STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service Commission held in the City of Albany on November 20, 2002

COMMISSIONERS PRESENT:

Maureen O. Helmer, Chairman
Thomas J. Dunleavy
James D. Bennett
Leonard A. Weiss
Neal N. Galvin

CASE 01-G-1668 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service.

CASE 01-G-1683 - Petition of New York State Electric & Gas Corporation Pursuant to Section 312.4 of the Uniform System of Accounts to Defer Expenditures Associated with Residential Gas Costs.

ORDER ESTABLISHING RATES

(Issued and Effective November 20, 2002)

BY THE COMMISSION:

This order adopts terms set forth in a Joint Proposal submitted by New York State Electric & Gas Corporation (NYSEG, the company), staff of the Department of Public Service (Staff), Consumer Protection Board (CPB), Multiple Intervenors (MI, on behalf of industrial and large commercial customers), Small Customer Marketer Coalition (SCMC, on behalf of independent marketers), and the following marketers: AllEnergy Gas & Electric Marketing Company, LLC (AllEnergy); Amerada Hess Corporation (Hess); Empire Natural Gas Corporation (Empire); Energetix, Inc. (Energetix); Leveraged Energy Purchasing Corporation; National Fuel Resources, Inc.; North American Energy, Inc.; SDR Resources, LLC; Select Energy New York, Inc.; Stand Energy Corporation; and TXU Energy Retail Company, LP. We thereby establish a rate and regulatory plan, effective October 1, 2002 at least through December 2008, for natural gas service provided by NYSEG.

BACKGROUND

Substance of the Joint Proposal

NYSEG serves about 250,000 gas customers, in non-contiguous service districts (Rate Areas) in 31 counties throughout New York. For reasons related to regional variations in bill impacts and in NYSEG's costs, residential customers in some districts received rate reductions in October 1998, when we initiated the company's most recent gas rate plan (the 1998 plan). The rest have enjoyed a rate freeze since December 1995.[1] Meanwhile, NYSEG's non-residential gas customers have been paying market-based charges for the gas commodity itself, as distinguished from NYSEG's service of delivering the gas through the company's distribution facilities. In contrast to delivery rates, which are within our regulatory jurisdiction, the commodity price is determined by market conditions and (to a lesser extent) by transportation costs subject to federal regulation. The 1998 plan, designed to continue at least through September 2002, has remained in place pending the outcome of these proceedings.

Under the rate plan offered in the Joint Proposal and implemented here, commodity-based charges will be "unbundled" from delivery charges for NYSEG's residential gas customers, putting them on the same footing as NYSEG's other gas customers and the gas customers of all New York's other major investor-owned utilities. By establishing a Gas Supply Charge (GSC) and thus requiring that all customers pay the cost of the gas they use, we seek to reduce unfair and inefficient subsidies among customers. Unbundled rates also will improve residential customers' opportunities to buy gas from independent marketers, who lack effective access to residential markets in NYSEG's service territory when NYSEG sells gas below cost as part of bundled service under the current rate plan.

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[1] Case 98-G-0845, Opinion No. 98-17 (issued September 29, 1998).

We initiated these proceedings to consider two issues affecting NYSEG's gas rates. First, the company had applied for permission to charge new delivery rates calculated to increase its allowed annual revenues from delivery service by $22.8 million (Case 01-G-1668). Second, NYSEG sought to recover losses resulting from below-cost commodity sales to its customers, which the company has estimated as $36.9 million for the year ending September 30, 2002, the final scheduled year of the 1998 plan (Case 01-G-1683).

Our adoption of the Joint Proposal's terms means that we effectively reject the $22.8 million revenue increase request, and extend the present delivery revenue allowance at least through December 2008; allow NYSEG to recover $10.5 million of its asserted loss from below-cost residential sales; and conditionally allow the company to recover an additional $3.5 million of that loss, by using the $3.5 million to offset possible excess earnings and other items which the company otherwise would be required to share with customers.

The proposed rate plan would take effect October 1, 2002, upon the scheduled expiration of the 1998 plan's residential rate freeze. As noted, NYSEG's overall delivery revenue allowance would be frozen at its current level through December 2008. However, some specific delivery charges could increase or decrease during that period because of rate design changes that might be proposed to the Commission in April 2004 for implementation in July 2004. In addition, to reduce seasonal fluctuations in residential space heating bills while holding overall delivery revenues constant, a Weather Normalization Adjustment (WNA) would increase the delivery charge per cubic foot during abnormally warm weather and decrease it during abnormally cold weather.

As part of the company's Affordable Energy Program (AEP) for low-income customers, the customer charge would continue at $6.40 per month, representing an annual saving of about $79 for a typical gas heating customer. The current annual AEP expenditure level of $1.25 million would increase to $1.75 million effective January 1, 2003, allowing for AEP participation by all gas customers projected to be eligible for the Home Energy Assistance Program (HEAP). In addition, a wholesale gas purchase aggregation program would be developed to assist up to 1,000 HEAP customers.

The delivery revenue allowance is calculated to provide NYSEG a reasonable opportunity to earn 10.5% on common equity for the 15 months October 2002 through December 2003. Earnings exceeding 11.5% on common equity, or 12.5% after December 2004, would be shared equally between shareholders and customers, to the extent any excess remains available after NYSEG has recovered the $3.5 million loss component described above.

Of the synergistic cost savings projected to result from the recent merger of NYSEG's parent (Energy East Corporation) with RGS Energy Group, Inc., customers would receive about $16.2 million, comprising a share of delivery related savings throughout the period of the plan plus 100% of supply related savings starting in July 2007.

Under the Joint Proposal's terms adopted here, NYSEG would face penalties for failure to meet tightened standards of customer satisfaction, safety, and reliability.

To encourage attraction, retention, and expansion of NYSEG's commercial customer base, the company would augment its current economic development programs with additional initiatives pursuant to a new Economic Development Plan.

A major consideration in favor of the proposed terms is that their adoption will help bring the public the benefits of competition, as contemplated in our 1998 Gas Policy Statement.[2] Under the 1998 rate plan, only about 0.2% of NYSEG's residential gas customers have chosen an alternate commodity supplier. As discussed above, rate unbundling means that independent marketers no longer will have to compete against NYSEG service offerings that include below-market gas commodity prices pursuant to the present bundled rate structure. And, from the customer's standpoint, bills that state the gas supply charges separately

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2 Cases 93-G-0932 and 97-G-12380, Policy Statement Concerning the Future of the Natural Gas Industry (issued November 3, 1998).

from delivery charges will provide information essential for shopping knowledgeably among competing gas suppliers.

Additional pro-competitive provisions in the Joint Proposal include a $0.164 per decatherm (dt) interim charge to be included in the residential customer's bill for gas bought from NYSEG, as a proxy for costs incurred by a supplier (whether NYSEG or an independent marketer) in performing gas merchant functions. Until merchant costs can be quantified more systematically in future proceedings, the $0.164/dt merchant function proxy will level the playing field between NYSEG and its competitors, and promote fairness among customers, by ensuring that NYSEG will not use delivery charges to recover costs that a competing supplier must recover directly from its own customers through commodity charges. For similar reasons, the Joint Proposal's terms include abolition of NYSEG's Service Classification No. 12, which has confronted competitors with NYSEG rates alleged to recover less than the full cost of that service.

Finally, the Joint Proposal provides the basis for orderly progress toward resolving additional matters in a "Phase 2" proceeding, which would examine rate design changes, marketer concerns, additional or enhanced low-income programs, and other issues.

The Joint Proposal is a modified version of an earlier joint proposal filed by many of the same parties on May 14, 2002 (the May proposal). In a discussion at our June 19 session, Commission members expressed approval of the May proposal generally, but commented that residential customers might incur unacceptable bill impacts in any abrupt transition from the 1998 plan's below-market commodity charges to the May proposal's market-based GSC. The May proposal could have caused the following increases in residential gas heating customers' annual bills, for delivery and commodity charges combined, in NYSEG's seven Rate Areas in the first year of the new rate plan:

Binghamton 35.4%, Champlain 19.1%, Combined 14.8%, Elmira 16.1%, Goshen 35.7%, Lockport 25.4%, and Owego 31.8%.[3] These estimates assume a commodity cost of $3.96/dt, to reflect market prices prevailing in September when the Joint Proposal was filed; but the estimates are uncertain because gas costs undoubtedly will fluctuate over the course of the rate plan in response to supply, demand, and competition.

To address our stated concerns about such large potential increases, the parties' subsequent negotiations focused on revising the May proposal to mitigate potential bill impacts. As a result, a substantial difference between the May proposal and the present Joint Proposal is that the latter includes a Bill Mitigation Plan which (as discussed below) would phase in the GSC's commodity cost increases gradually and thereby overcome the most salient objection to the May proposal. In addition, the Joint Proposal has won the support of CPB--an opponent of the May proposal--because of several other revisions. Specifically, the Joint Proposal would not take effect until the end of the 1998 plan on October 1, 2002, instead of the May proposal's July 1, 2002 effective date; further changes in delivery rate design would be postponed to July 1, 2004, as compared with April 1, 2003 under the May proposal, so that the bill impact of such changes would not overlap the bill increases resulting from the GSC phase-in; and, as noted, programs for low-income customers would be expanded, instead of continuing at current levels as contemplated in the May proposal.[4]

Procedural History

These proceedings began with the filing of NYSEG's application for an increase in delivery revenues, and supporting testimony and exhibits, on October 22, 2001. We have suspended

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[3] NYSEG's Statement supporting the Joint Proposal, Appendix C, p. 1, Case III. The "Combined" Rate Area comprises the Auburn, Brewster, Cortland, Dansville, Geneva, Ithaca, Mechanicville, Oneonta, Norwich, and Plattsburgh areas.

[4] The foregoing summary is provided only for the reader's convenience. Binding legal significance attaches neither to the Joint Proposal itself nor to this summary *per se*, but only to our order.

the proposed rates through November 22, 2002.[5] Staff and intervenors reviewed the application, conducted discovery, and prepared to file testimony. Settlement discussions commenced on February 27, 2002, after notice of impending negotiations issued by NYSEG pursuant to 16 NYCRR 3.9(a). The scope of the negotiations expanded to include not only the Case 01-G-1668 rate application, but also issues that the Joint Proposal offers to resolve in Case 01-G-1683 and Case 00-M-1556.[6]

The negotiations culminated initially in the proposal filed May 14, 2002. Statements were filed May 20, 2002, by NYSEG, Staff, MI, AllEnergy, Hess, and Energetix, advocating adoption of the May proposal's terms; and by CPB and the Office of the Attorney General (OAG), advocating modifications. An evidentiary hearing was held May 20, 2002 to examine whether adoption of the proposed terms would produce just and reasonable rates.[7] Post-hearing reply statements were filed on or about May 28, 2002 by NYSEG, Staff, and CPB.

