Maximum Daily Quantity (UMDQ) released to the Marketer for the Pool and (2) the sum of CNG storage charges for each therm of MBQ and CNG Capacity Charges for each therm of UMDQ in the Marketer's pool. (The UMDQs and MBQs in item one above will be as calculated under the existing program while the UMDQ and MBQ in item two above will be as calculated under the new program.)

The calculated credit per therm of Maximum Peak Day Quantity (MPDQ) will be multiplied by the MPDQs of the customers in the Marketer's pool. The calculated credit will be approximately $1.44 per therm of MPDQ for all SC12 and SC13 customers (SC12 and SC13 will be reclassified) except SC13 Commercial Non-Heating customers, which will be approximately $1.53 per therm of MPDQ. The credits will be applied to Marketers' invoices for the first month after the effective date of the new program.

The credits provided to Marketers will be added to the "revenue side" of Niagara Mohawk's Annual Surcharge Refund Calculation in accordance with Rule 17.7 of PSC No. 218 Gas. An example of the calculation of this credit is set forth in Appendix E, Schedule 5.

4. Recovery of Certain Costs

Niagara Mohawk will incur an estimated $345,000 of incremental annual O&M costs attributable to providing the new balancing services. These costs will be recovered from Marketers monthly, based on monthly volumetric usage from all customers served by the Marketer. The recovery rate will be established annually by forecasting annual SC5 firm, SC7, SC8, SC12, and SC13 (SC12 and SC13 will be reclassified) delivery volumes and dividing those volumes into the $345,000 to establish a rate per therm. The calculations to establish the rate for the 12 month period ending July 31, 2001 are set forth in Appendix E, Schedule 6.

Niagara Mohawk estimates it will incur approximately $508,000 in capital costs associated with implementing the new balancing programs. It is agreed that the actual amount of said capital costs will be recovered by Niagara Mohawk through the Contingency Reserve Account.

5. Modification of the New Programs

The Signatory Parties agree that during the Settlement Period any Signatory Party has the right to request the Commission to modify the new balancing programs if in that party's judgment modifications are necessary due to greater than expected migration or other unexpected events. The Signatory Parties further agree that if the CNG DPO/CSC program is modified or cancelled during the Settlement Period, any Signatory Party has the right to request Commission modification of Niagara Mohawk's Basic Aggregation program.

D. Backout Rates

The Signatory Parties agree that, effective upon the Implementation Date, customers who have migrated to an alternative gas supplier shall receive a credit on their bills in the form of a merchant function backout rate which reflects services Niagara Mohawk is no longer providing to that customer. For purposes of this Agreement, the merchant function backout rate will be set at $0.02222 per therm. This includes gas uncollectables (bad debt related to gas cost and the collection process), gas supply procurement expense, and the return on gas storage inventory. All backout rates established herein will remain in effect for the duration of the Settlement Period.

E. Recovery of Merchant Transition Costs

The Signatory Parties agree that Niagara Mohawk will recover from the CRA 100% of the Merchant Transition Costs, as defined in this Agreement, incurred during the Settlement Period. Each October 31, Niagara Mohawk will calculate the actual therms associated with the SC1 and SC2 transportation customers and the total actual therms associated with all SC1 and SC2 customers (sales and transportation) for the applicable period, as follows:

-- For the First Rate Year, from the Implementation Date until October 31.

-- For the Second Rate Year, for the twelve months ending October 31, 2001.

-- For the Third Rate Year, for the twelve months ending October 31, 2002.

-- For the Fourth Rate Period, for the ten months ending August 31, 2003, or in the event of a Stayout, for the eleven months ending September 30, 2003, or for the twelve months ending October 31, 2003.

-- In the event of a Stayout beyond October 31, 2003, for the Stayout period beyond October 31, 2003, in calculations of up to twelve months, as applicable until the end of the Stayout period.

For each calculation, the level of migration achieved will be calculated using the following formula:

$$\frac{\text{(Actual therms associated with the SC1 and SC2 transportation customers for the calculation period)}}{\text{(Actual therms associated with all SC1 and SC2 sales and transportation customers for the calculation period)}} = \text{Percent Migration Achieved}$$

[Note: Round to nearest whole number.]

A report of the results, including raw results and computations, will be made available to the Signatory Parties and filed with the Commission not later than January 31 following the applicable October 31 calculation. Any disagreements about Niagara Mohawk's calculations that cannot be resolved by the Signatory Parties shall be referred to the Commission for resolution.

Following each October 31 calculation in the years 2000, 2001, 2002, and 2003 (and in the event of a Stayout beyond October 31, 2003, following each subsequent resultant calculation) Niagara Mohawk will be allowed to recover from the CRA for the applicable period an amount of Merchant Transition Costs equal to the $/Therm rate shown on Appendix F attached hereto and made a part of this Agreement corresponding to the Percent Migration Achieved calculated above multiplied by the actual therms associated with the SC 1 and SC 2 transportation customers for the applicable period.

F. Billing Options

To accommodate the wishes of retail access customers to choose either combined or separate bills, the Signatory Parties agree that Niagara Mohawk will implement the following billing options effective on the Implementation Date or as soon after such date as modifications to Niagara Mohawk’s billing system necessary to provide the service(s) can be completed. [Note: For all billing options, only Niagara Mohawk can perform service terminations, which must be subject to full New York State Public Service Law compliance.] Customers will exercise their choice by choosing a Marketer that provides the billing program they prefer. Niagara Mohawk will provide the following billing options, at the choice of the Marketer to decide which or how many of the options the Marketer wishes to utilize:

1. Separate Bill Option - Niagara Mohawk, and the Marketers choosing this option, would bill for their respective delivery and commodity charges separately.

2. One Bill Option (Utility-Provided). Marketer charges would be included on the utility bill in conformance with *Case 99-M-0631, Order Providing for Customer Choice of Billing Entity, (Issued March 22, 2000)("Billing Order")*. In general, customer payments will be allocated first to the utility portion of the combined bills. However, a Marketer shall have the additional option of receiving pro rata sharing of customer payments in partial payment situations if the Marketer agrees contractually with Niagara Mohawk to abide by the same due dates, requirements of notice of termination and final notice, the availability of deferred payment agreements (DPAs) for delinquent customers (but not previously disconnected customers), and late charge limits as if the Marketer's charges were utility charges [Note: for authority, see Billing Order at page 8, first full sentence].

The Signatory Parties could not agree upon the provision of a marketer-provided one bill option. Nothing in this Agreement shall preclude the Commission from requiring Niagara Mohawk to provide such an option, and nothing in this Agreement shall preclude Niagara Mohawk from opposing or challenging such a requirement in any forum.

G. Bill Formats

The Signatory Parties agree that for consolidated bills under the One Bill Option (Utility-Provided), Niagara Mohawk will implement the consolidated bill content provisions set forth in Attachment D of the Billing Order (as it may be modified by the Commission), effective on the Implementation Date or as soon after such date as modifications to Niagara Mohawk's billing system necessary to provide the service(s) can be completed. The Signatory Parties agree that for Separate Bill Option and utility-only sales customer bills, Niagara Mohawk will present utility information with the same content and in the same format as for consolidated bills, said bill content being set forth in Attachment D of the Billing Order, effective on the Implementation Date or as soon after such date as modifications to Niagara Mohawk's billing system necessary to provide the service(s) can be completed.

H. Billing Charges for One Bill Option

The basic One Bill Option (Utility-Provided) billing service will be for a fee of $0.50 per bill generated. The service will include bill calculation, bill printing (including Marketer logo), mailing, call center support, payment processing, payment remittance, and collection processing. In order to accommodate Marketers' needs to set different prices for different groups of customers within a service class, the Marketer may provide up to twelve (12) prices for customer groups in each service class SC1, SC2, SC5, SC6, SC8, and SC9. All Marketer prices may be changed once per month. Niagara Mohawk will provide the service through the end of the Settlement Period. The basic One Bill Option (Utility-Provided) will be effective on the Implementation Date or as soon after such date as modifications to Niagara Mohawk's billing system necessary to provide the service can be completed. The terms, conditions, and operating protocols of the One Bill Option billing service will be set forth in a contract to be executed by the Marketer and Niagara Mohawk. For levels of service different than the basic One Bill option, the Marketer and Niagara Mohawk may enter into a contract to cover other levels of service at a price mutually agreeable to the Marketer and Niagara Mohawk.

Niagara Mohawk will be allowed to retain 100% of revenues received from providing the One Bill Option (Utility-Provided) during the Settlement Period up to $1 million. Revenues above $1 million will be shared 50% ratepayers/50% shareholders with the ratepayers share being credited to the CRA. If revenues are less than $800,000, Niagara Mohawk will recover the shortfall below $800,000 from the CRA.

I. Ombudsman for Marketers

Niagara Mohawk will develop and conduct an annual survey of Marketers opinions on Niagara Mohawk’s Gas Transportation Program. Staff will be provided an annual report on the results of the survey, which shall be available to any of the Signatory Parties for review. The survey results will also be reviewed with the Marketers at Niagara Mohawk’s semi-annual operations meetings. Niagara Mohawk’s Vice President of Gas Delivery will act as an ombudsman for the Gas Transportation Program. Marketers will be able to register concerns regarding the administration of the program with the ombudsman who, in a good faith manner, will seek to resolve such concerns, including implementing appropriate changes to the program. The ombudsman will address any such concerns revealed in the annual surveys in like manner.

J. County Aggregation Grant Program

The Signatory Parties agree that a sum of up to $500,000 funded by customers from the CRA will be made available for start-up costs for county-sponsored low income aggregation programs. The programs are intended to bring the benefits of the competitive energy market to low income customers in Niagara Mohawk's gas service territory by creating aggregation opportunities in which they can participate. Program funding will be available to qualifying county government initiatives through the end of the rate years covered by this Agreement, including any Stayout period, or until the $500,000 is exhausted, whichever occurs first. The objective of the program is to spur the aggregation of low income residential gas customers within Niagara Mohawk's service territory by making funds available to counties for consultant services and other assistance to develop gas aggregation programs that target low income customers. For purposes of the program, counties may participate directly or may opt to participate by endorsing a not-for-profit agency such as a community action program agency or a weatherization program agency to act on behalf of the county. Niagara Mohawk will administer the program by reviewing applications to ensure that they meet the eligibility criteria described below and awarding one-time grants of up to a maximum of $50,000 per participating county. Niagara Mohawk will provide annual reports to the Commission for the duration of the program, and at the conclusion of the program, describing the activities that were funded and providing an analysis and evaluation of the program in relation to the objectives.

The Signatory Parties agree that actual aggregation of customers into a buying group that includes low income gas customers purchasing their gas commodity from a supplier other than Niagara Mohawk (the regulated utility company) is a threshold requirement for obtaining funding. Interested counties would submit detailed proposals to Niagara Mohawk for one-time funding. To be eligible for funding, aggregation programs must meet the following threshold criteria:

i. The program must include participation by low income gas customers in Niagara Mohawk's service territory, "low income" being defined as within the eligibility guidelines for the Federal Home Energy Assistance Program (HEAP);

ii. the participation by low income customers may not be limited to vouchered public assistance recipients;

iii. the program must include a component of actual aggregation of low income gas customers and purchase of their commodity needs from an entity other than Niagara Mohawk (the regulated utility company);

iv. purely educational, marketing, or promotional programs will not be eligible;

v. the program may include the participation of electric customers;

vi. participation in the program need not be limited to low income customers if an expanded program would be to the benefit of low income customers;

vii. county governments may enter into cooperative arrangements with other counties and submit co-applications (maximum $50,000 per participating county);

viii. county governments may opt to participate by sponsoring a not-for-profit agency such as a community action program agency or a weatherization program agency to act on behalf of the county; and

ix. counties must be located within Niagara Mohawk's gas service territory to be eligible.

Assuming the threshold criteria are met, eligible uses of the grant monies will include any of the following:

i. hiring a consultant, broker or marketer to aggregate customers' demands and to negotiate optimum prices;

ii. developing and issuing RFPs to solicit bids to provide energy supply service to aggregated customers;

iii. evaluating bids and awarding contracts to energy suppliers for an aggregation program;

iv. coordinating with county/State social service agencies, local governments, or non profit organizations, to identify and target eligible customers who would benefit from participating in an aggregation program; and

v. educating, screening and enrolling eligible customers in a low income gas aggregation program.

The Signatory Parties agree to work together collaboratively to develop, within 30 days of Commission approval of the terms of this Agreement, more specific guidelines for the administration of the fund, including eligibility of applicants, reporting requirements of applicants, and means to assess the success of aggregation efforts.

K. Outreach & Education Regarding Gas Retail Access

The Signatory Parties agree that commencing on the Implementation Date, and continuing throughout the Settlement Period, Niagara Mohawk will conduct a gas retail access outreach and education program ("O&E Program"). Niagara Mohawk's actual costs for the program, up to a maximum of $1,893,833 for approved activities as described below, will be recovered by Niagara Mohawk from the CRA. The O&E Program will supplement and not supplant existing customer education activities conducted by Niagara Mohawk regarding utility customer rights and responsibilities as energy consumers and the safe use of gas. The O&E program will be coordinated with Niagara Mohawk's other outreach and education programs on energy choice. Outreach and education activities specifically for the geographically concentrated component, which are to be conducted in coordination with the O&E Program, are discussed elsewhere in this Agreement.

Recovery of costs will be limited by the total allowance for the O&E Program. Reallocations between or among categories, and the amount per rate year or period within a category, will be permitted with the prior written approval of the Department of Public Service, Director of the Office of Consumer Education and Advocacy.

The overall purpose of the O&E Program is to increase the awareness and understanding of residential customers (including "cooking-only" customers) and small commercial customers regarding the following concepts and messages:

- choice of natural gas supplier is available;
- Niagara Mohawk endorses competition;
- safety, reliability, and utility customer service are not affected if one switches;
- Niagara Mohawk will continue to provide emergency services to customers regardless of commodity supplier;
- Niagara Mohawk will not discriminate against customers who buy their commodity from another supplier; and
- how to make competitive choices and switch gas suppliers.

The O&E Program will contain components of evaluation, customer awareness and education, and promotion of low income aggregation. Where efficiencies can be gained by combining gas and electric education, Niagara Mohawk will do so (for example, making references to energy instead of either gas or electricity, mass mailings applying to both forms of energy, comparison shopping guidelines which establish techniques and terms useful in buying both commodities). On an ongoing basis, Niagara Mohawk will facilitate and consider the input of the Signatory Parties into the development of Niagara Mohawk's methods and strategies to increase awareness and understanding.

1. Evaluation

The evaluation component is to provide for the periodic measurement and tracking of levels of customer awareness and understanding of the concepts and messages described above, and to test the effectiveness of particular methods and strategies to increase awareness and understanding. For those purposes, budget allowances of $15,000 for focus groups and $67,500 for independent research establishing a baseline, testing, and ongoing evaluation have been provided within the O&E Program budget. Niagara Mohawk shall also facilitate and consider the input of the Signatory Parties into the evaluation process and the development of Niagara Mohawk's methods and strategies to increase awareness and understanding.

2. Customer Awareness and Education

The customer awareness and education component is to provide for outreach and education programs including advertising to empower customers to make educated energy purchasing decisions. For those purposes, budget allowances have been provided within the O&E Program budget, as follows:

- $77,083 for train-the-trainer programs including classroom instruction and materials needed to deliver the program to community groups;
- $77,083 for community/business group outreach workshops and materials;
- $517,917 for radio advertisements to increase awareness and understanding of the concepts and messages described above (this category can also include advertisements on television, billboards,

or print media);

-- $1,010,167 for direct mail campaigns (including fulfillment materials such as videos) to increase awareness and understanding of the concepts and messages described above;

-- $37,000 for bill inserts to increase awareness and understanding of the concepts and messages described above; and

-- $15,000 for trade show panels.

3. Promotion of Low Income Aggregation

The Signatory Parties agree that Niagara Mohawk will implement the Strategy for Promoting Low Income Consumer Participation in Gas Aggregation set forth in "Appendix G" hereto and made a part of this Agreement. An implementation timeline will be developed collaboratively with the Signatory Parties within thirty (30) days of the date of the Commission's approval of the terms of this Agreement. A budget allowance of $77,083 for implementation and administration of the Strategy for Promoting Low Income Consumer Participation in Gas Aggregation has been provided within the O&E Program budget. In addition, upon commencment of the County Aggregation Grant Program, Niagara Mohawk will invite county representatives within its gas service territory to an informational meeting to discuss the County Aggregation Grant Program and the availability of funding.

O&E Program Budget Allocated By Rate Year					
	First Rate Year	Second Rate Year	Third Rate Year	Fourth Rate Period	Total
EVALUATION:					
Focus Groups	$0	$10,000	$5,000	$0	$15,000
Research	$22,500	$15,000	$15,000	$15,000	$67,500
COMMUNITY AWARENESS AND EDUCATION:					
Train-the Trainer	$6,250	$25,000	$25,000	$20,833	$77,083
Community/Business Workshops	$6,250	$25,000	$25,000	$20,833	$77,083
Radio Advertising	$43,750	$175,000	$170,000	$129,167	$517,917
Direct Mail	$139,000	$471,500	$218,000	$181,667	$1,010,167
Bill Inserts	$3,000	$12,000	$12,000	$10,000	$37,000
Trade Show Panels	$0	$15,000	$0	$0	$15,000
PROMOTION OF LOW INCOME AGGREGATION:					
Implementation & Administration	$6,250	$25,000	$25,000	$20,833	$77,083
TOTALS	$227,000	$773,500	$495,000	$398,333	$1,893,833

L. Geographically Concentrated Component

The Signatory Parties agree that upon certain prerequisite requirements being met, Niagara Mohawk will conduct a geographically concentrated gas retail access outreach and education campaign ("Geo-Campaign") in Niagara Mohawk's "Mohawk Valley Region" (includes Rome, Utica, Herkimer, and surrounding areas). Niagara Mohawk's actual costs for the Geo-Campaign, up to a maximum of $1,000,000 for the activities described below, will be recovered by Niagara Mohawk from the CRA. The Geo-Campaign will supplement and not supplant the O&E Program described above and existing customer education activities conducted by Niagara Mohawk regarding utility customer rights and responsibilities as energy consumers and the safe use of gas. The Geo-Campaign will be coordinated with Niagara Mohawk's other outreach and education programs on energy choice. The Geo-Campaign will also be designed to coordinate with and complement the energy competition education program developed in Case 99-M-0742. Recovery of costs will be limited by budget category to the total allowance for the budget category (see chart below). Reallocations, up to a total for all categories of $1,000,000, will be permitted only with the prior written approval of Staff. The Geo-Campaign does not include any utility-provided preferential back-out rates, signing bonuses, or other financial inducements to customers to switch suppliers (or direct financial inducements for Marketers) that do not otherwise apply to all customers.

The overall purpose of the Geo-Campaign is to increase the awareness and understanding of residential customers (including "cooking-only" customers) and small commercial customers regarding the following concepts and messages:

- choice of natural gas supplier is available;
- Niagara Mohawk endorses competition;
- safety, reliability, and utility customer service are not affected if one switches;

-- Niagara Mohawk will continue to provide emergency services to customers regardless of commodity supplier;

-- Niagara Mohawk will not discriminate against customers who buy their commodity from another supplier; and

-- how to make competitive choices and switch gas suppliers.

The Geo-Campaign is different than the O&E Program in that it will be targeted to a single media market within Niagara Mohawk's gas service territory with a manageable customer base size such that a concentrated outreach and education campaign by Niagara Mohawk, concentrated over a specific limited time period, and a concentrated marketing effort by Marketers, will reach customers more vigorously than would otherwise be possible. The Geo-Campaign will be advertised to culminate with an informational quiz sent to all customers with the opportunity for customers to earn a $5 bill credit for completing the quiz. The purpose of the quiz is not to scientifically measure customer awareness and understanding, but rather to be used as a marketing tool to educate customers and generate interest in the Geo-Campaign. The purpose of the $5 bill credit is to generate interest in participation in the quiz. The quiz will include a checkoff block for a customer to indicate interest in receiving further information from Marketers regarding competitive retail gas or electric service. Space will be provided for a customer to indicate his or her name, address and telephone/fax numbers, and such information will be used by Marketers to contact the customer. A list of such customers will be complied by Niagara Mohawk and furnished to all marketers participating in the Geo-Campaign to assist in their marketing efforts. It is agreed that any proposed alternatives to the informational quiz, agreed upon by both Niagara Mohawk and Staff, may be utilized in substitution for the informational quiz, subject to the cost limitations for the Geo-Campaign.

The Geo-Campaign will contain components of prerequisite triggers, pre-campaign research and planning, customer awareness and education, and post-campaign evaluation. Where efficiencies can be gained by combining gas and electric education, Niagara Mohawk will do so (for example, making references to energy instead of either gas or electricity, mass mailings applying to both forms of energy, comparison shopping guidelines which establish techniques and terms useful in buying both commodities). On an ongoing basis, Niagara Mohawk will facilitate and consider the input of the Signatory Parties into the development of Niagara Mohawk's methods and strategies to conduct the Geo-Campaign.

1. Prerequisite Triggers

(a) Within 30 days of the execution of this Agreement, Niagara Mohawk will host an informational meeting with Marketers, including residential Marketers, to describe components of the Geo-Campaign, gauge reaction, and obtain constructive ideas for final Geo-Campaign design.

(b) Within 30 days of the effective date of the

Commission order approving the terms of this Agreement, Niagara Mohawk will host an informational meeting with Marketers, including residential Marketers, to describe components of the final Geo-Campaign plan, gauge reaction, and obtain commitments to participate. The meeting will be held in a context where the components of the terms of this Agreement have been adopted by the Commission.

(c) Implementation of the Geo-Campaign would be triggered when all of the following prerequisites are satisfied:

(i) an affirmative written statement by at least six (6) Marketers that they intend to participate;

(ii) an affirmative written statement by at least four (4) Marketers that they intend to participate and actively seek residential customers;

(iii) an indication to Staff by Marketers, to the satisfaction of Staff, that the Marketers participating in aggregate are willing and capable of serving at least 30% of the existing residential and 30% of the existing commercial customers of Niagara Mohawk located within the targeted geographic area;

(iv) an affirmative commitment by the participating Marketers to actively promote migration in the target area, demonstrated to the satisfaction of Staff through confidential briefings to Staff describing the individual Marketer promotion plans and strategies; and

(v) an affirmative commitment by the participating Marketers to actively participate in Niagara Mohawk-sponsored outreach and education events, to the satisfaction of Staff.

(d) Implementation of the Geo-Campaign will occur over a three-month period in either the Spring or Fall after the triggering of the Geo-Campaign, the dates to be determined by the Signatory Parties based on feasibility and Marketer interest.

2. Pre-campaign Research and Planning

The pre-campaign research and planning component is to develop and test the effectiveness of particular methods and strategies to increase awareness and understanding, including particularly the content of media. A budget allowance of $25,000 for research and planning (including a customer awareness and understanding survey) and $35,000 for media production has been provided within the Geo-Campaign budget. Niagara Mohawk shall facilitate and consider the input of the Signatory Parties into the development of Niagara Mohawk's methods and strategies to increase awareness and understanding, including media.

3. Customer Awareness and Education

The customer awareness and education component is to provide for outreach and education programs including advertising to empower customers to make educated energy purchasing decisions, and to generate customer interest. For those purposes, budget allowances have been provided within the Geo-Campaign budget, as follows:

-- $56,000 for television advertisements to increase awareness and understanding of the concepts and messages described above;

-- $25,000 for radio advertisements to increase awareness and understanding of the concepts and messages described above;

-- $46,000 for cable television advertisements to increase awareness and understanding of the concepts and messages described above;

-- $80,000 for print advertisements to increase awareness and understanding of the concepts and messages described above;

-- $120,000 for direct mail campaigns to increase awareness and understanding of the concepts and messages described above, including the culmination quiz; and

-- $410,000 for bill credits to increase interest and participation in the culmination quiz described above.

4. Post-campaign Evaluation

Within 30 days of the completion of the Geo-Campaign, Niagara Mohawk will host an informational meeting with the Signatory Parties to report on the successes and failures of the Geo-Campaign and to discuss whether the Signatory Parties desire to conduct additional Geo-Campaigns in other parts of Niagara Mohawk's gas service territory. After the informational meeting, Niagara Mohawk will prepare a written report on the successes and failures of the Geo-Campaign. A budget allowance of $15,000 for the post-campaign evaluation phase (including a customer awareness and understanding survey) has been provided within the Geo-Campaign budget. Nothing in this Agreement shall preclude Niagara Mohawk from conducting such additional Geo-Campaigns, funded by up to an additional $1,000,000 from the CRA, as Niagara Mohawk and Staff shall agree to.

GEO-CAMPAIGN PROGRAM BUDGET	
Pre-Program Research & Planning	$25,000
Media Production	$35,000
Television	$56,000
Radio	$25,000
Cable	$46,000
Print	$80,000
Direct Mail	$120,000
Bill Credits	$410,000
Post-Program Report	$15,000
TOTAL	$812,000

VIII. STATE ENVIRONMENTAL QUALITY REVIEW ACT COMPLIANCE

The Signatory Parties agree that the Supplemental Environmental Assessment Form (Supplemental EAF) attached hereto as Appendix H and made a part of this Agreement accurately describes the potential environmental impacts, if any, that could result from implementation of the terms of this Agreement, and that the Commission's determination of significance regarding this Agreement should be the adoption of a negative declaration.

Agreed to as of this 12th day of June, 2000.

NIAGARA MOHAWK POWER CORPORATION

By: [signature]

Title: VICE PRESIDENT - GAS DELIVERY

Agreed to as of this 12th day of June, 2000.

**STAFF OF THE
DEPARTMENT OF PUBLIC SERVICE**

By: Paul Agresta

Title: Assistant Counsel

By: Jane C Assaf

Title: Assistant Counsel

Agreed to as of this 12th day of June, 2000.

NEW YORK STATE CONSUMER PROTECTION BOARD

By: Debra Martinez

Title: Executive Director & Chairwoman

Agreed to as of this 12th day of June, 2000.

MULTIPLE INTERVENORS

By: Michael B. Mager

Title: Attorney

Agreed to as of this 12th day of June, 2000.

ENERGETIX, INC.

By: Robert J. Hay

Title: Managing Director, Strategic Issues

Agreed to as of this 12th day of June, 2000.

By:

Title:

Agway Energy Services, Inc.
By: Usher Fogel, Counsel

Small Customer Marketer Coalition
By: Usher Fogel, Counsel

Agreed to as of this 12th day of June, 2000.

TXU ENERGY SERVICES

By: ______________________
Michael C. Gibbs
Vice President

Agreed to as of this 12th day of June, 2000.