After the discussion at our June 19, 2002 session, where we took no action in the matter, it was determined to augment the record so we would have an additional basis for evaluating any subsequent joint proposal or determining NYSEG's rate year revenue requirement irrespective of such proposals. Parties therefore were given an opportunity to file direct Staff and intervenor testimony, and rebuttal testimony, on July 19 and August 2, 2002, respectively. The July and August filings consisted of testimony, or statements in lieu of testimony, from NYSEG, Staff, CPB, AllEnergy, and Empire. Based on NYSEG's initial filing and the parties' additional testimony, NYSEG and Staff each filed a "litigation brief" on October 9, 2002.

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5 Case 01-G-1668, orders issued November 28, 2001 and March 22, September 24, and October 31, 2002.

6 Case 01-M-1556, Proposed Accounting and Ratemaking for Tax Law Changes Included in the 2000-2001 New York State Budget.

7 The hearing was held in Albany before Commissioner Leonard A. Weiss and Administrative Law Judge Rafael A. Epstein.

Meanwhile, the Joint Proposal was filed September 13, 2002. Initial statements were submitted September 25, 2002, by NYSEG, Staff, CPB, MI, SCMC, AllEnergy, Empire, and Energetix, advocating adoption of the Joint Proposal's terms; and by OAG, expressing reservations. Reply statements were filed October 9 by NYSEG, Staff, and SCMC.[8]

Other Public Participation

Public statement hearings on the May proposal were held in Binghamton and Lockport, each preceded by an educational forum where Staff members were available for informal discussion of the proposal and other aspects of NYSEG's service.[9] Elsewhere in NYSEG's service territory, notices by mail, newspaper, and Internet encouraged customers to call or write us about these matters.

Eight members of the public spoke at the Binghamton hearings, and five at Lockport. In addition to those appearing as individual customers, speakers included the Mayor of Lockport and representatives of Eastern Niagara United Way, Project SHARE in Ithaca, the Buffalo Roman Catholic Diocese, and the Otsego County Chamber of Commerce. We received about 58 recorded telephone messages on the toll-free Opinion Line; and about 51 letters, including 37 by E-mail. The E-mail in particular provided unusually numerous and detailed statements of the public's views. The speakers, callers, and correspondents presented the following points.

Nine letters, eight of them apparently an organized mailing from large customers in Elmira and Ithaca, antedated the

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[8] The procedures and filing dates described here were discussed and adopted in Cases 01-G-1668 and 01-G-1683, prehearing conference June 26, 2002 (Tr. 193 et seq.); Procedural Ruling (issued July 15, 2002); prehearing conference September 11, 2002 before Administrative Law Judge William L. Bouteiller (Tr. 233 et seq.); and Notice of Joint Proposal and Request for Comments (issued September 13, 2002).

[9] Administrative Law Judge Walter T. Moynihan conducted afternoon and evening hearings in Binghamton on June 4, 2002, and an evening hearing in Lockport the next day. These locations were chosen on the basis of accessibility to customers, number of gas customers in the service district, and magnitude of the potential bill impact in each district.

May proposal; they expressed concern about impacts of NYSEG's original application for increased delivery rates. On the proposal itself, public comment was predominantly negative, except that competition and unbundling of commodity charges elicited a more diverse range of favorable and unfavorable opinions among those commenting.

The main concern by far was the potential bill impact of the unbundled gas commodity price under the proposed GSC. Customers expressed doubt about any attempt to predict bill impacts in the face of possible gas price volatility, and asserted that the bill increases estimated by the May proposal's supporters would impose unreasonable hardships on retirees and wage earners with low or moderate incomes. They said the hardships were compounded by assertedly excessive minimum charges and by estimates in lieu of meter reads. High gas bills, they observed, also have indirect negative effects such as reduced housing affordability, higher prices for goods and services, and unemployment due to lack of local economic growth. Some criticized the disparities among projected percentage increases for the company's various districts. Those favoring the plan cited its economic development provisions as an effective remedy for any adverse consequences of the bill increases.

Some residential customers opposed unbundled commodity charges because they prefer the stability of bills under the 1998 rate plan, as compared with the volatility and projected increases under the proposed GSC. They advocated price caps or other bill mitigation measures as protection against commodity price spikes, especially in view of evidence that market-determined energy prices may be susceptible to manipulation. On the other hand, commercial and institutional customers currently paying unbundled rates described the May proposal as an antidote to volatility insofar as it offered prolonged delivery rate stability, a WNA to mitigate the bill impacts of temperature extremes, and an earnings cap. Large customers said these features would add welcome predictability to their budgeting processes.

Another response to the proposed bill impacts was the suggestion that low-income programs be expanded beyond the scope contemplated in the May proposal. For commercial customers as well as community organizations, the May proposal's enhanced opportunities for aggregate purchasing from independent suppliers were deemed an important bill mitigation feature.

Supporters of unbundling cited it as a stimulus to competition, which in turn would encourage economic growth in NYSEG's service territory; and they favored its expansion to include residential service, as a means of promoting equity among customers. Among the May proposal's opponents, the idea that enhanced competition will impose marketplace discipline, thus moderating the commodity price of gas to the customer, evoked skepticism. One customer argued that bundled rates should be retained as an incentive for NYSEG to minimize its gas procurement costs. More frequent objections were that independent gas suppliers have not offered alternatives competitive with NYSEG's service; customers need some transitional protection to facilitate the advent of competition, instead of being exposed to market prices abruptly; and effective competition will be impeded by the presence of marketers affiliated with NYSEG or its parent.

Customers asserted that competition in other utility sectors has produced perplexing bills and choices, rather than consumer benefits. They questioned whether the May proposal included adequate provisions, and assigned NYSEG enough responsibility, for educating the public about shopping among alternative gas supplies. They perceived an incongruity in that NYSEG itself retains monopoly status, and allegedly does not emulate competitive firms by pursuing efficiency gains that should be flowed through to customers. A persistent theme was that unbundling exemplifies regulatory policies whereby executives and shareholders of energy companies, including NYSEG, allegedly reap unjust benefits at the public's expense.

Other elements of the May proposal that evoked criticism were the partial flow-through of NYSEG's losses from below-market commodity sales, and the three-month acceleration of the 1998 rate plan's termination date. Customers objected that these provisions were asymmetrical, in that customers have not shared in the proceeds of above-market sales; and were inconsistent with behavior in a competitive market, where parties contractually bind themselves to bear not only the benefits of a bargain but also the risks.

Finally, many of the comments expressed suspicion that NYSEG is "gaming" the regulatory system. For example, customers raised concerns about the implications, for customers as distinct from shareholders, of NYSEG's recent merger; and one customer suggested that NYSEG be compelled to keep its headquarters in Broome County regardless of corporate reorganizations. Customers complained that bills increase despite conservation, and cited the WNA as another example of that supposed unfairness. The May proposal was seen as NYSEG's attempt to negate any concessions it may have made in its recently concluded electric rate case, which in turn was said to have produced only an illusory rate reduction without corresponding bill reductions. Customers questioned whether all potential cost savings had been reflected in the proposed revenue allowance for delivery service.

In the conclusions that follow, we have taken into consideration the concerns identified in the public comments. We attach substantial weight to the fact that the Joint Proposal modifies those features of the May proposal which prompted the most concerted public criticism.

BILL MITIGATION ISSUES

The Mitigation Formula

The overall objective of the Joint Proposal's Bill Mitigation Plan, regardless of how it might be implemented, is to phase in the effects of the newly market-based GSC by charging residential customers a gradually increasing percentage of the difference between (1) the below-market commodity charges embedded in customers' current bills pursuant to the 1998 plan and (2) the full price paid by NYSEG (or other suppliers) in the commodity markets. Until customers' payments reach the full market price at the end of the phase-in, NYSEG's below-market sales would continue to cause a revenue shortfall, albeit a diminishing one. In general, the Plan would allow NYSEG to offset the shortfall initially by drawing down credit balances which the company currently holds on behalf of customers (deferred credits).[10] Upon exhausting those balances, the Company would start to recover the remaining shortfall by means of a surcharge on the delivery portion of the bill.

For historical reasons, NYSEG's Rate Areas differ in the extent to which their respective residents' commodity charges fall short of market rates. Therefore, an additional purpose of the Plan is to avoid disparate percentage bill increases among Rate Areas, by adopting a longer phase-in period for those Rate Areas where the excess of market price over billed amounts is relatively large.

As the first step toward these objectives, October 2002 and November 2002 bills would continue to be calculated in the same manner as under the 1998 plan. However, for the commodity used in those months, NYSEG would apply deferred credits as described above to recover the difference between the embedded, billed amounts and the market-based cost. Then, starting in December 2002, customers would start paying an increasing portion of that difference each month. Depending on commodity prices, we expect that the difference would be eliminated--i.e., customer payments would reach a level fully reflecting the market-based commodity cost--by May 2003 in the Elmira and Combined Rate Areas, and September 2003 in the other five Rate Areas. Finally, to the extent that deferred credits prove insufficient to recover the difference between commodity charges and costs for the phase-in period ending May or September 2003, NYSEG would defer the unrecovered amount and collect it as a surcharge on the delivery portion of the bill, starting the month after May or September 2003 and continuing for up to 12 months (or up to 24 months if

[10] These Deferred Credit balances are held in Account 254 (Unbilled Revenues) and Account 182.3 (New York State Tax Deferrals). These amounts are available for Bill Mitigation Plan purposes, as described in the accompanying text, to the extent that they are not applied first to other purposes specified in the Joint Proposal.

necessary to ensure that the surcharge does not exceed $0.40/dt). Thus, bills would not reach fully market-based levels until after the current heating season, five to nine months from now; and the Bill Mitigation Plan's ultimate costs to customers would be spread over a period of 17 to 33 months.

As the Joint Proposal's sponsors observe, one of our objectives in unbundling commodity and delivery charges for NYSEG and other utilities has been to facilitate competition, thus bringing customers the benefits of price moderation and expanded choices. In the short run, the May proposal would have frustrated those purposes by imposing excessive bill increases as the customer's price of admission to the competitive marketplace. In contrast, the Bill Mitigation Plan, combined with the Joint Proposal's other features, satisfies the requirement that rates be just and reasonable for customers and all other participants not only under competition but also during the initial transition to competition.

Alternative Proposed Billing Mechanisms

The Bill Mitigation Plan raises a new issue as to how the cost of gas should be reflected in customers' bills. In the Joint Proposal, the parties have agreed that we should choose between two proposed alternatives designated as Option A and Option B. We shall adopt Option A.

Under that Option, favored by SCMC and Empire,[11] the entire market-based commodity cost of gas would be flowed through the GSC starting next month, while bill mitigation would be accomplished entirely by means of a discount or credit to partly offset the distribution charges in the delivery portion of the bill. (The credit would be available regardless of whether the customer buys the gas commodity from NYSEG or from other suppliers.) Over time, full market-based commodity costs would be phased in by gradually decreasing the credit to zero. Under

[11] Only these two parties expressly advocate Option A in their statements on the Joint Proposal, but the other marketer parties are likely to prefer that option. NYSEG's statement supporting the Joint Proposal disavows any preference for one option or the other.