AMERADA HESS CORPORATION

By: ____________________

Title: REGULATORY

Niagara Mohawk Power Corporation
Settlement Agreement Revenue Requirement
($000's)

Appendix A
Page 1 of 2

		Revenue Requirement
First Rate Year:		
Revenue Requirement requested per Company		$13,660
Adjustments to company request		
Revenue / Expense items:		
Special Contract (SC-9) Revenue		(2,040)
Interruptible Sales (SC-4 and SC 5I)		0
Depreciation Expense - Customer Service System		0
Cathodic Protection Program Costs		2,107
SIR Overcollection		0
Therm Billing Outreach & Education Costs		110
Rate Base items:		
Net Utility Plant - Customer Service System		0
Contingency Reserve Account	@ $40 million	(102)
Contingency Reserve Account	1/3 1/3 1/3 basis	714
Global Adjustments		(14,449)
Net Revenue Requirement per Settlement		$0
Second Rate Year:		
Revenue Requirement requested per Company		$6,817
Adjustments to company request		
Revenue / Expense items		
Special Contract (SC-9) Revenue		0
Interruptible Sales (SC-4 and SC 5I)		29
Depreciation Expense - Customer Service System		0
Cathodic Protection Program Costs		0
SIR Overcollection		2,197
Therm Billing Outreach & Education Costs		0
Rate Base items:		
Net Utility Plant - Customer Service System		0
Contingency Reserve Account	@ $40 million	(214)
Contingency Reserve Account	1/3 1/3 1/3 basis	1,456
Global Adjustments		(10,285)
Net Revenue Requirement per Settlement		$0
Third Rate Year:		
Revenue Requirement requested per Company		$4,576
Adjustments to company request		
Revenue and/or Expense items		0
Special Contract (SC-9) Revenue		0
Interruptible Sales (SC-4 and SC 5I)		29
Depreciation Expense - Customer Service System		0
Cathodic Protection Program Costs		0
SIR Overcollection		2,197
Therm Billing Outreach & Education Costs		0
Rate Base items:		
Net Utility Plant - Customer Service System		0
Contingency Reserve Account	@ $40 million	(214)
Contingency Reserve Account	1/3 1/3 1/3 basis	1,433
Global Adjustments		(8,021)
Net Revenue Requirement per Settlement		$0
Subsequent Annual Periods *		
Revenue Requirement		$0
Adjustments to company request		
Revenue and/or Expense items:		
Special Contract (SC-9) Revenue		0
Interruptible Sales (SC-4 and SC 5I)		0
Depreciation Expense - Customer Service System		0
Cathodic Protection Program Costs		0
SIR Overcollection		0
Therm Billing Outreach & Education Costs		0
Rate Base items:		
Net Utility Plant - Customer Service System		0
Contingency Reserve Account		0
Global Adjustments		0
Net Revenue Requirement per Settlement		$0

* The settlement includes a "Fourth Rate Period" of ten months ending October 31, 2003 but allows for a continuing "Stayout".

Niagara Mohawk Power Corporation
Revenue Requirement and Items to be Reconciled

Appendix A
Page 2 of 2

	Per Company Initial Filing	Adjustment for Settlement	Rate Allowance for Reconciliation Purposes
First Rate Year:			
Items to be reconciled			
Revenue and/or Expense Items:			
Special Contract (SC-9) Revenue	14,582	1,960	16,542
Interruptible Sales (SC-4 and SC 5I)	6,108	0	6,108
Depreciation Expense - Customer Service System	996	0	996
Cathodic Protection Program Costs	0	2,000	2,000
Site Investigation & Remediation Costs	2,250	0	2,250
Rate Base Items:			
Net Utility Plant - Customer Service System	8,684	0	8,684
Contingency Reserve Account	39,000	(5,666)	33,334
Second Rate Year:			
Items to be reconciled			
Revenue and/or Expense items:			
Special Contract (SC-9) Revenue	14,657	1,885	16,542
Interruptible Sales (SC-4 and SC 5I)	6,136	(28)	6,108
Depreciation Expense - Customer Service System	1,087	0	1,087
Cathodic Protection Program Costs	0	2,000	2,000
Site Investigation & Remediation Costs	2,250	0	2,250
Rate Base items:			
Net Utility Plant - Customer Service System	8,560	0	8,560
Contingency Reserve Account	37,000	(17,000)	20,000
Third Rate Year:			
Items to be reconciled			
Revenue and/or Expense items:			
Special Contract (SC-9) Revenue	14,739	1,803	16,542
Interruptible Sales (SC-4 and SC 5I)	6,136	(28)	6,108
Depreciation Expense - Customer Service System	1,177	0	1,177
Cathodic Protection Program Costs	0	2,000	2,000
Site Investigation & Remediation Costs	2,250	0	2,250
Rate Base items:			
Net Utility Plant - Customer Service System	8,326	0	8,326
Contingency Reserve Account	35,000	(28,333)	6,667
Fourth Rate Year:			
Items to be reconciled			
Revenue and/or Expense items:			
Special Contract (SC-9) Revenue	14,739	1,803	16,542
Interruptible Sales (SC-4 and SC 5I)	6,136	(28)	6,108
Depreciation Expense - Customer Service System	1,177	0	1,177
Cathodic Protection Program Costs	0	2,000	2,000
Site Investigation & Remediation Costs	2,250	0	2,250
Rate Base Items:			
Net Utility Plant - Customer Service System	8,326	0	8,326
Contingency Reserve Account	0	0	0

APPENDIX B

Niagara Mohawk GAS OPERATING PRACTICE BULLETINS		Doc. No. GOPB 506 Page 1 of 8 Date 6/1/00
SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL	

SCOPE

This procedure describes the process used to evaluate the cost effectiveness of cathodically protecting pre-1971 wrapped steel pipe.

GENERAL INFORMATION

During the 1950s, 60s and early 70s several thousand miles of wrapped steel pipe was installed with cathodic protection systems. This procedure establishes a uniform method to evaluate the cost to investigate, perform repairs, and establish baseline pipe to soil readings. The cost to perform repairs is compared to the present day replacement cost only after considering factors, such as safety, pavement, urban renewal, and planned construction. This cost then will determine if the work should be completed or if the pipe should be allowed to reach the end of its useful life.

EVALUATION STEPS

The following three steps are used to evaluate proposed Test Sections for protection:

1. An Office Evaluation shall be conducted to establish the proposed Test Sections and determine the current year Cost to Replace.

2. A Field Evaluation shall be conducted to determine as completely as possible the Cost to Protect the proposed Test Section. Cost to Protect is the total estimated cost of remedial action, which if completed, would cause the Test Section to be considered protected in accordance with Appendix 14-D of Title 16 NYCRR 255.

3. An Economic Analysis shall be completed to determine whether or not the necessary upgrading should be completed to protect the section. The analysis is based on current reasonable costs.

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9/20/91	SYSTEM GAS OPERATING COMMITTEE	DIRECTOR, SYSTEM GAS

Niagara Mohawk GAS OPERATING PRACTICE BULLETINS		Doc. No. GOPB 506 Page 2 of 8 Date 6/1/00
SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL	

PROCEDURE:

Office Evaluation:

1. Review gas maps to establish proposed Test Sections and consider the following:

    a. Location of existing Insulating Joints (IJ)

    b. Location of existing Test Stations (TS)

    c. Length of main that can be isolated; if not a manageable length, divide into smaller sections by proposing installation of additional insulated joints, test stations, etc.

2. Assign a proposed Test Section number and record the inventory information on Figure 1.

3. Estimate the average age of the proposed test section.

    Note: Select the 5-year increment that matches (as close as possible) the majority of pipe in the proposed test sections and record it on Figure 1.

4. From knowledge of the area, determine whether the most likely location of a replacement main would be generally in or out of pavement.

5. Use the data on Figure 4 to calculate the Cost to Replace.

6. Record, in the Remarks Section, any other details known at this time which may make cathodic protection difficult.

7. Record any existing or proposed Corrosion Work Requests (CWRs) in the space provided on Figure 2.

8. Assemble the documents necessary to perform the Field Evaluation.

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SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL	

PROCEDURE: (Continued)

Field Evaluation:

The purpose of the Field Evaluation is to estimate as completely as possible the Cost to Protect a proposed Test Section.

1. Perform, as necessary, in-field visual inspections and electrical testing to record the expected upgrade work on Figure 2.

2. Obtain enough information to prepare CWRs. DO NOT write them at this time.

3. Complete Figure 2. Calculate the Cost to Protect.

Economic Analysis:

The purpose of this analysis is to determine whether or not to spend expense dollars to protect a proposed Test Section.

1. Complete Economic Analysis portion of Figure 3.

2. A Supervisor or his/her designee should review the Economic Analysis. The percentages listed on the Economic Analysis are guidelines only. Other factors need to be considered prior to making the decision of whether or not to protect a proposed Test Section.

3. Supervisor to sign and date Figure 3.

   Note: If the percentage to protect is less than the Guidelines, then the proposed Test Section should be scheduled for protection.

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SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL	

Figure 1

Office Evaluation

Test Section Number: ____________ By: Name: ____________

Tax District: ____________ Date: ____________

Gas Map Number: ____________

Total Footage: ____________ft.

Average Year Installed: ____ 1950 ____ 1955 ____ 1960 ____ 1965 ____ 1970

Cost to Replace:
(from Figure 4)

____ft. - 2" ____

____ft. - 4" ____ **(See note on Figure 4, Page 8)**

____ft. - 6" ____

____ft. - 8" ____

____ft. over 8" ____

Cost to Replace: $____________

Remarks: ____________

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SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL

Figure 2

Evaluated By: ________________ Test Section Number: ________________ Date: ________________

NOTE:

All work includes permitting, easements, excavation, select backfill, restoration and any and all associated work required for successful completion of the activity.

"Soft Surface" is defined as any surface that can be removed with a backhoe, which does not require the use of power, hand, or mechanical tools or equipment to break the surface prior to excavation (e.g. topsoil, gravel, stone, clay, etc.).

"Hard Surface" is defined as any surface , which is not considered a soft surface and requires the use of power, hand, or mechanical tools or equipment that will cut, break or weaken the surface in any manner prior to excavation. This definition includes all thicknesses of asphalt and all concrete (e.g. sidewalks, driveways, roadways). Frost or frozen soil does not constitute a hard surface.

Field Evaluation – Cost to Protect

Activity	2000 Cost Soft Surface	2000 Cost Hard Surface	Quantity	Total
Install Test Station Installation to include all of the associated activities which are required for wire attachment and test station installation.	185/ea	370/ea		
Anode Bed Installation to include the placement of up to four (4) 32# Anodes, wires, low dielectric soil (manure) and test station.	765/ea	1350/ea		
Test Station Maintenance Raise, lower, or replace existing test stations including length of wires to grade.	305/ea	490/ea		
Repair Pipe Wires As directed, repair or replace existing CP wires, attachment points to steel pipe and ends at test station termination blocks.	360/ea	620/ea		
Insulate Service at Main Includes all necessary activities associated with the installation of an insulated type fitting tee at the main end of a steel gas service.	560/ea	790/ea		
Insulate Service at Meter Includes all necessary activities associated with the installation of an insulated fitting or union above the riser valve.	75/ea	75/ea		
Repair Pipe Coating Cleaning and re-wrapping of existing buried steel pipe and fittings (not involved with any other activities).	60/lf	80/lf		
Clear Foreign Contact Through 4" As directed by Meter & Test Department, permanently clear gas main of all physical contacts with other buried facilities.	910/ea	1315/ea		

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SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL

Figure 2 Continued

Continued from previous page

Activity	2000 Cost Soft Surface	2000 Cost Hard Surface	Field Evaluation - Cost to Protect Quantity	Total
Clear Foreign Contact Over 4" (Same as above)	1415/ea	1980/ea		
Clean and wrap Insulated Joint As directed by Meter & Test Department, clean & wrap existing insulated joints.	1050/ea	1395/ea		
Install Insulated Joint, One Way Feed Includes all the necessary activities associated with the installation of a insulated joint / fitting (i.e. back-to-back transition fittings, insulated bolt or hydraulically expanded couplings). Fabrication or assembly of by-pass and insulated joint / fittings, test station, and anode installation shall be included.	2600/ea	3250/ea		
Install Insulated Joint, Two Way Feed Includes all the necessary activities associated with the installation of a insulated joint / fitting (i.e. back-to-back transition fittings, insulated bolt or hydraulically expanded couplings). Fabrication or assembly of insulated joint / fittings, test station, and anode installation shall be included.	2700/ea	3190/ea		
Install Hot Tap Provide complete installation and testing of Hot Tap fittings.	925/ea	1225/ea		
Repair Insulated Flange As required, restore insulating properties to existing insulated flange assemblies.	1485/ea	1845/ea		
Gas Service Installation (Replacement – Plastic) Up to and including 4" dia. pipe, includes; above grade curb valves, pre-fab meter connectors, all fittings and fusion of plastic pipe; connection (welding if required) to the main including tapping, installation of valves, sleeves (including wall sleeve if necessary) and valve boxes. Includes cost for separate excavation to retire existing service if necessary. **(Costs incurred under this item shall be treated as a capital expense and not included as part of the incremental costs associated with the Cathodic Protection program)**	1800/ea	2000/ea		

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SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL

Figure 3

Economic Analysis

Cost to Protect (Figure 2) (______________) ________%
Cost to Replace (Figure 1) (______________)

Guidelines (not to exceed)

1950	38%
1955	28%
1960	20%
1965	14%
1970	11%

Compare actual to guideline after considering other factors, such as safety, urban renewal, planned construction, etc.