Option B, favored by Staff, mitigation would be accomplished by recovering less than the full commodity cost through the GSC as of December 2002, but then gradually increasing the GSC recovery until it reflects the actual commodity cost in full. Under either option, a surcharge would be applied to delivery charges when the bill reached the full market-based level at the end of the phase-in period in May or September 2003.

A customer's total bill at any given time, and the extent of NYSEG's eventual cost recovery, will be approximately the same under either option. However, each option will have different effects upon customers' perceptions of the cost of service and upon their judgments about the relative merits of competitive alternatives available to them. We prefer Option A because it provides a GSC that more accurately reflects the market-based commodity cost, thus sending customers a valid price signal and enabling them to make a sound comparison between NYSEG's offering and the full market price charged by competing suppliers.

As SCMC says, Option B, by understating the commodity cost, would require that competitors match an artificially suppressed target price. Option B therefore would tend to postpone the advent of competition until the GSC approached market levels, after the end of a heating season during which customers ought to enjoy the economic benefit of the competitive alternatives more likely to be available under Option A.[12]

According to Staff, Option A's shortcomings are that it would confuse customers with its complexity, and effectively make a temporary loan to transportation customers (i.e., those who use NYSEG's delivery service but purchase gas elsewhere) insofar as

[12] As a purported analogy, SCMC cites an instance where below-market electricity supply purchases were flowed through to customers as a reduction of delivery charges so as not to impede market entry by competing suppliers. (Case 00-E-1273, Central Hudson Gas & Electric Corp. - Electric Rates, Order Establishing Rates (issued October 25, 2001).) However, that case did not present the question here, namely whether the commodity portion of the bill should reflect an amount different from what the utility company actually pays for the commodity.

the Bill Mitigation Plan will credit and subsequently debit their delivery charges. However, Option B is no less complex; and, by encouraging customers to purchase the underpriced commodity until the GSC reached market levels, it would needlessly increase the revenue deficiency that must ultimately be recovered through delivery charges. Thus, Option B offers no net advantage that might justify the anticompetitive effects of its artificially depressed GSC levels.

OPPOSITION TO THE PROPOSED TERMS

In their May 20, 2002 statements opposing the May proposal, CPB and OAG both acknowledged that many of the terms presented there--which have been carried forward into the Joint Proposal--are beneficial to the public and worthy of implementation. Nevertheless, they claimed that the May proposal as a whole did not comport with the likely outcome of a litigated case, or reasonably balance the respective interests of customers and shareholders. As described above, significant differences between the May proposal and the present Joint Proposal have persuaded CPB that the latter does achieve fairness for customers.

OAG, for its part, had argued that the May proposal's terms would work an injustice upon customers by establishing a new rate plan before the end of the 1998 rate plan, thus allegedly denying customers the bargained-for benefit (worth $5.3 million, according to Staff's estimate) of three additional months of bundled rates based on below-market commodity costs. As OAG concedes, that criticism now is moot because the Joint Proposal's effective date coincides with the 1998 plan's intended termination date.

However, OAG continues to object, as in May, to the provision that NYSEG may amortize and recover at least $10.5 million, and potentially $14 million, of the losses it expects to have incurred as a result of its inability to flow through all gas commodity costs under the 1998 plan. We disagree with OAG's characterization of the proposal.

OAG views the amortization as an impermissible repudiation of the 1998 plan's freeze on bundled residential rates. The 1998 plan, OAG argues, was designed to achieve a balance of interests predicated on the assumption that NYSEG would bear the full measure of risks inherent in the rate freeze. Had it been known that the company might shift that risk to customers as is now proposed, OAG claims the 1998 plan would have included additional, countervailing concessions from the company. To allow recovery of the excess gas costs now, says OAG, would disregard detriments that customers may have incurred under the 1998 plan in return for the rate freeze. OAG argues that such a result not only would affect customers unjustly in this instance, but also would undermine the credibility of future rate decisions and thus weaken a utility's incentive to operate at the level of efficiency contemplated in a rate plan.

We agree with OAG that the overall balance of risks and benefits in a rate plan, once set, should not subsequently be altered in favor of one party such as the company. But that principle offers little guidance if, as here, modifications of the pre-existing plan are proposed as elements of a new plan in exchange for other new terms and conditions.[13] There is no basis for OAG's supposition that proposals for modification of a pre-existing rate plan, in contrast to other proposals regarding future rates or services, inherently lead to an inequitable balance of interests. The issue rather is whether the new plan adequately recognizes all prospective benefits to shareholders--such as the amortization opposed by OAG in this instance--and provides commensurate prospective benefits to the public. That assessment should not be affected by whether the benefit to shareholders happens to consist of relief from the allocation of risks in a pre-existing plan.

[13] Accordingly, we need not reach NYSEG's argument, in response to OAG, that earnings in the year ending September 2002 were sufficiently low to trigger modifications pursuant to express terms of the 1998 plan itself. We note however that NYSEG's claim appears to be supported by the company's uncontroverted exhibit, unavailable when OAG first objected to the amortization but subsequently submitted with NYSEG's September 25 statement supporting the Joint Proposal.

DISCUSSION

We find that the parties supporting the Joint Proposal have satisfied their burden of showing that adoption of the proposed terms would satisfy the Public Service Law's requirement of safe and adequate service at just and reasonable rates. The proposed terms also meet the criteria set forth in our Settlement Guidelines in that they have won the support of ordinarily adversarial parties and have been examined in an evidentiary hearing and litigation briefs.[14] Moreover, the proposals result from a process that began with a fully documented rate application, followed by rate case quality testimony from Staff and intervenors. Regarding the Guidelines' additional criterion that the negotiated outcome fall within the likely range of litigated outcomes, the record shows that the proposed revenue allowance is well below what the company might have justified through litigation alone.

In addition, the proposals comport with the Guidelines in that their adoption would reasonably balance the interests of protecting customers while supporting the utility's long-term viability, and would promote relevant public policies. These conclusions are justified by the public benefits inherent in adopting the various provisions summarized above.[15]

CONCLUSION

For the reasons stated, we find that our adoption of the proposed terms will serve the public interest and satisfy our obligation to ensure safe and adequate service at just and reasonable rates pursuant to Public Service Law §66. We therefore will direct NYSEG to file tariff revisions consistent

[14] Cases 90-M-0255 et al., Procedures for Settlements and Stipulation Agreements, Opinion No. 92-2 (issued March 24, 1992), Appendix B, p. 8.

[15] The statements in support of the Joint Proposal, and indeed the OAG statement seeking modifications, comprehensively summarize the Joint Proposal's benefits so as to illustrate in more detail why adoption of the proposed terms would serve the public interest.

with this finding. To comply with the orders issued in these proceedings September 24 and October 31, 2002, the filing should be designed to implement the tariff revisions as if they had taken effect October 1, 2002, notwithstanding the December 1, 2002 effective date specified in Order Clause 3 (below).

The Commission orders:

1. Subject to the foregoing discussion, the terms of the Joint Proposal filed in this proceeding September 13, 2002 are adopted in their entirety and are incorporated as part of this order.

2. New York State Electric & Gas Corporation (the company) is directed to cancel, effective no later than November 22, 2002, on not less than one day's notice, the tariff amendments and supplements listed in Appendix A.

3. The company is authorized to file on not less than one day's notice, to take effect as of December 1, 2002 on a temporary basis, such further tariff changes as are necessary to effectuate the Joint Proposal's terms as adopted in this order. The company shall serve copies of its filing upon all parties to this proceeding. Any comments on the compliance filing must be received at the Commission's offices within 30 days of service of the company's proposed amendments. The amendments specified in the compliance filing shall not become effective on a permanent basis until approved by the Commission and will be subject to refund if any showing is made that the revised rates are not in compliance with this order. The requirement of §66(12)(b) of the Public Service Law that newspaper publication be completed prior to the effective date of the proposed amendments is waived, provided that the company shall file with the Commission, no later than January 6, 2003, proof that a notice to the public of the changes proposed by the amendments and their effective date has been published once a week for four successive weeks in a newspaper having general circulation in the area affected by the amendments.

4. These proceedings are continued.

By the Commission,

(SIGNED) JANET HAND DEIXLER
Secretary

Filing by: NEW YORK STATE ELECTRIC & GAS CORPORATION

Amendments to Schedule P.S.C. No. 87 – Gas

First Revised Leaf No. 47
Second Revised Leaves Nos. 13.1, 15, 16, 34, 43, 46
Third Revised Leaves Nos. 3, 34.1, 45, 48
Fourth Revised Leaf No. 14
Fifth Revised Leaves Nos. 12, 13, 17, 35, 44

Supplement Nos. 2, 3, 4, 5 to Schedule P.S.C. No. 87 - Gas

Amendments to Schedule P.S.C. No. 88 – Gas

Original Leaves Nos. 53.2, 69.2
First Leaf No. 69.1, 96.1
Second Revised leaf No. 65
Third Revised Leaves Nos. 51, 52, 53, 96, 97, 102.1, 105.1
Fourth Revised Leaves Nos. 4, 50.14, 53.1, 68, 102, 103, 104
Fifth Revised Leaves Nos. 66, 67, 95, 101
Sixth Revised Leaf No. 69, 98
Eighth Revised Leaf No. 105

Supplement Nos. 10, 11, 12, 13 to Schedule P.S.C. No. 88 - Gas

Amendments to Schedule P.S.C. No. 90 – Gas

Original Leaf No. 3.1, 90.1, 90.2, 90.3, 90.4, 90.5, 90.6,
100, 101, 102, 103,
First Revised Leaf No. 2
Second Revised Leaf No. 17, 99
Third Revised Leaf No. 90
Fifth Revised Leaf No. 3

Supplement Nos. 1, 3, 4, 5 to Schedule P.S.C. No. 90 - Gas

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the **Rates,** charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service	Case 01-G-l 668
Petition of New York State Electric & Gas Corporation **Pursuant** to Section 312.4 of the Uniform System of Accounts to Defer Expenditures Associated with Residential Gas costs	Case 01-G-1683

JOINT PROPOSAL

September 12, 2002

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Cases 01-G-1668 and 01-G-1683
JOINT PROPOSAL

1. Parties

The Parties to this Joint Proposal, which settles contested issues in Cases 01-G-1668 and 01-G-1683, are: New York State Electric & Gas Corporation ("NYSEG"), Staff of the State of New York Department of Public Service ("Staff'), New York State Consumer Protection Board, Multiple Intervenors, AllEnergy Gas & Electric Marketing Co., LLC, Amerada Hess Corporation, Empire Natural Gas Corporation, Energetix, Inc., Leveraged Energy Purchasing Corp., National Fuel Resources Inc., North American Energy, Inc., Select Energy New York, Inc., Small Customer Marketer Coalition, Stand Energy Corporation, TXU Energy Retail Company LP and such other Parties whose authorized representatives have signed the execution pages. The Parties agree to the terms of this Joint Proposal to be presented to the New York State Public Service Commission (the "Commission") for its consideration before the end of the suspension period.[1] Furthermore, the Parties agree that the rates contemplated by this Joint Proposal are just and reasonable.