Protect __________

Do Not Protect __________

Supervisor's Name: ____________________ Date: ______________

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SUBJECT EVALUATION OF UNPROTECTED STEEL	SECTION CORROSION CONTROL

Figure 4

Note: Use "Hard Surface" replacement cost if the expected location of a future replacement would be considered mostly "In Pavement".

Use "Soft Surface" cost If it is expected that a future replacement would be behind the curb.

2000 Main Replacement Costs Per Foot

System Average	Hard Surface	Soft Surface
2"	$20	$10
4"	$22	$12
6"	$31	$18
8"	$38	$23
12"	$50	$31
16"	$108	$83

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9/20/91	SYSTEM GAS OPERATING COMMITTEE	DIRECTOR, SYSTEM GAS

APPENDIX C

Monthly Distribution of Revenues and Margins

Distribution of Firm Sales Operating Revenues

NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
7.2%	11.7%	14.2%	14.8%	14.2%	11.1%	7.7%	4.9%	3.7%	2.9%	3.2%	4.3%

Distribution of Interruptible Margins

NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT
9.1%	9.4%	9.3%	8.9%	9.1%	9.1%	7.9%	7.5%	6.9%	7.4%	6.6%	8.6%

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CAPACITY INCENTIVE PROGRAM

1. The CIP assumes relinquishment of 70,520 dt/day, effective 11/1/99 and 23,389 dt/day, effective 11/1/02 of Texas Eastern capacity and 80,804 dt/day, effective 11/1/00, and 23,750, effective 4/1/01 of Tennessee capacity. The Company has the option of further reducing Tennessee to 0 on 11/1/01. The below analysis assumes that option is exercised. The parties agree that the relinquishment of these contracts is in conformance with the concepts espoused in the Commission's November 3, 1998 Policy Statement in Case 93-G-0932.

2. During the Settlement Period, CNG capacity will be retained and assigned to marketers serving customers migrating from sales to transportation service, or used to serve sales customers with the costs being collected via the Monthly Cost of Gas. Costs of all other capacity under contract to the Company will be passed through to sales customers via the Monthly Cost of Gas or recovered through the stranded cost recovery mechanism set forth in Section VII.B. of the Settlement Agreement. All commodity costs (including variable charges) will be passed on to sales customers via the Monthly Cost of Gas.

3. The relinquishment of capacity may not match the rate of migration from sales service and, therefore, the Company may have to purchase bundled gas supply, or on a temporary basis pipeline capacity, to meet its sales load. This may entail the recontracting for a portion of the Tennessee capacity discussed above. Tennessee capacity that is recontracted to be in effect during the period after 11/1/01 for the Settlement Period (unless relinquished sooner), will be added to the base amounts specified in paragraph 5 below. Any such additional capacity is subject to the Commission's Policy Statement concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment (issued November 3, 1998).

4. For the first rate year, a target capacity cost for these purchases will be established by multiplying the applicable annual maximum price of Texas Eastern capacity times the highest daily actual purchase amount in excess of the base level for that year. For each of the second, third and (partial) fourth rate years, the target capacity cost will be established by multiplying the applicable weighted average maximum annual price of Texas Eastern and Tennessee capacity times the highest daily actual purchase amount in excess of the base level for that year. The target capacity costs for each year will be reduced by the annual historic average (11/1/97-10/31/99) capacity release credits. See examples attached.

5. For each rate year, the actual cost of capacity purchased, excluding peak shaving capacity, over the base amount (235,402 DT for year one, 130,848 DT for year two, 98,467 DT for year three, and 75,078 DT for partial year four will be calculated (see examples attached) and compared to the target cost. When a bundled gas supply purchase is made for a daily purchase, the cost of pipeline capacity in the bundled purchase price will be determined by subtracting from the bundled price the <u>Gas Daily</u> price survey for production area gas and the cost of fuel and commodity on the Texas Eastern and/or Tennessee pipelines. When a

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bundled gas supply purchase is made for a month, the Inside FERC Gas Market Report, first of month gas prices, will be used.

6. A dead band between 80% and 100% of the targeted cost will be established within which there will be no sharing of savings with the company. Thus, if the actual cost of capacity is ≥80% of the target cost but ≤100% of the target cost, then there will be a 100% pass through to sales customers via the Monthly Cost of Gas of all savings.

7. If actual capacity costs are ≥75% and <80% of the target costs, there will be a 75%/25% sharing between sales customers and the Company of these incremental savings. If actual capacity costs are <75% of target costs, there will be a 50%/50% sharing of all savings below this threshold between customers and the Company. Savings sharing to the Company below 80% will be limited to $2 million per year, and then there will be a 100% pass through to sales customers of any remaining savings.

8. If actual capacity costs are >100% and ≤105% of the target costs, there will be a 75%/25% sharing between sales customers and the Company of the additional costs. If actual capacity costs are >105% of the target costs, there will be a 50%/50% sharing of the additional costs above 105%. The company's share of added costs above 100% will be limited to $2 million per year, and then there will be a 100% pass through to sales customers of any remaining additional costs.

9. Under the CIP, all purchase costs not subject to the sharing provisions will be passed through to sales customers via the Monthly Cost of Gas or recovered through the stranded cost recovery mechanism set forth in Section VII.B.

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Assumptions:

Pipeline capacity upstream of CNG:
305,922 DT

Year one 11/1/99 – 10/31/00
305,922 - 70,520 = 235,402 DT

Year two 11/1/00 – 3/31/01
235,402 - 80,804 = 154,598
4/1/00 – 11/31/01
154,598 - 23,750 = 130,848

Year three 11/1/01 - 10/31/02
130,848 - 32,381 = 98,467
130,848 – 0 = 130,848 (Tennessee renewed)

Year four 11/1/02-10/31/03
98,467 - 23,389 = 75,078
130,848 – 23,389 = 107,459 (Tennessee renewed)

The below examples assume a 40% load factor usage by the Company, highest daily purchase less the base capacity upstream of CNG x 365. Sale-for-resale credits are based on 5.6% of unused capacity and capacity release credits are based on the remaining unused capacity. The Year-1 Target example shows the complete calculations.

Target – Year 1

The highest daily capacity purchased during the year will be subtracted from 235,402. This use will be priced at maximum Texas Eastern rates for 12 months.

Annualized Capacity: 250,200 – 235,402 = 14,598 x 365 = 5,328,270

Example:
Highest daily purchase: 14,598 x ($14.0267 x 12) = $2,457,141

Capacity Used: 5,328,270 x .4 = 2,131,308

Available for Credits: 5,328,270 – 2,131,308 = 3,196,962

Sales-for-Resale Credit: 3,196,962 x .056 x $.07 = $121,532

Capacity Release Credit = $.0129 x (3,196,962 – (3,196,962 x .056)) = $38,931

Target Less Credits = $2,457,141 - $12,532 - $38,931 = $2,405,678

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Actual – Purchases/Sharing Year 1

Determine the capacity cost for all daily purchases of capacity over the floor of 235,402 DT. The cost will be determined as follows:

80% Target Capacity Cost: .80 x $2,405,678 = $1,924,542
75% Target Capacity Cost: .75 x $2,405,678 = $1,804,258

Total November 1999 – October 2000 period purchases above 235,402: 2,131,308 DT

Cost of Actual Purchases: 2,131,308 x $.32 = $682,019

Savings Between 75-80% of Target $1,924,542 - $1,804,258 = $120,284

Savings Sharing:
75% Customer $90,213
25% Company $30,071

Savings Above 75% Target $1,804,258 - $682,019 = $1,122,239

Savings Sharing:
50% Customer $561,120
50% Company $561,119

Total Savings Sharing:
Customer $651,333
Company $591,190

Target – Year 2

The highest daily capacity purchased during the year will be subtracted from 154,598 and 130,848. This use will be priced at the Company's entitlement weighted maximum rate for the Texas Eastern and Tennessee turnbacks.

Annualized Capacity: ((175,000 – 154,598) x 151)) + ((175,000 – 130,848) x 214)) = 12,529,230

Example:
Highest daily purchase: 175,000 – 154,598 = 20,402 x ($11.891 x 5) = $1,212,951 11/1/00-3/31/01
175,000 – 130,848 = 44,152 x ($11.891 x 7) = $3,674,930 4/1/00-10/31/01

Capacity Used: 12,529,230 x .4 = 5,011,692

Sales-for-Resale Credit: (12,529,230 – 5,011,692) x .056 x $.07 = 29,469

Capacity Release Credit: $.02/day x ((12,529,230 – 5,011,692) – (.056 x (12,529,230 – 5,011,692))) = $141,931

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Target Less Credits = $4,887,881 – $29,469 - $141,931 = $4,716,481

Actual – Purchases/Sharing Year 2

Determine the capacity cost for all daily purchases of capacity over the floor of 154,598 or 130,848 DT. The cost will be determined as follows:

80% Target Capacity Cost: .80 x $4,716,481 = $3,773,185
75% Target Capacity Cost: .75 x $4,716,481 = $3,537,361

Total November 2000 – October 2001 period purchases above 154,598 or 130,848: 5,011,692

Cost of Actual Purchases: 5,011,692 x $.32 = $1,603,741

Savings Between 75-80% of Target: $3,773,185 – $3,537,361 = $235,824

Savings Sharing:

75% Customer	$176,868
25% Company	$58,956

Savings Above 75% of Target: $3,537,361 - $1,603,741 = $1,933,619

Savings Sharing:

50% Customer	$966,810
50% Company	$966,810

Total Savings Sharing:

Customer	$1,143,678
Company	$1,025,766

Target – Year 3

The highest daily capacity purchased during the year will be subtracted from 98,467. This use will be priced at the Company's entitlement weighted maximum rate for the Texas Eastern and Tennessee turnbacks.

Example:

Annualized Capacity: 113,000 – 98,467 = 14,533 x 365 = 5,304,545

Highest daily purchase: 14,533 x ($11.386 x 12) = $1,985,670

Capacity Used: 5,304,545 x .4 = 2,121,818

Sales-for-Resale Credit: $.07 x .056 x (5,304,545 – 2,121,818) = $12,476

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Capacity Release Credit: $.02/day x ((5,304,545 – 2,121,818) – (.056 x (5,304,545 – 2,121,818))) = $60,090

Target Less Credits = $1,985,670 - $12,476 - $60,090 = $1,913,103

Actual – Purchases/Sharing Year 3

Determine the capacity cost for all daily purchases of capacity over the floor of 98,467 DT. The cost will be determined as follows:

80% Target Capacity Cost: .80 x $1,913,103 = $1,503,483
75% Target Capacity Cost: .75 x $1,913,103 = $1,434,828

Total November 2001 – October 2002 period purchases above 98,467: 2,121,818

Cost of Actual Purchases: 2,121,818 x $.32 = $678,982

Savings Between 75-80% of Target: $1,503,483 - $1,434,828 = $95,655

Savings Sharing:

75% Customer	$71,741
25% Company	$23,914

Savings Above 75% of Target: $1,434,828 - $678,982 = $755,846

Savings Sharing:

50% Customer	$377,923
50% Company	$377,923

Total Savings Sharing:

Customer	$449,664
Company	$401,837

Note: If the Company retained the 32,381 of Tennessee capacity and peak capacity usage exceeded 130,848, the calculation methodology would be the same as the above example with 130,848 substituted for 98,467. If the Company retained the Tennessee capacity and the maximum usage is less than 130,848, no calculation would be required.

Target – Year 4

The highest daily capacity purchased during the year will be subtracted from 75,078. This use will be priced at the Company's entitlement weighted maximum rate for the Texas Eastern and Tennessee turnbacks.

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Example:

Annualized Capacity: 81,078 – 75,078 = 6,000 x 365 = 2,190,000

Highest daily purchase: 6,000 x ($11.653 x 12) = $839,050

Capacity Used: 2,190,000 x .4 = 876,000

Sales-for-Resale Credit: $.07 x .056 x (2,190,000 – 876,000) = $5,151

Capacity Release Credit: $.0129 Dt/day x ((2,190,000 – 876,000) – (.056 x (2,190,000 – 876,000))) = $16,001

Target Less Credits = $839,050 = $16,001 - $5,151 = $817,898

Actual – Purchases/Sharing Year 4

Determine the capacity cost for all daily purchases of capacity over the floor of 75,078 DT. The cost will be determined as follows:

80% Target Capacity Cost: .80 x $817,898 = $654,318
75% Target Capacity Cost: .75 x $817,898 = $613,424

Total November 2002 – October 2003 period purchases above 75,078: 876,000

Cost of Actual Purchases: 876,000 x $.40 = $350,400

Savings Between 75-80% of Target: $654,318 - $613,424 = $40,894

Savings Sharing:

75% Customer	$30,671
25% Company	$10,224

Savings Above 75% of Target: $613,424 - $350,400 = $263,024

Savings Sharing:

50% Customer	$131,512
50% Company	$131,512

Total Savings Sharing:

Customer	$162,183
Company	$141,736

Note: See note associated with Year 3 calculation and Assumption Section – Year 4.

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BALANCING OPTIONS

1. Pooled Balancing - Daily Metered Customers (includes stand-alone non-dca customers.)

   - The current Pooled Balancing program will be terminated effective 9/1/00.

   - Daily balancing between nominations and pool usages with a +/- 10% tolerance will commence 9/1/00.