II. Procedural History

NYSEG is currently operating under a gas rate plan, approved by the Commission in 1998, for the four-year period extending through September 30, 2002 (the "Current Gas Rate Plan").[2] On October 19, 2001, NYSEG filed a gas rate case, Case 01-G-1668 (the "Gas Rate Filing"), in which it sought to increase delivery rates by $2 1.4 million, after forecasted revenue tax reductions. On October 26, 2001, NYSEG filed a petition (the "Deferral Petition"), Case 01-G-1683, in which it sought permission to defer the

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1 Multiple Intervenors agrees to the terms and conditions of the Joint Proposal, with the exception of those provisions pertaining to Case 00-M-l 556, In the Matter of the Proposed Accounting and Ratemaking for the Tax Law Changes Included in the 2000-2001 New York State Budget. As to such provisions, Multiple Intervenors agrees neither with the Commission's treatment of such issue nor with the treatment of that issue in this Joint Proposal.

2 Case 98-G-0845, Petition of New York State Electric & Gas Corporation for Approval of a Multi-Year Agreement Concerning Gas Rates, Opinion and Order Adopting Settlement Terms Subject to Modifications and Conditions, Opinion No. 98-17 (issued September 29, 1998); and Opinion Modifying Opinion No. 98-17 (issued December 2, 1998).

difference between gas costs embedded in its residential gas sales rates and actual gas costs incurred for residential sales customers during the period November 1, 2001 through September 30, 2002, then estimated at $3 1 million.

On February 11, 2002, NYSEG duly notified the Commission and interested parties of its intention to enter into settlement discussions regarding the Gas Rate Filing and the Deferral Petition. Settlement and technical conferences were held, with appropriate advance notice to all parties, on February 27, 2002, March 8, 19, 25, 26, 2002, April 1, 5, 11, 17, 26, 2002, May 2, 9 14, 2002, August 2, 15, 26, 2002, and September 11 and 12, 2002.

Representatives from NYSEG, Staff New York State Consumer Protection Board, MI, State of New York Office of the Attorney General, AllEnergy Gas & Electric Marketing Co., LLC, Amerada Hess Corporation, Dynegy Inc., Empire Natural Gas Corporation, Energetix, Inc., National Fuel Resources Inc., North American Energy, Inc., Select Energy New York, Inc., Small Customer Marketer Coalition, Stand Energy Corporation, and TXU Energy Retail Company LP participated in some or all of those settlement and technical conferences. Settlement conferences and negotiations were conducted in accordance with 16 NYCRR § 3.9 and the Commission's Settlement Guidelines, set forth in Opinion No. 92-2.[3]

III. Overview of Agreement

This Joint Proposal provides for a new NYSEG Gas Rate Plan (the "Gas Rate Plan"). Outstanding issues in the Gas Rate Filing and Deferral Petition are being addressed in the two phases of the Gas Rate Plan.

1. Phase 1 issues are:

   - Denomination of issues as being in Phase 1 or Phase 2;
   - Resolution of the Deferral Petition;
   - Term of the Gas Rate Plan;

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[3] Cases 90-M-0255 et al., Opinion, Order and Resolution Adopting Settlement Procedures and Guidelines, Opinion No. 92-2 (issued March 24, 1991).

- Specification of NYSEG's gas revenue requirement and delivery rates;
- Development and institution of an earnings sharing mechanism;
- Development of gas cost savings investment recovery mechanism ("IRM") guidelines;
- Creation of a gas supply charge ("GSC");
- Implementation of a Bill Mitigation Plan;
- Development and institution of gas cost incentive mechanisms ("GCIMs");
- Reestablishment of a weather normalization adjustment ("WNA");
- Treatment of savings attributable to NYSEG's gas business as a result of the merger between Energy East Corporation ("Energy East") and RGS Energy Group ("RGS")[4];
- Definition and establishment of thresholds and mechanisms for recovery of deferred/uncontrollable costs;
- Implementation of the research & development ("R&D") funding mechanism approved by the Commission in Case 99-G-1369[5];
- Implementation of the Energy Tax Reform Act of 2000 and resolution of all issues related to the implementation;
- Resolution of issues pertaining to pensions and other post-employment benefits ("OPEBs");
- Extension of the Global Financing Order[6];
- Compliance with the Gas Policy Statement[7];
- Enhancement of the Affordable Energy Program;
- Continuation of a service quality mechanism;
- Continuation of economic development efforts;
- Development and implementation of a pilot Low Income Aggregation Program targeted toward 1,000 low-income customers;

4 Case 01-E-0359, Petition of New York State Electric & Gas Corporation for Approval of its Electric Price Protection Plan; and Case 01-M-0404, Joint Petition of Energy East Corporation, RGS Energy Group, Inc., New York State Electric & Gas Corporation, Rochester Gas and Electric Corporation and Eagle Merger Corp. for Approval of Merger and Stock Acquisition, Order Adopting Provisions of Joint Proposal with Modifications (issued February 27, 2002) ("Electric Rate Plan").

5 Case 99-G-1369, Petition of New York Gas Group for Permission to Establish a Voluntary State Funding Mechanism to Support Medium and Long Term Gas Research and Development (R&D) Programs, Untitled Order (issued February 14, 2000).

6 Case 97-M-1915, Petition of New York State Electric & Gas Corporation for Permission to Extend the Authority and Terms of Its Global Financial Order. Filed in Cases 93-M-0774 and 95-M-1195 - Modification of Order, Order Extending and Modifying Multi-Year Financing Program (issued February 4, 1998) ("Global Financing Order").

7 Cases 93-G-0932 et al., Proceeding on Motion of the Commission to Address Issues Associated with the Restructuring of the Emerging Competitive Natural Gas Market, Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment (issued November 3, 1998) ("Gas Policy Statement").

- Development of initiatives to promote competition and improve the ability of marketers to compete in NYSEG's service territory;
- Elimination of NYSEG's repackaged gas service;
- Continuation of customer outreach and education programs;
- Reformatting the gas portion of NYSEG's bills within information system limitations; and
- Commitment to instituting a competition performance mechanism ("CPM') to measure competitive initiatives.

2. Phase 2 issues are:

- Rate design for delivery rates;
- Consideration of a reliability capacity factor;
- Further unbundling of rates in accordance with the Unbundling Track[8];
- Possible modification of the Affordable Energy Program;
- Resolution of marketer issues, including, but not limited to, cash-out and balancing charges;
- Development and implementation of a CPM, which may measure, for example, customer awareness of competition, marketer satisfaction, and facilitation of customer aggregation programs;
- Recovery of costs and programs implemented in Phase 2; and
- Addressing the specifics and feasibility of any additional bill format and content changes within information system limitations.

3. Upon the issuance of a Commission order resolving all Phase 2 issues, NYSEG will meet with Staff and other interested parties to discuss structural changes to its current tariff system, which consists of P.S.C. No. 87 – Gas (Sales Service), P.S.C. No. 88 - Gas (Transportation) and P.S.C. No. 90 – Gas (General Information).

IV. Pending Proceedings

1. This Joint Proposal resolves all issues in NYSEG's Deferral Petition.

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[8] Case 00-M-0504, Proceeding on Motion of the Commission Regarding: Provider of Last Resort Responsibilities. the Role of Utilities in Connetitive Enerw Markets. and Fostering the Development of Retail Connetitive Opportunities - Unbundling Track ("Unbundling Track").

2. Pertaining to NYSEG's Gas Rate Filing, this Joint Proposal resolves all Phase 1 issues and addresses the scope and schedule for consideration of the Phase 2 issues.

3. The terms and conditions of this Joint Proposal are consistent with, and in furtherance of, NYSEG's compliance with the Gas Policy Statement.

4. This Joint Proposal resolves all issues, including the treatment of refunds, pertaining to Case 00-M-1 556[9].

5. Unbundling Track

a. Phase 1 of the Joint Proposal provides for the following unbundled rates: delivery rates, WNA and GSC (including the Merchant Function Charge and the IRM)[10]. Additionally, in compliance with the Single Bill Order,' [1] NYSEG provides a bill processing credit for customers electing consolidated billing and payment processing pursuant to Section 32 of P.S.C. No. 88 - Gas.

b. NYSEG will use a "proxy"[12] for the Merchant Function Charge of 16.4 cents per dekatherm, which will be included in the GSC, effective October 1, 2002. The "proxy' will continue in effect until implementation of unbundled rates/backouts adopted by the Commission for NYSEG's gas business in Case 00-M-0504.[13] The "proxy" Merchant Function Charge will be adjusted annually beginning July 1, 2003 as described in the Appendix C. The unbundling of NYSEG's rates will be accomplished in

9 Case 00-M-l 556, supra, Order Implementing Tax Law Changes (issued December 2 1, 2000), and Order Implementing Tax Changes on a Permanent Basis (issued June 28, 2001).

10 In the event that the GSC is no longer available for recovery of costs associated with approved IRM Projects as contemplated in Appendix B, NYSEG will be allowed to recover the costs otherwise recoverable through the GSC in a manner determined by the Commission.

11 Cases 99-M-063 1 et al., In the Matter of Customer Billing Arrangements, Order Establishing Uniform Retail Access Billing and Payment Processing Practices (issued May 18, 2001) ("Single Bill Order").

12 The "proxy" will in no way serve as precedent in the consideration, development and/or Commission adoption in the Unbundling Track of unbundled rates/backouts for NYSEG's gas business.

13 See Case 00-M-0504, supra, Order Establishing Parameters for Lost Revenue Recovery and Incremental Cost Studies (issued March 21, 2002).

a revenue neutral manner, with any and all prudently incurred costs associated with gas supply for its sales customers, including any reallocation of costs between delivery rates and supply charges, recovered via the GSC.

c. Unbundling and billing requirements beyond the scope of implementing this Joint Proposal may be constrained by the need to make the necessary modifications to NYSEG's customer information system to allow customers to choose from the various commodity price options that will become available during NYSEG's Electric Rate Plan. To the extent that Commission orders in Case 00-M-0504 that other electric or gas services should be offered competitively and, therefore, unbundled, NYSEG will comply by offering credits on bills of customers who choose to take such services from another supplier. The method of providing that credit will depend on customer information system capability constraints. NYSEG will identify a separate line item if it is determined that its customer information system is capable of delineating such information. Otherwise, NYSEG will use means, such as the "Bulletin Board" section of its bill or bill inserts, to provide customers with adequate information upon which to base a decision to participate in competitive offerings.

V. Joint Proposal Cost Recovery

1. In full and complete resolution of the Deferral Petition and in consideration of the terms and conditions for a six-year, three-month rate plan, discussed below, NYSEG is authorized to defer for recovery, in accordance with the provisions set forth below, certain costs associated with its purchase of natural gas for residential customers in 2001-2002 ("Deferred Gas Costs"). NYSEG may recover up to $14 million of deferred gas costs, as specified in this section.

2. Interest Accrual - Interest will be accrued at the prime rate in effect as reported in the Wall Street Journal on the last business day of every month. Interest will be accrued on the after-tax balance of Deferred Gas Costs from October 1, 2002 until they are recovered, except as otherwise provided in Section V.3 below.

3. NYSEG will amortize $1.5 million of Deferred Gas Costs without interest over the six years beginning January 1, 2003 at $250,000 annually. In each earnings sharing period, NYSEG will be provided theopportunity to retain up to an amount equal to the portion of Deferred Gas Costs amortized in that period from the customers' share of any earnings exceeding the applicable earnings sharing threshold stated in Section VIII.

4. NYSEG will recover $2 million of Deferred Gas Costs, and the accrued interest thereon, from customers' share of GCIM savings, IRM Savings, and earnings sharing over the term of the Gas Rate Plan. In the event NYSEG has not fully recovered the $2 million by December 3 1, 2008, it will write off the remaining balance.

5. Method of Recovery - The remaining $10.5 million of Deferred Gas Costs and the accrued interest thereon will be recovered from:

a. The customers' share of the GCIM savings addressed in Section XII, except for the customers' share of the GCIM savings attributable to NYSEG-conducted least cost pathing.

b. After taking into account Sections V.3 and V.4 above, the customers' share of NYSEG's gas earnings exceeding the applicable earnings sharing threshold set forth in Section VIII.

c. The customers' share of IRM Project Savings addressed in Section IX and Appendix B.

d. If NYSEG has not fully recovered the $10.5 million of Deferred Gas Costs by December 3 1, 2005, NYSEG may surcharge residential sales and transportation customers receiving service pursuant to PSC No. 87 Gas - Service Classification No. 1 – Residential Service ("SC-01 S") and PSC No. 88 Gas – Service Classification No. 13 - Residential Firm Aggregation Transportation Service ("SC-l 3T") the remaining balance in approximately equal increments over the period beginning

January 1, 2006 and continuing through December 3 1, 2008.[14] The surcharge will be allocated on a volumetric basis among NYSEG's seven Rate Areas ("RAs"), distributed equitably within each RA, and collected in the delivery section of the bill.

VI. Term

1. The Phase 1 provisions of this Gas Rate Plan will become effective on October 1, 2002 and continue for a term of six years, three months through December 31, 2008. The Phase 2 provisions are targeted to become effective July 1, 2004, except as otherwise provided in Sections XXV and XXIX, and all Phase 2 provisions will continue through December 3 1, 2008.

2. Unless otherwise noted herein, all Gas Rate Plan provisions shall continue beyond December 3 1, 2008 unless or until a new gas rate plan has been approved by the Commission.

3. The first rate year of this Gas Rate Plan shall be the 15-month period starting October 1, 2002 and ending December 31,203. Each rate year thereafter shall be a calendar year.

VII. Revenue Requirement - Firm Delivery Revenues

1. Absent any effects of the Unbundling Track and Phase 2 of the Gas Rate Plan, which are addressed in Sections IV and XXIX, respectively, NYSEG's firm delivery revenue requirement will remain fixed for the term of the Gas Rate Plan. Appendix A illustrates NYSEG's firm delivery rates, billing units and firm delivery revenue. NYSEG's firm delivery revenue requirement is $135,902,461 without consideration of gross revenue taxes.

2. NYSEG's firm gas delivery rates will become effective on October 1, 2002.

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[14] Since the surcharge will be applied to actual sales units, NYSEG may adjust the surcharge to ensure no over/under-collection of the remaining balance. Final reconciliation will occur as of December 3 1, 2008.

VIII. Earnings Sharing

1. For the first rate year, the Parties have assumed that NYSEG will have a reasonable opportunity to achieve an annual return on equity ("ROE") for its gas business of 10.5%.

2. NYSEG gas earnings exceeding an ROE of 11.5% during the period October 1, 2002 through December 3 1, 2004 and 12.5% for each 12-month period from January 1, 2005 through December 31, 2008 will be shared between customers and shareholders 50%/50%.

3. Unless and until a new gas rate plan is approved by the Commission, NYSEG gas earnings exceeding a 12.5% ROE for each 12-month period beginning January 1, 2009 will be shared between customers and shareholders 50%/50%.

4. If in any consecutive 12-month period during the term of the Gas Rate Plan, commencing with the calendar year beginning January 1, 2004, NYSEG gas earnings fall below an ROE of 8.5%, NYSEG may petition for rate relief. Any such petition will seek prospective relief only, and the Commission will determine the extent to which the petition is granted, as well as the period for which any such relief is to apply.

5. The amount of common equity used in the earnings test will be determined by multiplying NYSEG's actual monthly average gas rate base times either NYSEG's actual average common equity ratio for the year or 45%, whichever is less.

6. The amount of preferred dividends and interest expense used in the earnings test will be determined by multiplying the portion of the average gas rate base that is not supported by common equity times the actual weighted average cost of preferred dividends, long term debt, customer deposits, deferred compensation and short term debt (to the extent that short term debt exceeds the average amount of interest-bearing construction work in progress).

7. The following items will be included/excluded from the earnings test:

   a. Included items in the earnings test are:

(i) Gains and losses on the sale of property;
(ii) Interest on temporary cash investments;
(iii) Amortization of merger synergy costs-to-achieve;
(iv) Amortization of Deferred Gas Costs in Section V;
(v) Uncontrollable costs that cannot be deferred for recovery by operation of the limitations set forth in Section XV; and
(vi) All other revenues and prudently incurred expenses.

b. Excluded items in the earnings test are:

(i) Seneca Phase III revenues, expenses and capital”;
(ii) Approved IRM Project revenues, expenses and capital;
(iii) Shareholder portion of gas supply savings;
(iv) Allowance for Funds Used During Construction;
(v) Interest accrued on the SFAS-106 OPEB reserve;
(vi) Interest accrued on any deferred costs that result during the Gas Rate Plan;
(vii) All other amounts charged to Other Income and Deduction; and
(viii) Allocated revenues and costs to any affiliate of NYSEG.

8. The customers' share of NYSEG's gas earnings exceeding the applicable earnings sharing threshold stated above will first be used to recover Deferred Gas Costs as set forth in Section V. Any customer share remaining after such use will then be used to recover any Deferred/Uncontrollable Costs as set forth in Section XV. The disposition of any remaining portion of earnings due customers will be determined by the Commission.

9. NYSEG shall file its earnings sharing report within 60 days after the applicable measurement period as part of the reporting requirements described in Section XXX. As part of this filing, NYSEG will report on the Deferred/Uncontrollable Costs that satisfy the criteria for recovery pursuant to Section XV.

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[15] **Case 95-T-0248, Application of New York State Electric & Gas Corporation for a Certificate of Environmental Compatibility and Public Need for the Construction of the Seneca Lake Storage Project Gas Transmission Facilities, located in the Towns of Reading and Dix. Schuyler County; Catlin and Big Flats, Chemung County; Ithaca, Danby and Caroline. Tompkins Countv; Candor, Newark Valley and Owego, Tioga County; and Maine and Union. Broome County. Petition of New York State Electric & Gas Corporation for an Amendment to the Certificate of Environmental Compatibility and Public Need -- Phase III, Order Approving Settlement and Amendment to the Certificate of Environmental Compatibility and Public Need (issued May 30, 1997).**

IX. Gas Cost Savings Investment Recovery Mechanism

1. Concept - In general, an IRM is a mechanism that would permit NYSEG to recover, between rate cases, the revenue requirement associated with capital investments leading to gas supply cost savings. If, on an annual basis, gas supply cost savings are less than the revenue requirement associated with the capital investment, recovery for such year would be limited to gas supply cost savings. However, if, on an annual basis, gas supply cost savings exceed the revenue requirement associated with the capital investment, there would be a sharing as set forth in Appendix B between customers and shareholders of the difference. An exception to this general rule applies to the first two years of a project, as discussed in Appendix B.

2. Guidelines - Petitions for the implementation of an IRM Project will be consistent with the guidelines set forth in Appendix B.

3. Approval Process - NYSEG may file petition(s) for approval of IRM Project(s) during the term of the Gas Bate Plan. Provided that each petition contains a complete description of the proposed project and a detailed analysis, including supporting workpapers, of the project's projected costs and benefits, and further provided that NYSEG timely responds to information and other requests from Staff and interested parties, the petition would qualify for expedited consideration by the Commission.

4. The customers' share of IRM Project Savings will first be used to recover Deferred Gas Costs as set forth in Section V. The customers' share of any additional IRM Project Savings will be returned to customers as determined by the Commission.

X. Gas Supply Charge

1. For the months of October and November 2002, NYSEG will defer the difference between gas costs collected based on NYSEG's pre-Gas Rate Plan embedded cost of gas, including the index price option ("PO") adjustment for non-residential sales customers, and its actual cost of gas. For residential sales customers, NYSEG will collect the October and November 2002 deferred gas costs as described in the Bill Mitigation

Plan. For non-residential sales customers, reconciliation of October and November 2002 gas costs will be through the GSC in the first year of the Gas Rate Plan.

2. Consistent with Section X.1 above, effective October 1, 2002, NYSEG will implement a GSC for all firm sales customers taking service pursuant to Service Classification No. ("SC") 1, 2, 5, 8 and 9 of P.S.C. No. 87 - Gas, or superseding issues thereof The GSC will be a separate unbundled charge appearing on customer bills. The GSC will collect all direct and indirect gas supply costs, unless or until otherwise ordered by the Commission. Direct gassupply costs relate to all gas commodity costs and all capacity costs. Indirect gas supply costs consist of gas storage inventory carrying costs, uncollectible expense associated with gas supply, and administrative and general expenses (*i.e*, costs and overheads associated with the gas purchase function).

3. Indirect gas costs will be labeled as a Merchant Function Charge in monthly GSC statements filed with the Commission. NYSEG will identify the Merchant Function Charge as a separate line item if NYSEG determines that its customer information system is capable of delineating such information. Otherwise, NYSEG will use bulletin board messages on the front of customers' bilk to identify the Merchant Function Charge included in the GSC.

4. A monthly GSC will be calculated for each applicable SC of each of NYSEG's RAs. Each GSC will be a function of the applicable Gas Supply Area ("GSA"). NYSEG's seven RAs will be grouped into three GSAs, as follows: (i) GSA 1 (comprised of NYSEG's Combined, Elmira, Goshen and Champlain RAs); (ii) GSA 2 (comprised of NYSEG's Binghamton and Owego RAs); and (ii) GSA 3 (comprised of NYSEG's Lockport RA).