   - The daily balance tolerance will be +/- 5% from 11/1/01 through 3/31/02, and will return to +/- 10% from 4/1/02 through 10/31/02. The daily balance tolerance will be +/- 5% from 11/1/02 through 3/31/03, and will return to +/- 10% from 4/1/03 through 8/31/03.

   - Daily cash outs, invoked when all pools as a whole are out of tolerance (All Pools), will commence 9/1/00 in the following manner:

     - The Index will be *Gas Daily*'s CNG North Point common (mid-point) price. For underdeliveries, CNG FT plus fuel to Niagara Mohawk's citygates will be added.

     - 6-10% underdelivered (overdelivered): 105% (95%) of (mid-point) Index (when applicable)

     - 11-15% underdelivered (overdelivered): 110% (90%) of (mid-point) Index

     - 16-20% underdelivered (overdelivered): 130% (70%) of (mid-point) Index

     - 21-50% underdelivered (overdelivered): 140% (60%) of (mid-point) Index

     - > 50% underdelivered (overdelivered): 150% (50%) of (mid-point) Index

     - If any marketer is out of balance by more than 50% twice within a month, an additional $5/Dt penalty will be assessed for the third occurrence and each occurrence thereafter in the month. The first time any marketer is out of balance by more than 50%, the Company will issue a "Notice" to the marketer concerning the penalty for such imbalances. The second time a marketer is out of balance by more than 50%, the Company will issue a "Warning" to the marketer. (If an imbalance of more than 50% occurs over a weekend or holiday weekend and marketer does not receive notification by the Company until the first day of business after the weekend, this will be counted as one imbalance.)

   - At the end of each month, an All Pools comparison of actual usage to nominations will be done. If All Pools are within a +/- 2% tolerance, each individual pool will be cashed out, after imbalance trading, at Index (CNG North Point common [mid-point]), average for the month. If the All Pools imbalance is > 2%, then each individual pool will be cashed out after imbalance trading at the aforementioned Index for imbalances between 0-2%, and at Index +/- 20% for imbalances greater than 2%. An injection or withdrawal charge will be applied to monthly imbalances (see Schedule 2).

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- An Operational Flow Order (OFO) will nullify All Pools balancing for the day. The tolerance level will be +/- 2% as currently provided in the Tariff. The Company may issue an OFO with a tolerance level of +/-2% to +/-50% for underdeliveries or overdeliveries. For imbalances that exceed the OFO limit, marketers will be assessed a penalty of $25/Dt, per day. When an OFO is issued for underdeliveries or overdeliveries, then the unaffected side will be subject to the normal daily cash out schedule unless changed at the Company's discretion. Such changes will not increase cash out costs.

- A balancing fee will be charged as follows:

  - Through 8/31/00: $0.2838/MPDQ/mo (charged to the customer)

  - 9/1/00 to 10/31/01: $.244326/MPDQ/mo (cost based) (charged to the marketer)

  - 11/1/01 to 10/31/02:Max $.244326 MPDQ/mo, with an up to $0.12 adjustment downward depending on measurement results of 11/00 through 3/01

  - 11/1/02 to 8/31/03: Max $.244326 MPDQ/mo, with an up to $0.12 adjustment up or down from the prior year's charge depending on measurement results of 11/01 through 3/02

- The measurement referred to above involves Niagara Mohawk's monitoring of daily imbalances of marketers' pools for daily metered customers and the extent of utilization of Niagara Mohawk's assets to achieve All Pools daily balances.

- The method for measuring possible adjustments to the balancing fee is as follows:

1. For each day in the period November through March calculate the imbalance percentage (IP) (rounded to the nearest 10^{th} of a percent) as:
   - $$IP = \frac{\text{All Pools Metered Usage} - \text{All Pools Noms}}{\text{All Pools Metered Usage}}$$

2. Calculate the absolute value of each IP.

3. Rank the IP from highest to lowest.

4. For the period 11/01/00 through 3/31/01, determine the IP at the 95% level.

5. If at the 95% level the IP is less than 5%, a ratable adjustment of up to $.12 per MPDQ/mo. will be made to the balancing fee effective 11/1/01. For example, if the study shows an imbalance of 4% at the 95% level, the balancing fee will be adjusted by $.048 = ($.12 x (1/2.5).

6. For the period 11/1/01 through 3/31/02 determine the IP at the 100% level.

7. If at the 100% level, the IP is equal to or greater than 5%, then the balancing fee will be set at $.244326 MPDQ/mo. (cost based) effective 11/1/02. If at the 100% level the IP is less than 5%, a ratable adjustment downward of $.048 per MPDQ/mo. to the maximum balancing fee of $.244326 MPDQ/mo. (cost based) will be made for each 1% under the 5%.

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8. Steps 6 and 7 will be repeated for each subsequent period during the Settlement Period.

- Marketers (including stand-alone non-dca customers) can elect to provide their own balancing service. The balancing service must comply with the requirements of the Company.

- Effective 9/1/00, GISB standards will be in effect for all nominations.

II. Balanced Aggregation and Basic Aggregation - Monthly Metered Customers

- The existing Balanced Aggregation program will be terminated effective 9/1/00 and be replaced with a modified Basic Aggregation program.

- The modified Basic Aggregation program is designed around and offered in conjunction with CNG's Delivery Point Operator (DPO) and Citygate Swing Customer (CSC) tariffs filed with FERC.

- The modified Basic Aggregation program is as follows:

  - Daily Aggregator Flow Orders (AFO) will be issued by Niagara Mohawk based on algorithms using a Base and Thermal methodology.

  - Penalties will be applied when there is a failure to meet an AFO.

  - There will be mandatory assignment of GSS and FTNN GSS along with 12-months assignment of FT capacity. Assignment will be based on a peak day allocation of 55% storage and 45% FT. GSS and FTNN GSS and FT will be released at maximum rates subject to recall. This capacity and storage will be recalled in the event that a marketer fails to perform under the terms of Basic Aggregation, a customer switches marketers, or a customer returns as a sales customer.

  - The program must meet CNG criteria for Citygate Swing Customer (CSC). Any penalty charges assessed to Niagara Mohawk or gas supply costs incurred as a result of CSC will be directly passed on to the appropriate party that caused the penalty.

  - There will be retroactive changes to GSS storage balances based on actual weather (i.e. adjusted AFOs).

  - Actual usage will be trued up to nominations by billing cycle. (This will be available at a later date subject to the necessary IT changes). There will be cash out at the commodity cost of gas.

  - There will be no storage utilization charge.

  - Marketers can designate a third party scheduling coordinator to act on their behalf.

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- At marketer's discretion, Pooled Balancing can be combined with the Basic Aggregation program for balancing purposes.

III. Other Matters

- Niagara Mohawk will offer extensive training services to all marketers and direct customers before implementing the new programs.
- The capital costs of implementing the new balancing programs will be recovered from the Contingency Reserve Account. The incremental O&M expenses of implementing the programs will be recovered on a current basis.

IV. Program Modifications if CNG's DPO/CSC Tariffs Are Not in Place

- If CNG's DPO/CSC tariffs are not in place by 9/1/00:
  - The Basic Aggregation program for monthly metered customers (see Section II.) would be modified to include a Balancing Service charge based on weather forecast error effects on usage. All other aspects of the Basic Aggregation program would remain the same except there will not be no-notice storage service and Pooled Balancing service cannot be combined with Basic Aggregation service.
  - The Balanced Aggregation program would still be terminated effective 9/1/00. The Pooled Balancing program for daily metered customers (see Section I.) would be unchanged.

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Schedule 2

MONTHLY BALANCING CHARGE
DAILY METERED CUSTOMERS

	Monthly Rate	Quantity	Cost	Blended Rate	Annual Rate
GSS Demand	1.8344	426,832	$782,980	$1.86114	$22.3336
GSS II Demand	3.4364	7,246	24,900		
		434,078	$807,880		
GSS Capacity	.0134	49.61332	$.664812	.70877	8.50524
GSS II Capacity	.0317	1.38668	.043958		
		51.00	.70877		
FTNN GSS	5.5599			5.5599	27.7995
Sub-Total					58.63834
					X .05
					2.931917
					÷ 12
Balancing Charge Demand Rate					$.244326/month/ MPDQ/DT Demand

Pipeline Injection Rate $0.0162/DT
Pipeline Withdrawal Rate $0.0147/DT

Note:

2. Any revenue from the balancing charge or the injection or withdrawal rates will be flowed through the GAC.
3. Rates are effective July 1, 1999.

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Niagara Mohawk Power Corporation
Demand Storage Transfer Rate
Example
for the 12 month period ending March 31, 2001

Month	Estimated Average Commodity Gas in Storage	Storage Demand Transfer Rate	Storage Gas Transfer Rate
Apr	$ 3.35	$ (0.87496)	$ 2.4750
May	$ 3.40	$ (0.45003)	$ 2.9500
Jun	$ 3.30	$ (0.14727)	$ 3.1527
Jul	$ 3.45	$ 0.03430	$ 3.4843
Aug	$ 3.30	$ 0.15501	$ 3.4550
Sep	$ 3.20	$ 0.22287	$ 3.4229
Oct	$ 3.15	$ 0.23684	$ 3.3868
Nov	$ 3.10	$ 0.34926	$ 3.4493
Dec	$ 3.10	$ 0.44621	$ 3.5462
Jan	$ 3.10	$ 0.43704	$ 3.5370
Feb	$ 3.10	$ 0.36980	$ 3.4698
Mar	-	$ -	

Amount used for the estimated average commodity cost of gas in storage, is for illustrative purposes only, and is not an actual forecast of commodity cost.

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..DID:
..TXT: PSC NO: 218 GAS
COMPANY: NIAGARA MOHAWK POWER CORPORATION
1
INITIAL EFFECTIVE DATE: 07/27/00
STAMPS:

STATEMENT TYPE: DTR
STATEMENT NO:

Example Only

RECEIVED: STATUS: EFFECTIVE:

STATEMENT OF DEMAND TRANSFER RECOVERY RATE
Effective to Billing Commencing August 1, 2000
Applicable to Billing for Service Classification No. 11

	Per Therm
Pursuant to Service Classification No. 11 of Niagara Mohawk Power Corporation's PSC No. 218, the storage gas transfer rate shall be the sum of:	
(1) the Company's estimated weighted average commodity cost of gas	$.330000
Commodity cost of gas in storage	
(2) Demand Transfer Recovery Rate (DTR rate) =	$0.015500
TOTAL EFFECTIVE STORAGE TRANSFER RATE PER THERM:	**$0.345500**

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Niagara Mohawk Power Corporation
Calculation of Demand Transfer Recovery Rate

August 2000

	Month	Sales Load Pattern	Assumed Aggregated Volumes	CNG Demand Charge Component of the MCG	Demand Charge Revenue	Fixed Demand Cost	Demand Cost (Under) Over Recovery	Cumulative Demand Cost (Under) Over Recovery	Transfer Storage Volumes	(Under) Over Recovery of Demand Cost	Demand Transfer Rate (DTR)	Estimated Weighted Avg Gas Cost in Storage	Total Storage Gas Transfer Rate
1	Apr	12.17%	7,329,097	$ 0.67192	$ 4,924,594	$ 2,468,010	$ 2,456,584	$ 2,456,584	2,807,638	$ 2,456,584	$ (0.87496)	$ 3.35	$ 2.4750
2	May	6.27%	3,777,930	$ 0.67192	$ 2,538,480	$ 2,468,010	$ 70,470	$ 2,527,055	5,615,277	$ 2,527,055	$ (0.45083)	$ 3.40	$ 2.9500
3	Jun	2.92%	1,758,262	$ 0.67192	$ 1,181,418	$ 2,468,010	$ (1,286,592)	$ 1,240,463	8,422,915	$ 1,240,463	$ (0.14727)	$ 3.30	$ 3.1527
4	Jul	2.08%	1,253,693	$ 0.67192	$ 842,386	$ 2,468,010	$ (1,625,624)	$ (385,161)	11,230,553	$ (385,161)	$ 0.03430	$ 3.45	$ 3.4843
5	Aug	1.67%	1,007,845	$ 0.67192	$ 677,195	$ 2,468,010	$ (1,790,815)	$ (2,175,976)	14,038,191	$ (2,175,976)	$ 0.15500	$ 3.30	$ 3.4550
6	Sep	2.20%	1,323,815	$ 0.67192	$ 889,503	$ 2,468,010	$ (1,578,507)	$ (3,754,483)	16,845,830	$ (3,754,483)	$ 0.22287	$ 3.20	$ 3.4229
7	Oct	3.87%	2,333,359	$ 0.67192	$ 1,567,839	$ 2,468,010	$ (900,171)	$ (4,654,654)	19,653,468	$ (4,654,654)	$ 0.23684	$ 3.15	$ 3.3868
8	Nov	7.70%	4,634,532	$ 0.67192	$ 3,114,052	$ 4,637,087	$ (1,523,035)	$ (6,177,689)	17,688,121	$ (6,177,689)	$ 0.34926	$ 3.10	$ 3.4493
9	Dec	12.42%	7,481,386	$ 0.67192	$ 5,026,920	$ 4,637,088	$ 389,832	$ (5,787,857)	12,971,289	$ (5,787,857)	$ 0.44621	$ 3.10	$ 3.5462
10	Jan	16.85%	10,146,347	$ 0.67192	$ 6,817,437	$ 4,637,088	$ 2,180,349	$ (3,607,508)	8,254,457	$ (3,607,508)	$ 0.43704	$ 3.10	$ 3.5370
11	Feb	17.14%	10,323,181	$ 0.67192	$ 6,936,390	$ 4,637,088	$ 2,299,302	$ (1,308,206)	3,537,624	$ (1,308,206)	$ 0.36980	$ 3.10	$ 3.4698
12	Mar	14.69%	8,848,169	$ 0.67192	$ 5,945,294	$ 4,637,088	$ 1,308,206	$ 0	0	$ 0	$ 0.00000	$ 3.10	$ 3.1000
	Total	100.00%	60,217,417		$ 40,461,509	$ 40,461,509	$ 0						
	Winter (Nov. - Mar)		41,433,415										