5. The GSC guidelines are descriied in Appendix C.

6. As descriied in Section XI, the Bill Mitigation Plan will be used to phase in the application of the GSC to residential customers.

7. As described in Section XIV, the GSC will include an adjustment to reflect NYSEG's shareholders' 50% share of net gas supply savings that occur as a result of the merger of Energy East and RGS.

8. The residential and non-residential IPO adjustment will terminate upon billing of the GSC on December 1, 2002.

9. Existing non-residential fixed price option ("FPO") adjustments will expire according to their terms, with all non-residential FPO adjustments terminating by September 30, 2002.

XI. Bill Mitigation Plan

1. NYSEG will implement a Bill Mitigation Plan to gradually phase-in the bill impacts on residential customers of moving from below-market gas costs embedded in rates to a market-based GSC as provided in Section X.

2. The Bill Mitigation Plan is set forth in Appendix D.

3. The Mitigation Deferral is the amount of gas supply costs NYSEG defers on its books with accrued interest for later recovery.

4. The Plan specifies that the phase-in will occur over a one-year period commencing October 1, 2002. The Mitigation Deferral, by RA, created by the phase-in will be recovered over a subsequent 12 to 24 month period, with interest accrued at the Other Customer-Supplied Capital Rate.

5. In the first instance, NYSEG will recover the difference between the gas costs billed and the gas costs that would otherwise be billed for each month pursuant to a market-based GSC from the existing Deferred Credits, Account 254 (Other Regulatory Liabilities - Unbilled Revenue Pool) and Account 182.3 (Other Regulatory Assets - New York State Tax Deferral), except as provided in Sections XV.3.b and XVII3 of the Joint Proposal. The Deferred Credits will be allocated among the seven rate areas based on the size of their respective Mitigation Amounts. To the extent that there are any over-collections in Account 182.3 - Other Regulatory Assets - New York State Tax Deferral

resulting from transportation customers, such over-collections will not be used to fund the recovery of the residential gas costs. However, for the purpose of this Joint Proposal, in no event will the transportation customers' claim of a share of over-collections impair the ability of NYSEG to recover the Mitigation Amount from the above accounts and return the $1223,027 of New York State taxes with interest, as provided in Section XVII.3, to customers.

XII. Gas Cost Incentive Mechanisms

1. This Gas Rate Plan sets forth three distinct provisions for the sharing of gas supply cost savings. The first provision is the IRM set forth in Section IX. The second provision relates to merger-related savings set forth in Section X.7 and XIV. The third provision is the GCIMs set forth in this Section XII.

2. The GCIMs provide a means of sharing gas supply cost savings between customers and shareholders that are not otherwise attributable to the IRM or identified as merger-related. As more fully described below, the GCIMs are designed to address two distinct categories of gas supply cost savings. The first gas supply cost savings category, addressed by GCIM 1, relates to activities conducted by NYSEG on a stand-alone basis. The second gas supply cost savings category, addressed by GCIM 2, relates to activities from the joint optimization of the gas supply portfolios of the Energy East local distribution companies ("LDCs").[16] Customers are guaranteed GCIM 2 savings of $1 million for each of the first two rate years. GCIM 2 savings in excess of $2 million for each of the first two rate years will be shared as specified below.

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[16] The term "Energy East LDCs" includes NYSEG, Connecticut Natural Gas Corporation, The Southern Connecticut Gas Company, The Berkshire Gas Company and such other LDCs, other than Rochester Gas and Electric Corporation ("RG&E"), that Energy East may acquire while the Gas Rate Plan remains in effect.

a. GCIM 1 - NYSEG Stand-Alone Activities

(i) One hundred percent (100%) of the savings attributable to migration capacity release" and NYSEG-conducted least cost pathing will be for the benefit of customers.

(ii) There will be an 80%/20% sharing between customers and shareholders of: (1) NYSEG non-migration capacity release; (2) NYSEG off-system sales net of gas costs; and (3) savings from local production.

b. GCIM 2 - Energy East LDCs Activities

(i) There will be a 50%/50% sharing between customers and shareholders of gas cost savings attained through the joint optimization of the gas supply portfolios of the Energy East LDCs. Joint optimization activities include: (1) storage optimization; (2) transport optimization; and (3) joint optimization demand and variable savings associated with turnback of capacity.

(ii) The level of joint optimization savings shall at least equal what NYSEG could have obtained on a stand-alone basis. If such joint optimization savings do not. equal or exceed what NYSEG could have obtained on a stand-alone basis, then such savings attained through the joint optimization will be shared 75%/25% between customers and shareholders, with no guaranteed customer savings as provided in Section XII.2 above.

3. All GCIM activities will be conducted in accordance with applicable laws, rules and regulations and NYSEG's affiliate transaction rules, which were approved as part of the Electric Rate Plan.

4. NYSEG will not enter into any speculative derivative transaction. The use of derivatives, in the conduct of the activities descrii above, will be confined to risk management (hedging) activities only and will be used as part of defined strategies to manage risk with respect to price or value fluctuations of natural gas.

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[17] **The term "migration capacity release" refers to the release of capacity attributable to customers migrating from firm sales service to transportation service on or after November 2, 1995.**

XIII. Weather Normalization Adjustment

1. Effective October 1, 2002, NYSEG will implement a WNA for all space heating customers, as clarified by Section XIII.2 below, taking service pursuant to SC I, 2, 8 and 9 of P.S.C. No. 87 - Gas, or superseding issues thereof, and SC 1, 4, 5, 13 and 14 of P.S.C. No. 88 - Gas, or superseding issues thereof. NYSEG will reflect the WNA on customer bills beginning December 1, 2002. Any WNA impacts associated with October and November 2002 will be returned to/collected from customers during the first rate year.

2. A firm industrial revenue class customer taking service pursuant to a tariff that imposes the WNA will be deemed a space heating customer if more than 50% of such industrial customer's annual usage is experienced in the period November 1 through March 31.

3. The WNA will be applied to the total gas usage during the WNA season of October 1 through May 3 1. If only a portion of a customer's total gas usage is applicable to the WNA season, then the WNA will be adjusted to reflect the portion applicable to the WNA season.

4. Normal heating degree days will be the 30-year average period ending December 3 1 of the year prior to October 1 of the applicable WNA season.

5. The WNA will only be billed if the actual heating degree days for the billing cycle are less than 97.8% or more than 102.2% of the normal heating degree days for the billing cycle. In such cases, the WNA will be based on the variation that is less than 97.8% or more than 102.2% of the normal heating degree days for that billing cycle.

6. The WNA provisions are set forth in Appendix E.

XIV. Merger Savings

1. The quantification and sharing of synergy savings attributable to NYSEG's gas business-as a result of the-merger of Energy East and RGS are described in detail in the Commission's Order approving the merger and the Electric Rate Plan.

Specifically, the gross savings and costs to achieve for NYSEG's gas business are as follows:

12-Month Periods **Beginning** In:	Gross Savings **($ 000)**	Costs to Achieve **000)**	Total Net Savings **($ 000)**
2002	$6,730	**$9,9** 11	($3,181)
2003	$8,057	$1,247	$6,810
2004	$9,492	$1,146	$8,346
2005	$10,352	$493	$9,859
2006	$11,026	$524	$10,502
Total	**$45,657**	$13,320	$32,337

2. Net **Synergy** Savings - Delivery - NYSEG's gas customers will receive 50% of the net synergy savings attributable to gas delivery for the term of the Gas Rate Plan. With the adoption of this Joint Proposal, the delivery portion of synergy savings is presumed to be included in the delivery revenue requirement as a moderator-of delivery rates for the term of the Gas Rate Plan.

3. Net **Synergy** Savings - **Supply** - NYSEG's gas customers will receive 50% of the net synergy savings attributable to gas supply for the first five 12-month periods after the merger. Thereafter, NYSEG's gas customers will receive 100% of the net synergy savings attributable to gas supply.

4. Net **Supply** Savings

a. All gas storage and transportation contracts on pipelines common to NYSEG and **RG&E** will be identified.

b. A meeting on merger-related gas supply savings will occur approximately 30 days after the issuance of the Commission Order setting rates for NYSEG's gas business in these proceedings to determine how to measure the merger-related gas supply savings. This meeting will include NYSEG, RG&E, Staff and any interested party participating in Cases 0 1 -G- 1668 and 02-G-O 198.

c. Merger-related gas supply savings will be implemented as soon as possible after the merger closing.

d. The customers" 50% share of net supply savings will flow through the GSC.

e. The shareholders' 50% portion of net supply savings will be recoverable through an adjustment to the GSC. Such recovery will occur on a quarterly basis and only after NYSEG makes a compliance filing within its monthly GSC statements demonstrating the total supply savings achieved for the quarter. The filing will include all documentation and workpapers supporting the claimed savings.

5. Net Merger Costs

a. NYSEG has the option to defer the gas-related net merger costs (i.e., the non-capitalized costs-to-achieve) applicable to the period between the merger closing date and September 30, 2002 and either amortize those costs or expense them in the calendar year ending December 3 1, 2002. If NYSEG chooses to amortize the gas-related net merger costs, the amortization will be over six years beginning January 1, 2003.

b. NYSEG also has the option to defer the gas-related net merger costs incurred during the period from October 1, 2002 through September 30, 2003 and either amortize those costs or expense them in the calendar year ending December 31, 2003. If NYSEG chooses to amortize the gas-related net merger costs, the amortization will be over five years beginning January 1, 2004.

c. All gas-related net merger costs, including any such amortization, will be included in the annual earnings sharing calculation.

XV. Deferred/Uncontrollable Costs

1. NYSEG is authorized to defer for recovery any prudently incurred Uncontrollable Costs that meet the criteria described below.

a. Uncontrollable Cost Categories

(i) Category 1 - This category covers nonrecurring events as a result of force majeure, which will include storm, flood, riot, terrorism, sabotage, war, strike or labor disturbance (other than by NYSEG's bargaining units) or acts of God.

(ii) Category 2 - This category covers inflation, environmental remediation costs, a portion of pension expenses, property taxes, incremental Affordable Energy Program costs and mandatory costs that are incurred as a result of accounting, legislative, regulatory or tax changes, including mandated costs to implement additional security requirements in the aftermath of the September 11, 2001 terrorist attacks.

b. Minimum Threshold for Deferral and Recovery

(i) NYSEG will be entitled to defer and recover all Category 1 costs, provided that Category 1 costs exceed $200,000 annually in the aggregate.

(ii) Appendix F sets forth the amounts of certain Category 2 costs that are covered by the rates set pursuant to this Joint Proposal. For these items, costs above the amounts set forth in Appendix F will be deferred for recovery, pursuant to Section XV.8 below. NYSEG will be entitled to defer and recover all Category 2 costs, provided that Category 2 costs exceed $200,000 annually in the aggregate.

2. Inflation - Inflation will be measured by reference to the GDP Implicit Price Deflator. Any increase in the GDP Implicit Price Deflator for any year of the Gas Rate Plan above 4.0% will be applied to a base consisting of NYSEG's O&M expenses

and payroll taxes of $53.5 million annually through December 3 1, 2005 and $57.75 million annually thereafter.

3.

a. NYSEG will be allowed to defer for recovery incremental costs above the.threshold identified in Appendix F associated with the marketer survey, aggregation initiatives (including the Low Income Aggregation Program addressed in Section XXVI) and outreach and education.

b. The initial costs (not to exceed $200,000) associated with providing hourly usage data to marketers serving daily metered customers shall be recovered from Account 254 -- Other Regulatory Liabilities -- Unbilled Revenue Pool, upon implementation of the hourly usage data.

4. NYSEG will be allowed to defer for recovery incremental costs above the threshold identified in Appendix F associated with the economic development programs described in Section XXIII.

5. Incremental costs and net revenue shortfalls resulting from unbundling actions taken or ordered in Case 00-M-0504 will be subject to Commission determinations in that proceeding, and, to the extent the Commission allows such costs to be deferred for recovery, they will be considered a Category 2 cost.

6. NYSEG will be allowed to defer for recovery new program costs associated with Phase 2 that are approved by the Commission, and will be permitted to recover revenue requirement shortfalls associated with Phase 2.

7. NYSEG will defer the annual difference between actual R&D costs not associated with Case 99-G-l 369 (including labor, materials and transportation) and $1.4 million. In the event the actual R&D costs for any calendar year period are less than $1.4 million, the balance will be carried over to the subsequent year or will be used to recover any deferred R&D costs from a previous year. NYSEG is not permitted to use any

excess R&D costs for any other purpose, or book such costs to earnings, without the approval of the Commission-

8. Beginning January 1, 2003, incremental or decremental financial market changes from the assumed 9% return on assets and the 6.75% discount rate will be deferred. Beginning January 1, 2003, financial gains and losses in calendar year 2002 will be included in the true-up calculation. Financial gains and losses will continue to be amortized over ten years consistent with the Commission's Policy Statement enunciated in Case 91-M-0890."

9. NYSEG will be allowed to defer for recovery annual property taxes above the thresholds identified in Appendix F.

10. Deferral of Category 2 costs will be limited to additional costs resulting from mandates above the Category 2 cost thresholds in Appendix F.

11. Interest Accrual - Interest will be accrued at the before-tax rate of 10.5% on the after-tax balance of Deferred/Uncontrollable Costs from the date such costs are incurred until they are recovered through one of the methods described in Section XV. 10. Deferred taxes tracking the interest will be accrued.

12. Method of Recovery - Deferred/Uncontrollable Costs and the accrued interest will be recovered in the manner and order listed below:

a. First, any balance remaining after disposition pursuant to Section XI of PSC/FERC Account 254 - Other Regulatory Liabilities - Unbilled Revenue Pool will be written down until it is zero.

b. Second, any balance remaining after disposition pursuant to Section XI of Account 182.3 - Other Regulatory Assets - New York State Tax Deferral will be written down until it is zero.

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[18] Case 9 1 -M-0890, In the Matter of the Development of a Statement of Policy Concerning the Accounting and Ratemaking Treatment for Pensions and Post Retirement Benefits Other than

c. Third, after first being used to recover Deferred Gas Costs set forth in Section V, the customers' share of NYSEG's gas earnings exceeding the applicable earnings sharing threshold stated in Section VIII will be used.

d. Fourth, a surcharge mechanism will be used.

e. Any remaining Deferred/Uncontrollable Costs will remain deferred for recovery within a new gas rate plan or as otherwise specified by the Commission.

13. Limitation on Recovery

a. If NYSEG gas earnings exceed an Adjusted ROE[19] of 13.0% for the first earnings sharing period ending December 3 1, 2004, NYSEG will not be permitted to defer for recovery any Deferred/Uncontrollable Costs incurred during such period to the extent that such deferral causes the Adjusted ROE to exceed 13.0%. However, deferral and recovery of Deferred/Uncontrollable Costs will be permitted during such year to allow NYSEG to reach the 13.0% Adjusted ROE. Furthermore, any Deferred/Uncontrollable Costs deferred from a prior calendar year may continue to be recovered or deferred for recovery.

b. In any calendar year commencing with 2005 and continuing until a new gas rate plan takes effect in which NYSEG gas earnings exceed an Adjusted ROE of 14.0%, NYSEG will not be permitted to defer for recovery any Deferred/Uncontrollable Costs incurred during that year to the extent that such deferral causes the Adjusted ROE to exceed 14.0%. However, deferral and recovery of Deferred/Uncontrollable Costs will be permitted during such year to allow NYSEG to reach the 14.0% Adjusted ROE. Furthermore, any Deferred/Uncontrollable Costs deferred from a prior calendar year may continue to be recovered or deferred for recovery.

Pensions, Statement of Policy Concerning the Accounting and Ratemaking Treatment for Pensions and Post Retirement Benefits Other than Pensions (issued September 7, 1993).

19 For purposes of this Section XV. 11, the term "Adjusted ROE" means the ROE after applying the earnings sharing provisions set forth in Section VIII.

c. Deferral of inflation costs above the target will be further limited so that such deferral does not increase earnings in either calendar year 2003 or 2004 above 11.5% after earnings sharing and does not increase earnings in any remaining calendar year of this Gas Rate Plan above 12.5% after earnings sharing.

XVI. Research & Development Funding Mechanism

1. The Commission has permitted New York local distribution companies to recover from its customers the costs associated with R&D programs. Historically, these programs have been funded through an allowance contained in base rates (Internal Program Funding)[20] and by means of surcharges imposed by interstate pipelines with the approval of the Federal Energy Regulatory Commission ("FERC") (External Program Funding).

2. Internal Program Funding – The Joint Proposal provides an annual allowance in base rates of $1.4 million for R&D programs with deferral of over- and under-recover-y from that amount as set forth in Section XV.7 above.

3. External Program Funding

a. FERC has set in motion a reduction in the Gas Research Institute/Gas Technical Institute ("GRI/GTI") surcharge such that it will expire on December 3 1, 2003. In Case 99-G-1369, the Commission permitted New York gas utilities to continue funding external R&D programs through a surcharge on all firm throughput equivalent to historic GRI/GTI funding levels. NYSEG does not currently have such a surcharge.

b. The Parties to this Joint Proposal request that the Commission allow NYSEG to implement an R&D surcharge (up to $650,000 annually) to provide funding for R&D programs from its firm sales and transportation customers, in a manner consistent with the Commission's Order in Case 99-G-1369.

[20] Some of the funding from internal sources is used for funding of programs by entities other than the local utility.

XVII. Energy Tax Reform Act of 2000

1. New York State income taxes will be collected through NYSEG's base delivery rates beginning October 1, 2002.

2. NYSEG will collect applicable gross receipts taxes through a tax surcharge. The applicable blended tax surcharge factors will be set forth on a statement (Tax Surcharge Factor Statement) filed with the Commission.

3. In compliance with the provisions of the Commission's Orders in Case 00-M- 1556, NYSEG agrees to pass back to customers the $1,223,027 over-collection of gas business related New York State taxes for the year ended December 3 1, 2000, including interest thereon at the Commission's Other Customer Provided Capital Rate. The refund will be returned to customers over the 12-month period beginning October 1, 2002.

4. NYSEG will first dispose of New York State Tax credit balances/over-collections, with interest thereon at the Commission's Other Customer Provided Capital Rate, for the period January 1, 2001 through November 30, 2002 in the manner set forth in Section XI. Therefore, there will be no refunds for the over-collection of New York State taxes for the year ended December 3 1,200 1 and beyond. Any remaining balance will **be** deferred, with interest thereon at the Commission's Other Customer Provided Capital rate, and may be used to fund Phase 2 programs or to recover any Deferred/Uncontrollable Costs, as set forth in Section XV.

XVIII. Pensions and Other Post-Employment Benefits

1. Beginning January 1, 2003, NYSEG will conform to the Commission's policy for pensions (enunciated in Case 91 -M-0890), except that true-ups for pensions will be limited to incremental or decremental financial market changes from the assumed 9.0% return on assets and the 6.75% discount rate. Beginning January 1, 2003, financial gains and losses in calendar year 2002 will be included in the true-up calculation. Financial gains and losses will continue to be amortized over ten years consistent with the Commission's Policy Statement enunciated in Case 91 -M-0890.

2. NYSEG's gas business common allocation factor for pension expense will be 22.9% for the term of this Gas Rate Plan.

3. No portion of any excess pension assets will be used to fund non-NYSEG employee pension costs.

4. The waiver currently in effect of the Commission's policy on true-ups for OPEBs (enunciated in Case 91 -M-0890) will continue in effect for the term of the Gas Rate Plan.

XIX. Global Financing Order

1. The Commission authorized NYSEG's multi-year financing program in Case 93-M-0744.[21] This authorization was twice modified and extended.

2. The Parties to this Joint Proposal request that the Commission further extend the Global Financing Order for the term of the Gas Rate Plan, subject to any new or modified rules on financings issued by the Commission.

XX. Gas Policy Statement

In its Gas Policy Statement, the Commission announced its intention "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."[22]

1. NYSEG has addressed certain issues identified in the Gas Policy Statement in an acceptable manner by: (i) holding new capacity contracts to a minimum; (ii) mitigating and managing potential stranded costs; and (iii) separating distribution and gas purchase (upstream) costs.

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[21] Case 93-M-0744, Petition of New York State Electric & Gas Corporation for authority to issue and sell long-term debt preferred stock and common stock pursuant to a multi-year financing plan and to negotiate a Revolving Credit Agreement, Untitled Order (issued December 8, 1993).

[22] Gas Policy Statement, mime0 pp. 3-4.

2. As required by, and in satisfaction of the Gas Policy Statement, NYSEG will: (i) continue to quantify and mitigate potential stranded costs; (ii) take steps, including those specifically provided for in this Joint Proposal, to encourage competition in its service territory and improve its interaction with marketers; (iii) implement the Gas Rate Plan, which freezes revenue requirement specified in Section VII. 1 for the term of the Gas Rate Plan; (iv) continue toward finalizing its plan to unbundle its gas rates; (v) continue to actively participate in Case 00-M-0504; (vi) supply hourly usage data for each customer with a daily meter to provide information to that customer and the customer's marketer (or pool operator) concerning the customer's gas usage from the beginning of the gas day through the time of the meter read; and (vii) enhance consumer education programs and facilitate customer participation in competitive programs, as provided for in this Joint Proposal.

3. Transition Surcharge -- Pursuant to Commission Order in Cases 97-G-1380, et al.,[23] NYSEG currently has a TS in its tariff to recover the cost of upstream capacity stranded by migration of customers from sales to transportation service. The surcharge is applied to all firm sales and post-November 2, 1995 firm transportation customers. NYSEG and the Parties have agreed to an amended formula for its tariff used to calculate the TS to reflect growth and de-contracting of pipeline capacity. The revised formula for the TS is attached hereto as Appendix G.