Show all Unit Demand Transfer Rates (DTR) ------>
Please enter current month in Cell B6

Storage fill 1/7 per month April through October
Storage withdrawal 18% November 24% December, January, February and 10% for March.

y

Month	% Demand Charges Paid Cumulative	% Demand Charges Recovered (sales) Cumulative	Cumulative (under)/over recovery
Apr	6.19%	12.17%	5.98%
May	12.38%	18.44%	6.07%
Jun	18.56%	21.36%	2.80%
Jul	24.75%	23.45%	-1.31%
Aug	30.94%	25.12%	-5.82%
Sep	37.13%	27.32%	-9.81%
Oct	43.32%	31.19%	-12.13%
Nov	54.65%	38.89%	-15.76%
Dec	65.99%	51.31%	-14.68%
Jan	77.33%	68.16%	-9.16%
Feb	88.66%	85.31%	-3.36%
Mar	100.00%	100.00%	0.00%

	MCG Jan	MCG Feb	MCG Mar
Total Demand Rate	0.127595	0.129758	0.132573
CNG Capacity FT	$ 22,080,305	$ 22,305,462	$ 22,163,768
	$ -	$ -	$
	$ -	$ -	$ -
GSS Storage Demand	$ 9,542,923	$ 9,542,946	$ 9,542,946
GSS Storage Capacit	$ 3,614,888	$ 3,614,888	$ 3,614,888
GSS TF Demand(5 m	$ 12,312,910	$ 12,312,910	$ 12,228,807
GSS II Storage Dema	$ 206,401	$ 205,401	$ 205,401
GSS II Storage Capac	$ 159,333	$ 159,333	$ 159,333
GSSII TF Demand 5 M	$ 142,958	$ 142,958	$ 141,982
	$ 48,038,718	$ 48,283,897	$ 48,057,114
Less Credits			$ (7,595,605)
	$ 48,038,718	$ 48,283,897	$ 40,461,509
Rate Per DT	$ 0.79775	$ 0.80183	$ 0.671924
Weather Normalized Sales - Forecast TME March 2001			60,217,417
CNG Capacity And Storage Cost per therm			0.067192

Key Assumptions
Based on 2000 & 2001 Gas Rate Proceeding Company Sales Forecast updated June 1999
CNG Cost based on March 1, 2000 MCG
Storage transfer volumes based on having 22.41 BCF in Storage on November 1, 2000

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Niagara Mohawk Power Corporation
Support Documentation for Storage Transfer rate
CNG Demand Charges & Bundled Sales by month

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CNG Demand Charges to be recovered
Based on March 1, 2000 MCO

Demand Charges to be recovered	April	May	June	July	August	September	October	November	December	January	February	March	Total
GSS Demand	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 795,245	$ 9,542,946
GSS Capacity	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 301,241	$ 3,614,888
GSS II Demand	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 17,117	$ 205,401
GSS II Capacity	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 13,278	$ 159,333
GSS FTNN	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,474,158	$ 2,474,158	$ 2,474,158	$ 2,474,158	$ 2,474,158	$ 12,370,789
CNG Capacity FT	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 1,846,980	$ 22,163,758
Total Deman Charges	$ 2,973,860	$ 2,973,860	$ 2,973,860	$ 2,973,860	$ 2,973,860	$ 2,973,860	$ 2,973,860	$ 5,448,018	$ 5,448,018	$ 5,448,018	$ 5,448,018	$ 5,448,018	$ 48,057,114
Demand Charges Credits													
CNG Storage Assignment	$ (136,106)	$ (136,106)	$ (136,106)	$ (136,106)	$ (136,106)	$ (136,106)	$ (136,106)	$ (441,187)	$ (441,187)	$ (441,187)	$ (441,187)	$ (441,187)	$ (3,168,677)
CNG FT Assignment	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (250,120)	$ (3,001,440)
Balancing Charges	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (112,834)	$ (1,354,008)
Standby Charges	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (6,790)	$ (81,480)
NET CNG Charges	$ 2,468,010	$ 2,468,010	$ 2,468,010	$ 2,468,010	$ 2,468,010	$ 2,468,010	$ 2,468,010	$ 4,637,087	$ 4,637,087	$ 4,637,087	$ 4,637,087	$ 4,637,087	$ 40,461,609
Cost incurred by month as a percent of total	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	11.5%	11.5%	11.5%	11.5%	11.5%	100.0%

total credits $ (7,605,605)

Niagara Mohawk
Sales Forecast updated 2000 budget and filed update in Gas rate proceeding

Decatherms	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	
SC1 Resd. Non-Heat	97.920	69.360	48.960	40.800	36.720	40.800	57.120	81.600	110.160	130.560	130.560	122.400	
SC1 Resd. Heat	5908.810	3232.089	1555.356	1010.999	818.694	1049.804	1801.059	3570.377	5730.831	7751.731	7740.902	6822.044	
SC1 Resd. Non-Heat-NHSub	0.180	0.116	0.075	0.052	0.046	0.058	0.093	0.145	0.203	0.255	0.255	0.232	
SC1 Resd. Heat -NHSub	32.305	11.119	9.051	3.990	4.406	5.467	10.862	17.021	30.151	28.494	45.161	26.817	
SC2 Resd. Non-Heat	0.300	0.252	0.219	0.201	0.198	0.207	0.234	0.276	0.321	0.363	0.360	0.339	
SC2 Resd. Heat	13.620	7.859	3.844	1.869	1.462	2.381	5.575	10.401	15.747	20.438	20.042	17.546	
SC2 Comm. Non-Heat	56.602	43.123	33.649	28.985	27.995	29.991	37.259	48.461	60.603	71.375	70.410	64.490	
SC2 Comm. Heat	994.047	293.348	34.569	116.479	72.924	137.169	326.457	738.460	1370.564	1804.646	1960.507	1499.301	
SC2 Industrial	34.767	20.305	10.137	4.108	5.115	6.526	14.803	27.497	41.571	54.064	53.336	46.950	
SC2 Comm. Heat -NHSub	45.623	15.817	10.755	5.574	5.315	10.584	16.226	37.688	65.297	83.190	90.076	69.053	
SC3 Comm. Non-Heat	6.847	4.958	3.632	2.976	2.845	3.159	4.240	5.897	7.723	9.364	9.270	8.436	
SC3 Comm. Heat	25.580	18.557	13.643	11.214	10.730	11.894	15.896	22.034	28.832	34.874	34.523	31.435	
SC3 Industrial	10.320	9.000	10.500	9.480	7.740	7.980	9.870	9.600	12.120	11.820	12.540	12.540	
SC3 Industrial -NHSub	3.400	1.100	0.170	0.066	0.070	0.250	2.510	5.600	6.400	8.200	8.000	7.600	
SC8 Stand By Comm Non heat	36.828	33.017	30.444	29.917	30.101	31.571	35.382	39.009	44.144	46.386	44.009	41.596	
SC8 Stand By Comm heat	11.555	10.360	9.552	9.387	9.444	9.906	11.102	12.240	13.851	14.564	13.808	13.051	
SC8 Stand By Industrial	19.191	17.203	15.064	15.590	15.606	16.452	18.438	20.328	23.003	24.172	22.933	21.675	
Total SC 1, 2, 3 and 8 Standby	7297.873	3787.584	1790.420	1291.687	1049.490	1363.899	2366.827	4843.634	7461.532	10094.486	10264.772	8805.214	60217.417
Sales by month as a percent of total	12.1%	6.3%	3.0%	2.1%	1.7%	2.3%	3.9%	7.7%	12.4%	16.8%	17.0%	14.6%	100.0%
Over (under) Recovery Cumulative	6.02%	6.21%	[illegible]	-0.87%	-3.23%	-9.06%	-11.23%	-16.90%	-16.05%	-8.75%	-3.16%	0.00%	0.00%

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Calculation of Credit Due Marketers due to Later Implementation of New Balanced Aggregation Programs

Applicable to all SC 12 and All SC 13 except Commercial Non Heat — **Assumes August 1,2000 implementation of storage release** (Aug-00 through Mar-01)

Current Program	Rates in $/Therm Effective April 1, 2000	Therms	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	
Storage Utilization	$ 0.49709	4.04	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	$ 2.01	
CNG Capacity	$ 0.57114	5.96	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	$ 3.40	
		10	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 5.41	$ 64.95
Proposed Program	**Rates in $/Therm Effective April 1, 2000**	**Therms**	**Apr-00**	**May-00**	**Jun-00**	**Jul-00**	**Aug-00**	**Sep-00**	**Oct-00**	**Nov-00**	**Dec-00**	**Jan-01**	**Feb-01**	**Mar-01**	
Storage Utilization	$ 0.49709		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
GSS Demand	0.18533	5.500	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	
GSS Capacity	0.00137	280.5	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	
GSS FTNN	0.56998	5.500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3.13	$ 3.13	$ 3.13	$ 3.13	$ 3.13	
CNG Capacity FT	0.57114	4.500	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	
			$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 7.11	$ 7.11	$ 7.11	$ 7.11	$ 7.11	$ 63.36
Timing Difference Monthly			$ (1.44)	$ (1.44)	$ (1.44)	$ (1.44)	$ (1.44)	$ (1.44)	$ (1.44)	$ 1.70	$ 1.70	$ 1.70	$ 1.70	$ 1.70	$ (1.59)
Timing Difference Cumulative				$ (2.88)	$ (4.32)	$ (5.75)	$ (7.19)	$ (8.63)	$ (10.07)	$ (8.37)	$ (6.68)	$ (4.98)	$ (3.28)	$ (1.59)	

Applicable to all SC 13 Commercial Non Heat — **Assumes August 1,2000 implementation of storage release** (Aug-00 through Mar-01)

Current Program	Rates in $/Therm Effective April 1, 2000	Therms	Apr-00	May-00	Jun-00	Jul-00	Aug-00	Sep-00	Oct-00	Nov-00	Dec-00	Jan-01	Feb-01	Mar-01	
Storage Utilization	$ 0.49709	2.84	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	$ 1.41	
CNG Capacity	$ 0.57114	7.16	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	$ 4.09	
		10	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 5.50	$ 66.01
Proposed Program	**Rates in $/Therm Effective April 1, 2000**	**Therms**	**Apr-00**	**May-00**	**Jun-00**	**Jul-00**	**Aug-00**	**Sep-00**	**Oct-00**	**Nov-00**	**Dec-00**	**Jan-01**	**Feb-01**	**Mar-01**	
Storage Utilization	$ 0.49709		n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
GSS Demand	0.18533	5.500	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	$ 1.02	
GSS Capacity	0.00137	280.5	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	$ 0.38	
GSS FTNN	0.56998	5.500	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3.13	$ 3.13	$ 3.13	$ 3.13	$ 3.13	
CNG Capacity FT	0.57114	4.500	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	$ 2.57	
			$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 3.97	$ 7.11	$ 7.11	$ 7.11	$ 7.11	$ 7.11	$ 63.36
Timing Difference Monthly			$ (1.53)	$ (1.53)	$ (1.53)	$ (1.53)	$ (1.53)	$ (1.53)	$ (1.53)	$ 1.61	$ 1.61	$ 1.61	$ 1.61	$ 1.61	$ (2.65)
Timing Difference Cumulative				$ (3.05)	$ (4.58)	$ (6.11)	$ (7.64)	$ (9.16)	$ (10.69)	$ (9.08)	$ (7.47)	$ (5.87)	$ (4.26)	$ (2.65)	

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..DID:
..TXT: PSC NO: 218 GAS
COMPANY: NIAGARA MOHAWK POWER CORPORATION
INITIAL EFFECTIVE DATE: 07/27/00
STAMPS:

STATEMENT TYPE: BSC
STATEMENT NO: 1

Example Only

RECEIVED: STATUS: EFFECTIVE:

STATEMENT OF Balancing Services Cost Recovery
Effective to Billing Commencing August 1, 2000
Applicable to Billing for Service Classification No. 11

	Per Therm
Pursuant to Service Classification No. 11 of Niagara Mohawk Power Corporation's PSC No. 218, the balancing services cost recovery rate shall be:	
The estimated 12 month operating and maintenance cost of $345,000 Divided by the 12 month sales forecast ending July 31, 2001 for SC-5 Firm, SC-7, SC-8 transport, SC-12 and SC 13, 469,309,490 therms	$.00074

TOTAL EFFECTIVE BALANCING SERVICES COST RECOVERY RATE **$0.00074**

APPENDIX F

Estimated Avoided Merchant Function Backout Costs - Application

Steps to determine amount to be recovered from the CRA:

Step 1: Determine percent migration based on number of therms

Percent migration based on number of Therms = Migrated Therms / Total Therms

where:

Migrated Therms = actual therms associated with SC1 and SC2 transportation customers for the twelve months ending October 31

Total Therms = actual therms associated with all SC1 and SC2 sales and transportation customers for the twelve months ending October 31

Note: Year 2000 to be calculated from the Implementation Date to October 31 rather than the twelve months ending October 31

(i.e., if 145 million therms migrate of a total 725 million therms then the percent migration based on the number of therms is 20%)

Step 2: Determine dollar per therm unavoided

Dollar per therm unavoided = Using the "Estimated Avoided Merchant Function Backout Costs" Chart determine the dollar per therm unavoided associated with percent migration based on number of therms (Step 1)

(i.e., if percent migrated based on number of therms (Step 1) equals 20%, then $0.01418 of the $0.02222/therm backout rate is unavoided, or 64% is unavoided.)

Step 3: Determine dollars to be recovered from the Contingency Reserve Account

Dollars Recovered From the CRA = Migrated Therms times Dollar per Therm Unavoided (Step 2)

(i.e., 145 million migrated therms times $0.01418/therm, or $2.1 million will be recovered from the CRA.)

Estimated Avoided Merchant Function Backout Costs

Embedded Cost	$	14,852,929
Therms		668,518,856
Backout per Therm		0.02222

			To be recovered from the CRA:	
Migration Level	$/Therm Avoided	% Avoided	$/Therm Unavoided	% Unavoided
1%	0.00395	18%	0.01827	82%
2%	0.00395	18%	0.01827	82%
3%	0.00395	18%	0.01827	82%
4%	0.00395	18%	0.01827	82%
5%	0.00395	18%	0.01827	82%
6%	0.00423	19%	0.01799	81%
7%	0.00464	21%	0.01758	79%
8%	0.00492	22%	0.01730	78%
9%	0.00519	23%	0.01703	77%
10%	0.00547	25%	0.01675	75%
11%	0.00593	27%	0.01629	73%
12%	0.00620	28%	0.01601	72%
13%	0.00648	29%	0.01574	71%
14%	0.00676	30%	0.01546	70%
15%	0.00717	32%	0.01505	68%
16%	0.00745	34%	0.01477	66%
17%	0.00758	34%	0.01463	66%
18%	0.00772	35%	0.01450	65%
19%	0.00790	36%	0.01431	64%
20%	0.00804	36%	0.01418	64%
21%	0.00818	37%	0.01404	63%
22%	0.00832	37%	0.01390	63%
23%	0.00846	38%	0.01376	62%
24%	0.00864	39%	0.01358	61%
25%	0.00878	40%	0.01344	60%
26%	0.00891	40%	0.01330	60%
27%	0.00905	41%	0.01316	59%
28%	0.00919	41%	0.01303	59%
29%	0.00937	42%	0.01284	58%
30%	0.00951	43%	0.01271	57%
31%	0.00965	43%	0.01257	57%
32%	0.00979	44%	0.01243	56%
33%	0.00993	45%	0.01229	55%
34%	0.01011	45%	0.01211	55%
35%	0.01025	46%	0.01197	54%
36%	0.01038	47%	0.01183	53%
37%	0.01061	48%	0.01161	52%
38%	0.01079	49%	0.01142	51%
39%	0.01102	50%	0.01120	50%
40%	0.01125	51%	0.01097	49%
41%	0.01129	51%	0.01092	49%
42%	0.01152	52%	0.01070	48%
43%	0.01175	53%	0.01047	47%
44%	0.01193	54%	0.01029	46%
45%	0.01216	55%	0.01006	45%
46%	0.01234	56%	0.00988	44%
47%	0.01257	57%	0.00965	43%
48%	0.01280	58%	0.00942	42%
49%	0.01284	58%	0.00938	42%
50%	0.01307	59%	0.00915	41%

Estimated Avoided Merchant Function Backout Costs

Embedded Cost	$	14,852,929
Therms		668,518,856
Backout per Therm		0.02222

Migration Level	$/Therm Avoided	% Avoided	To be recovered from the CRA: $/Therm Unavoided	% Unavoided
51%	0.01329	60%	0.00892	40%
52%	0.01348	61%	0.00874	39%
53%	0.01370	62%	0.00851	38%
54%	0.01389	63%	0.00833	37%
55%	0.01407	63%	0.00815	37%
56%	0.01425	64%	0.00796	36%
57%	0.01430	64%	0.00792	36%
58%	0.01448	65%	0.00774	35%
59%	0.01466	66%	0.00755	34%
60%	0.01485	67%	0.00737	33%
61%	0.01503	68%	0.00719	32%
62%	0.01521	68%	0.00701	32%
63%	0.01539	69%	0.00682	31%
64%	0.01544	69%	0.00678	31%
65%	0.01562	70%	0.00660	30%
66%	0.01580	71%	0.00641	29%
67%	0.01599	72%	0.00623	28%
68%	0.01617	73%	0.00605	27%
69%	0.01635	74%	0.00587	26%
70%	0.01640	74%	0.00582	26%
71%	0.01658	75%	0.00564	25%
72%	0.01676	75%	0.00546	25%
73%	0.01694	76%	0.00527	24%
74%	0.01713	77%	0.00509	23%
75%	0.01731	78%	0.00491	22%
76%	0.01749	79%	0.00473	21%
77%	0.01754	79%	0.00468	21%
78%	0.01772	80%	0.00450	20%
79%	0.01790	81%	0.00432	19%
80%	0.01808	81%	0.00413	19%
81%	0.01823	82%	0.00399	18%
82%	0.01837	83%	0.00385	17%
83%	0.01847	83%	0.00374	17%
84%	0.01848	83%	0.00374	17%
85%	0.01862	84%	0.00359	16%
86%	0.01877	84%	0.00345	16%
87%	0.01891	85%	0.00331	15%
88%	0.01905	86%	0.00316	14%
89%	0.01920	86%	0.00302	14%
90%	0.01920	86%	0.00302	14%
91%	0.01934	87%	0.00287	13%
92%	0.01949	88%	0.00273	12%
93%	0.01963	88%	0.00259	12%
94%	0.01977	89%	0.00244	11%
95%	0.01992	90%	0.00230	10%
96%	0.02006	90%	0.00216	10%
97%	0.02007	90%	0.00215	10%
98%	0.02025	91%	0.00197	9%
99%	0.02039	92%	0.00183	8%
100%	0.02053	92%	0.00168	8%

APPENDIX G

Strategy for Promoting Low Income Consumer Participation in Gas Aggregation

I. Assumptions

A. To the maximum degree possible, aggregation opportunities for low income consumers should be included with other consumers to ensure that the size of the aggregated pool will attract the attention of marketers and result in greater savings. Therefore, initiatives fostering low income consumer participation in aggregation should be coordinated with all outreach and education activities.

B. While low income consumers will benefit from Niagara Mohawk's marketing strategies aimed at residential customers in general, they will have specific issues and concerns that may be more credibly addressed by those community networks which serve the needs of low income consumers.

C. The design and implementation of strategies designed to promote low income consumer participation in aggregation should be: i) collaborative involving the active participation of community networks charged with addressing low income energy affordability; ii) replicable on an on-going and broad based basis; and iii) consistent with Niagara Mohawk's development of retail access.

D. Whenever possible aggregation should be part of a larger package of energy related services designed to make energy more affordable for low income consumers.

E. Since low income consumers whose energy burden results in their being "payment troubled" might be disqualified from participation in aggregation opportunities available to the general consumer, specific initiatives may be required to facilitate their access to aggregation.

F. While this strategy is being designed specifically with regard to aggregation opportunities for gas customers, the recommendations can also be employed to foster low income participation in electric aggregation.

II. Objective

To provide a series of initiatives that will facilitate the access of low income consumers to gas aggregation opportunities.

III. Strategic Initiatives

A. Utilizing the existing low income network database Niagara Mohawk has developed for its annual HEAP outreach campaign, mailings would be sent to those community agencies and organizations that serve the low income population (e.g. county Departments of Social Services, Community Action Agencies, neighborhood organizations, etc.) providing information on the potential benefits of aggregation. These mailings would offer these networks the assistance of Niagara Mohawk in the design and implementation of aggregation opportunities.

B. The following services will be provided to those networks and/or agencies interested in pursuing aggregation opportunities for their clients:

- "Train the Trainer" sessions for agency personnel designed to promote customer choice among low income consumers.
- Outreach materials on customer choice developed by Niagara Mohawk for residential customers in general together with information pieces designed to address specific concerns of low income consumers.
- Access to Niagara Mohawk resource personnel who can assist these networks in the design and implementation of an aggregation model.
- Facilitate access to usage data required in developing contracts.
- "Train the Trainer" sessions and appropriate materials for those agencies interested in providing energy use management education to interested clients participating in aggregation.

C. As a follow-up to the outreach efforts noted in Section III, A above, Niagara Mohawk, in collaboration with PSC Staff, will conduct information sessions with low income networks/agencies to further explain:

- the benefits of aggregation;
- designing aggregation pools;
- the development of the bidding process;
- potential impacts on current operations;
- promoting aggregation among client base; and
- packaging other services to address low income energy affordability.

D. Regarding low income payment troubled consumers, Niagara Mohawk will:

- Pursue initiatives already underway with the Departments of Social Services of Oneida and Onondaga counties to implement aggregation opportunities consistent with I,c above for vouchered public assistance customers.

- Niagara Mohawk will approach and collaborate with other counties in its service territory interested in pursuing this opportunity for their public assistance customers.

- Provide information on and facilitate access to aggregation opportunities to those current participants in the LICAP program whose negotiated payment arrangement would enable them to pay full supply costs.

E. Niagara Mohawk will assist with the implementation of the aggregation opportunities being offered by the REACH Pilot Project being conducted in Rensselaer, Saratoga, Oneida, Onondaga and Jefferson Counties. This assistance will include:

- "Train the Trainer" sessions and materials for promoting customer choice among clients of these community action agencies.

- "Train the Trainer" sessions and materials for extending energy use management education to those participating in aggregation.

- Referral of those REACH participants to the Company's LICAP Program who meet the LICAP eligibility criteria.

IV. Success Indicators

Indicators that Niagara Mohawk has successfully implemented the proposed strategy will include:

A. Annual reports detailing:

- Outreach activities to low income networks promoting aggregation;
- Niagara Mohawk support of low income networks pursuing aggregation;
- Results of outreach and support initiatives including ultimate impact on aggregation;
- Niagara Mohawk/County DSS collaboratives;
- Niagara Mohawk support of REACH Pilot Project activities; and

- Implementation of Collaborative Seminars promoting aggregation opportunities for low income consumers.

B. Awareness Levels:

- An awareness survey of low income agency networks will be conducted to determine a baseline. Specifics regarding target goals, measurement instruments and scheduling will be developed in consultation with the Signatory Parties. Measurements will be taken periodically and the results reported to the Signatory Parties.

APPENDIX H

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Case 99-G-0336 - Petition of Niagara Mohawk Power Corporation for Approval of a Gas Multi-Year Rate and Restructuring Proposal.

SUPPLEMENTAL ENVIRONMENTAL ASSESSMENT FORM

Prepared By:

NIAGARA MOHAWK POWER CORPORATION,

STAFF of the DEPARTMENT OF PUBLIC SERVICE,

and the other SIGNATORY PARTIES to the *Gas Rate and Restructuring Settlement Agreement*

Dated: Albany, New York
June 2, 2000

I. Introduction

This document provides the substantive information solicited by Appendix A of 6 NYCRR 617.21, part of the regulations promulgated by the New York State Department of Environmental Conservation pursuant to the State Environmental Quality Review Act ("SEQRA"), Article 8 of the New York Environmental Conservation Law. An environmental assessment is an evaluation of the known or potential environmental consequences of a proposed action. Such an assessment also determines whether additional relevant information about such impacts is needed. Environmental assessments help involved and interested agencies identify their concerns about the action and provide guidance to the lead agency in making its determination of significance.

An Environmental Assessment Form ("EAF") provides an organized approach to identifying the information needed by the lead agency to make its determination of significance. A properly completed EAF describes a proposed action, its location, its purpose and its potential impacts on the environment. The EAF is the first step in the environmental impact review process and leads to either a positive declaration (requiring further analysis of the environmental impacts) or a negative declaration (requiring no further action) of potentially significant adverse environmental impact(s).

II. Environmental Assessment Form Information (Part I of EAF)

A. Applicant / Sponsor:

Niagara Mohawk Power Corporation ("NMPC" or "Company")
300 Erie Boulevard West
Syracuse, New York 13202

B. Name of Action:

PSC Approval of the terms of the Gas Rate and Restructuring Settlement Agreement in Case 99-G-0336

C. Location of Action:

NMPC Gas Service Territory

D. Description of Action:

The Company and other Signatory Parties are petitioning under the Public Service Law of the State of New York for approval of the terms of their Gas Rate and Restructuring Settlement Agreement. On November 3, 1998, the Commission issued its Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment in Cases 93-

G-0932 and 97-G-1380 (Gas Policy Statement). In the Gas Policy Statement, the Commission articulated its vision of the future of the natural gas industry, which is to "facilitate development of a competitive market; eliminate barriers to competition; provide guidance to LDCs and marketers, especially with regard to expiring capacity contracts; and address customer inertia." Gas Policy Statement at 3-4.

In the Gas Policy Statement, the Commission also set forth the following goals toward reaching its vision:

1) effective competition in the gas supply market for retail customers;

2) downward pressure on customer gas prices;

3) increased customer choice of gas supplies and service options;

4) a provider of last resort;

5) continuation of reliable service and maintenance of operations procedures that treat all participants fairly;

6) sufficient and accurate information for customers to use in making informed decisions;

7) the availability of information that permits adequate oversight of the market to ensure its fair operation; and

8) coordination of federal and state policies affecting gas supply and distribution in New York State.

The Commission also established three basic elements of the process to fulfill the goals and reach the vision established in the Gas Policy Statement. The first of those elements consists of discussions with each LDC on an individualized plan that would effectuate the Commission's vision. In preparation for those discussions, the Commission ordered LDCs to distribute to interested parties a proposal addressing the following issues:

1. A strategy to hold new capacity contracts to a minimum;

2. A quantification of potential stranded costs and a plan to mitigate and manage them;

3. A long term rate plan;

4. A plan to further unbundle rates;

5. A plan to enhance consumer education programs and facilitate customer participation in the commodity market; and

6. The possibility of a more aggressive role for LDCs in facilitating the move to a competitive market.

In addition to the distribution and negotiation of the LDCs individualized plans, the Commission also ordered the LDCs to file tariff leaves by February 1, 1999 that would eliminate mandatory capacity assignment, and the Commission ordered Staff to begin collaborative proceedings addressing system operation and reliability issues, as well as the elimination of mandatory capacity assignment. The Commission also required Staff to establish a proceeding to address market power issues.

The Commission further stated that "we have conducted an analysis under the State Environmental Quality Review Act ["SEQRA"] and have determined that there will be no significant environmental impact from adoption of this Policy Statement and, therefore, we have issued a Notice of Determination of Non-Significance." Notice of Determination of Non-Significance at P. 9. Notwithstanding this conclusion, the Commission required that each LDC shall submit draft environmental assessment forms with their individual proposals.

On March 12, 1999, the Company submitted its individualized plan as contemplated by the Gas Policy Statement. Thereafter, the Signatory Parties entered into a Gas Rate and Restructuring Settlement Agreement (the "Settlement") modifying NMPC's plan (the Settlement also incorporates certain rate changes due to recent tax legislation not further discussed herein, such legislation being exempt from SEQRA). Some of the key elements of the Settlement include:

1. A gas revenue requirement freeze at levels in effect as of October 31, 1999 for the full three years and ten months of the Agreement, with provisions for a continued revenue requirement freeze and a continuation of the Agreement's other provisions after August 31, 2003, in certain instances.

2. Revenue allocation, rate design and unbundling revisions to its rates for gas service effectuated on a revenue-neutral basis so that the Company's overall revenues are neither increased nor decreased beyond October 31, 1999 levels.

3. Balancing options, back-out rates, billing options, an Ombudsman for marketers, a county aggregation grant program, an outreach and education plan regarding gas competition, including a geographically concentrated outreach and education component, and other provisions to improve retail access to a competitive gas market.

4. Explicit financial incentives to Niagara Mohawk related to customer service quality, gas safety and reliability, mitigation of capacity costs, capacity release, sales for resale, and portfolio management, customer migration, and customer awareness and understanding of gas competitive opportunities.

5. Programs to accelerate the evaluation and (where economically appropriate) reinforcement of the cathodic protection of wrapped steel distribution main, and to assess the accuracy of therm billing factors.

The Settlement, as described above, involves changes in rate design, practices and economic arrangements affecting natural gas. Nothing inherent in the Settlement calls for physical construction activities which would directly affect the environment, except for the Cathodic Protection Program described below which is in the nature of a maintenance program which is a Type II Action under SEQRA not subject to review.

As a result, approval of the terms of the Settlement is an "unlisted" action as defined in 6 NYCRR Section 617. While the regulations call for the use of a short form EAF in such instances, since this "action" does not involve physical construction, the Signatory Parties chose to utilize a narrative EAF as opposed to the form EAF.

III. <u>Evaluation of Environmental Impacts (Part 2 of EAF)</u>

The specific environmental impacts that might result from the Settlement are highly uncertain and difficult to predict. In no case would any aspect of the Settlement cause direct environmental effects, since the Settlement does not involve physical activities that might have impacts on the environment. Instead, the Settlement may contribute to the creation of circumstances that subsequently induce activities, which in turn may cause environmental effects. Nevertheless, the range of these potential effects has already been captured in the environmental review of the Gas Policy Statement.

In preparing this environmental assessment, the Signatory Parties have set out an evaluation of a range of conceivable secondary consequences of the Settlement. The Signatory Parties have done so in order to assist the PSC in its evaluation of this issue.. The Signatory Parties have relied on qualitative judgments as to the potential changes resulting from the proposed actions and the magnitude and importance of the corresponding potential environmental impacts.

A. Impact to Air

The Signatory Parties were unable to identify any direct effects on air emissions resulting from the Settlement. However, since the Settlement could lead to an increased demand for natural gas consumption, the air quality impacts of same need to be examined. It is well known that the combustion of natural gas results in emissions of carbon dioxide, carbon monoxide and nitrogen oxides. Even so, burning natural gas results in significantly fewer emissions of these contaminants than burning other fuels such as oil or coal. Furthermore, coal is a significant source of sulfur dioxide emissions, while the use of natural gas does not produce this compound. In fact, the burning of fuel oil also produces sulfur dioxide as well as carbon dioxide and nitrogen oxides in greater quantities than are produced by natural gas. Of the three major fuel choices (coal, oil and gas), gas is clearly the cleanest combustion fuel from an environmental perspective.

In the Notice of Determination of Non-Significance for the Gas Policy Statement, the Commission summarized its conclusion concerning the environmental consequences of implementation of its "vision" described in the Policy Statement, including in particular the separation of the utilities' distribution function from the competitive market function. "This policy, if effectuated, should result in a decline in the cost of gas for smaller customers, which will in turn, somewhat increase demand." Notice of Determination of Non-Significance at P. 1. "Since most of the increased demand is likely to result from customers switching to gas from dirtier fuels, the net air quality impact of the increased sales will be neutral and possibly positive." Notice of Determination of Non-Significance at P. 1.

As a result, the implementation of the Settlement could further the demand for natural gas which in turn should further reductions in the emissions of sulfur dioxide, nitrogen oxides, particulates, and carbon dioxide. Thus, since clearly environmental benefits may result from an air emissions perspective, no further environmental review is necessary.

B. Impact to Water

The Signatory Parties were unable to identify any direct effects on water quality resulting from the Settlement. As discussed in the Impact to Air section above, the Settlement could result, in concert with other companies' plans, in an increased demand for natural gas. This increased demand in turn could result in the construction of new gas transmission and distribution facilities to serve the increased demand. With such new construction, there could be the need to conduct work in environmentally sensitive areas such as wetlands or streams. While this work could potentially impact the environment, it would be subject to all current federal and state environmental regulatory requirements as well as a SEQRA review prior to construction. As the Commission found, "since the individual distribution projects are subject to SEQRA review at the time of Commission action, these speculative impacts need not be considered at this time." Notice of Determination of Non-Significance at P. 1.

C. Impact to Land

The Signatory Parties were unable to identify any direct effects on land use resulting from the Settlement. With respect to environmental remediation liabilities, the Company is currently, under its Site Investigation and Remediation (SIR) Program, moving forward to remediate utility sites burdened with hazardous wastes and other contamination, as part of the Company's Policy on the Environment. Under the Settlement, the Signatory Parties propose to continue to true up and defer the difference between actual and targeted SIR costs. As a result, there will be no impact on the Company's financial capacity to continue to carry out its environmental responsibilities.

D. Impact on Plants and Animals

The Signatory Parties were unable to identify any direct effects on plants and animals resulting from the Settlement. However, as indicated above, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

E. Impact on Agricultural Land Resources

The Signatory Parties were unable to identify any direct effects on agricultural land resources resulting from the Settlement. However, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

F. Impact on Aesthetic Resources

The Signatory Parties were unable to identify any direct effects on aesthetic resources resulting from the Settlement. However, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

G. Impact on Historic and Archeological Resources

The Signatory Parties were unable to identify any direct effects on historic and archeological resources resulting from the Settlement. However, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

H. Impact on Open Space and Recreation

The Signatory Parties were unable to identify any direct effects on open space and recreation resulting from the Settlement. However, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

I. Impact on Transportation

The Signatory Parties were unable to identify any direct effects on transportation resulting from the Settlement. However, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

J. Impact on Energy

The Commission clearly contemplated the possibility that increased competition and changes in rate design could promote increased energy usage. The Settlement includes some revenue allocation and rate design changes, but they would be implemented in an overall revenue-neutral manner. Customers of SC5 Firm and Interruptible Transportation Service will get small increases in their rates. Customers of SC8 Transportation Service will generally get small decreases in their rates. Former NM Suburban customers of SC1 Residential Service, SC2 Small General Service, SC12 Aggregation Transportation Service and SC13 Aggregation Transportation Service will get increases ranging from 2-4% per year for four years. Former NM Suburban customers of SC5 Firm Transportation Service, SC7 Small Volume Transportation and SC8 Transportation and Standby Services will get small increases in their rates.

The overall effect of the revenue allocation and rate design changes is that they will result in no net increase or decrease in overall gas revenues. It is expected that any increase in gas usage encouraged by the decrease in rates for some classes will be offset by a decrease in gas usage by the classes getting rate increases. The Signatory Parties believe that these modest and offsetting changes will not have a significant adverse effect on the environment. Therefore, no further SEQRA review is required at this time.

K. Noise and Odor Impact

The Signatory Parties were unable to identify any direct effects on noise or odor resulting from the Settlement. However, new construction or expansion of transmission or distribution facilities could have potential environmental impacts. These impacts, however, would be mitigated by regulatory requirements and a SEQRA review at the time as denoted by the Commission in their Determination of Non-Significance.

L. Impact on Public Health

The Signatory Parties were unable to identify any direct effects on public health resulting from the Settlement since under the Settlement Niagara Mohawk would continue to be responsible to maintain its facilities for the transmission and distribution of natural gas and for the delivery of gas to end use customers. Furthermore, as part of the Settlement, Niagara Mohawk may implement a Cathodic Protection Program which would provide a further element of reliability and safety for the system. Wrapped steel gas distribution main installed prior to 1971 included a level of cathodic protection (CP) intended to protect the facilities from corrosion (which leads to gas leaks). As some of these facilities approach 50 years of service, the opportunity to extend the life of these pipelines further exists. Each section would be field evaluated to determine the current pipe condition followed by an economic analysis to determine if remediation is warranted. Overall, this program can only help to improve the safety of the system and minimize impacts to the environment from gas leaks. Finally, since incremental demand for natural gas will result in a net reduction in air emissions, obviously there will be a resulting public health benefit from the Settlement.

M. Impact on Growth and Character of Community or Neighborhood

The effect of the Settlement will be to help reduce gas commodity prices, which in turn will improve the economic well-being of communities in which gas is provided. Gas commodity price reductions will help improve local business growth and contribute to the retention and growth of employment. It may also serve as another means to attract economic growth to New York State.

In order to educate consumers regarding their choices of gas commodity supplies, as described in the Settlement, the Company will implement an Outreach and Education plan to educate consumers such that they can make informed decisions when taking advantage of the competitive marketplace.

IV. Significance of Environmental Impacts

After a review of the changes called for under the Settlement, the Signatory Parties conclude that no further environmental review is necessary with respect to the Settlement. No significant environmental impact was identified which would result from the subject Settlement.

APPENDIX B

Niagara Mohawk Power Corporation
Case 99-G-0336 Bill Impact Summary

Description	Service Class Number	No. of Customers	Formerly Served by NMSuburban Gas Impact @ Implementation Date	Formerly Served by NMSuburban Gas Impact -8/1/2001	Formerly Served by NMSuburban Gas Impact 8/1/2003	Formerly Served by NMSuburban Gas Impact 8/1/2003
Residential	1	2,290	4.7%	4.3%	4.1%	4.0%
Small General Service	2	795	1.9%	1.7%	1.7%	1.6%
Large General Service	3	2	0.0%	0.0%	0.0%	0.0%
Interruptible Large Volume	4	-	0.0%	0.0%	0.0%	0.0%
Transportation						
Interruptible	5I	4	0.0%	0.0%	0.0%	0.0%
Firm	5F	2	2.1%	2.0%	2.0%	1.9%
Firm Small	7	21	2.2%	0.0%	0.0%	0.0%
Large Firm with Standby Sales Service	8	2	3.0%	0.0%	0.0%	0.0%
NYSEG						
Special Contracts	9	-	0.0%	0.0%	0.0%	0.0%
Natural Gas Vehicles	10	-	0.0%	0.0%	0.0%	0.0%
Residential Transportation	12	113	-9.2%	4.1%	3.9%	3.8%
Small General Service Transportation	13	266	-7.7%	2.0%	2.0%	2.0%
Transportation Service for Dual Fuel Electric Generators	14	-	0.0%	0.0%	0.0%	0.0%

APPENDIX C

Niagara Mohawk Power Corporation
Case 99-G-0336 Bill Impact Summary

Description	Service Class Number	No. of Customers	NMGas Customers Percentage Impact @ Implementation Date
Residential	1	482,235	0.0%
Small General Service	2	32,118	0.0%
Large General Service	3	24	0.0%
Interruptible Large Volume	4	3	0.0%
Transportation			
Interruptible	5I	19	0.2%
Firm	5F	191	2.0%
Firm Small	7	678	0.0%
Large Firm with Standby Sales Service	8	59	-5.2%
NYSEG			
Special Contracts	9	19	0.0%
Natural Gas Vehicles	10	9	0.0%
Residential Transportation	12	12,370	-9.9%
Small General Service Transportation	13	9,801	-9.0%
Transportation Service for Dual Fuel Electric Generators	14	2	0.0%