XXI. Affordable Energy Program

1. NYSEG's gas Affordable Energy Program will remain at existing levels through December 31, 2002 and will be expanded to provide $1.75 million in annual benefits to eligible customers as of January 1, 2003.

2. $1.25 million of the annual cost of the Affordable Energy Program is in base rates. For purposes of the first rate year, the amount in base rates is $1.56 million.

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[23] Cases 97-G-1380 et al., In the Matter of Issues Associated with the Future of the Natural Gas Industry and the Role of Local Gas Distribution Companies, Order Concerning Assignment of Capacity (issued March 24, 1999); Untitled Order (issued August 18, 1999).

The $500,000 incremental cost associated with the first two rate years will be obtained from the customers' guaranteed savings from GCIM 2.

3. The gas Affordable Energy Program will be reevaluated during the quarter ending June 30, 2004 to determine if any program modifications are warranted. Starting with the third rate year, any annual incremental costs for the Affordable Energy Program above $1.25 million will be considered a Category 2 Uncontrollable Cost.

4. The current minimum charge of $6.40 is comprised of both delivery and supply components. As a result of other provisions of this Joint Proposal, gas supply charges will be separated from delivery charges. For purposes of Phase 1 of the Gas Rate Plan, the minimum charge will remain at $6.40 per month for participants in the gas Affordable Energy Program and shall apply only to delivery service. As funds will permit, NYSEG will provide benefits first to HEAP-eligible gas customers, and second to Power Partner-eligible gas customers.

5. With reference to the $1.75 million funding level referred to in Section XXI. 1 above, as modified by the reevaluation referred to in Section XXI.3 above, any over- or under-spent funds allocated to the gas Affordable Energy Program at the end of any rate year during the term of the Gas Rate Plan will be carried over and reflected in the subsequent rate year's determination of the Program.

6. No later than 60 days after each calendar year of the Gas Rate Plan, NYSEG will file a report on the enrollment levels and costs of the gas Affordable Energy Program.

XXII. Service Quality Mechanism

1. NYSEG's gas Service Quality Mechanism includes revenue adjustments with a maximum exposure of $1.3 million on a calendar year basis. The Service Quality Mechanism will incorporate the following measures:

a <u>Customer Service Measures</u>

(i) Overall Customer Satisfaction Index

(ii) Customer Contact Satisfaction Index
(iii) Commission Complaint Rate

b. Gas Operation and Safety Measures

(i) Cast Iron Main Replacement Program
(ii) Bare Steel Services Replacement Program
(iii) Bare Steel Main Isolation Program
(iv) Quality Assurance Program
(v) Gas Leak Response Program

2. The specifics of the Service Quality Mechanism are described in detail in Appendix H.

3. The Cast Iron Main Replacement Program is scheduled to be completed by December 3 1, 2005. The Parties agree to commence discussions no later than January 2005 to develop new service quality program(s), to become effective January 1, 2006, to replace the Cast Iron Main Replacement Program. If the Parties cannot agree within six months on such new service quality program(s), the issue will be presented to the Commission for final determination. The pre-tax revenue adjustment associated with such new service quality program(s) shall not exceed $300,000 annually, unless otherwise determined by the Commission. Any new service quality program(s) must be approved by the Commission.

XXIII. Economic Development

1. NYSEG will continue its economic development programs to encourage attraction, expansion, and retention of gas business customers in its service territory.

2. Within 60 days of the date of issuance of a Commission order on this Joint Proposal, NYSEG will complete a review of all of its existing gas economic development programs. The review will address program enrollment levels, amount of discount allocated, cost of administration, benefits to customers and an evaluation of effectiveness of those programs. The evaluation should capture whether the goals of the current programs are achieved in an effective manner, and recommend any modifications, as appropriate.

3. NYSEG will share the results of this review and evaluation with Staff. Upon receiving input from Staff, NYSEG will formulate an Economic Development Plan that will provide funding for current programs, as appropriate, and for new program initiatives that may include, but not be limited to, discounts, incentives and other cooperative programs for attraction, expansion and retention of business.

4. The Economic Development Plan will be developed with a goal of minimizing the need for the creation of regulatory assets. NYSEG will establish a threshold for programs included in the Economic Development Plan of no more than $250,000 per year and no less than $150,000 per year for the term of the Gas Rate Plan. If in any year during the Gas Rate Plan, the cost of the Economic Development Plan is less than the cost incurred during the preceding year, that difference will be deferred and added to the program budget for the following year(s). The total annual cost exceeding $250,000 will be deferred pursuant to Section XIV. Additional funding beyond $350,000 per year shall require Commission approval.

5. Within 90 days of the date of issuance of a Commission order on the Joint Proposal, NYSEG will file its Economic Development Plan, with copies served on all active parties to Case 01-G-1 668. Thereafter, no later than 60 days after each calendar year of the Gas Rate Plan, NYSEG shall make a compliance filing detailing the prior year's expenditures and the present year's budget, as well as any proposed changes to the Economic Development Plan.[24]

6. The filings contemplated in this Section XXII may be combined with NYSEG's filings related to its Electric Economic Development Plan, approved by the Commission as part of the Electric Rate Plan.

XXIV. Repackaged Gas Service

1. NYSEG agrees not to offer SC 12 (Repackaged Gas Service) to any new customers (defined as any customer not currently receiving SC 12 service) after the date of this Joint Proposal.

2. NYSEG agrees to eliminate SC 12 upon the expiration of all existing SC 12 agreements. NYSEG agrees not to extend the term of any existing SC 12 agreements-NYSEG's tariff PSC No. 88 - Service Class 12 - Repackage Gas Service will remain effective until the last SC 12 contract expires and include a statement that SC 12 will no longer be offered to any new customers as of the date of this Joint Proposal.

3. The provisions of each contract between NYSEG and its customers receiving SC 12 service will expire pursuant to their terms, except that NYSEG will not agree to extend the term set forth in any such contract.

4. For the term of the Gas Rate Plan, NYSEG agrees not to establish any new tariff service #at is in substance or intent similar to SC 12.

XXV. Marketer Initiatives

1. Outreach, Education and Competition Initiatives Fund

a. NYSEG will establish an annual $350,000 Outreach, Education and Competition Initiatives Fund for costs associated with the gas Outreach and Education program described in Section XXVII, the Marketer Survey described in Section XXV.2, the aggregation initiatives described in Section XXVI and any other competition initiatives agreed to by the Parties during the term of the Gas Rate Plan.

b. The budget for the Outreach and Education program will be no less than $250,000 per year for each year of the Gas Rate Plan. Costs for the remaining programs will be allocated at $100,000 per year. Total annual costs exceeding $350,000 will be deferred pursuant to Section XV. The addition of any new programs will require Commission approval.

c. On November 1 of each year, NYSEG will submit a proposed implementation plan and budget for the Outreach, Education and Competition Initiatives Fund for the next year to the Director of the Office of Consumer Education and Advocacy. The plan and budget will be considered by the Commission expeditiously.

[24] NYSEG shall make the first such compliance filing by March 30, 2004.

The previous year's plan and budget will continue until the Commission approves the proposed plan and budget.

2. Marketer Survey

a. NYSEG will develop an annual marketer survey with input from Staff and marketers to help measure NYSEG's performance in meeting terms relating to Uniform Business Practices, NYSEG's Gas Transportation Operating Procedures Manual and other operational agreements between NYSEG and marketers. The survey will be implemented by an independent third party selected after consultations between NYSEG and Staff.

b. Within 90 days of the date of issuance of a Commission order on this Joint Proposal, NYSEG will convene a meeting with the Parties to begin the process of developing a Marketer Survey. Issues to be addressed at this meeting include, but are not limited to, identification of the criteria to be included, identification of the marketers to be surveyed, the method of implementation (phone, mail, email or in-person) and cost. Costs for the survey will be allocated from the Outreach, Education and Competition Initiatives Fund.

c. After the survey is completed, NYSEG will report within 60 days to Staff and marketers the results of the survey and how NYSEG plans to address legitimate marketer suggestions, if any, that are expressed in the survey. NYSEG will provide Staff with access to the raw data used to compile the results of the survey.

3. Marketer Meetings - NYSEG will host a minimum of three annual marketer education meetings and workshops during the term of the Gas Bate Plan. Costs of the meetings and workshops will be allocated to the Outreach, Education and Competition Initiatives Fund.

4. Marketer Liaison - NYSEG will designate a management person to serve as liaison between NYSEG and the marketers to address any concerns or issues that may develop. The Liaison will be vested with the full authority to make binding decisions and resolve disputes that may arise between NYSEG and marketers. Marketers will be provided with the name and telephone number of the designated management person. The Liaison will provide to Staff a description of job duties and a copy of NYSEG's processes and procedures for resolving marketer concerns. Staff and the Liaison will meet at least on an annual basis to discuss the status of communications between NYSEG and marketers.

5. **Daily** Meter Readings

a. NYSEG currently provides one daily meter read for each customer with a daily meter to supply the customer and the customer's marketer (or pool operator) with information concerning the customer's gas usage during the preceding day. NYSEG will develop system enhancements that will communicate hourly usage data for the previous gas day. At 3 p.m. of the current gas day, NYSEG will communicate to marketers hourly usage data for the period from 10 a.m. to 2 p.m. NYSEG will endeavor to provide hourly usage data by November 1, 2002 or earlier but in no event later than March 3 1, 2003. As a part of this process, NYSEG will engage in discussions with marketers regarding the presentation of the information provided to marketers and the integration with existing NYSEG information systems.

b. Customers with a daily meter will have the option of changing their balancing election (*i.e.*, from or to daily or monthly balancing) to become effective on the first day of either of the first two months following the month in which the intra-day meter reads described in Section XXV.5.a become available.

c. All marketers (or pool operators) serving daily-metered customers will be responsible for the ongoing costs incurred by NYSEG to provide the inn-a-day meter reads described in Section XXV.5.a. The rate for recovery of such costs will be agreed upon by the Parties and filed with the Commission prior to the implementation of such inn-a-day meter reads.

d. The initial costs of the intra-day meter reads will be recovered as set forth in Section XV.3.b.

6. Resolution of Open Issues - NYSEG, marketers, and, to the extent its involvement is necessary, Staff, agree to attempt to resolve all open marketer-related issues, including but not limited to, balancing charges, cash-out provisions and reliability capacity factor, no later than June 1, 2003. Any issues except for reliability capacity factor that are not resolved by June 1, 2003 would be subject to the dispute resolution process set forth in Section XXV.7 below. Disputes on reliability capacity factor will be submitted directly to the Commission for resolution.

7. Dispute Resolution Process - The dispute resolution process set forth in NYSEG tariffs P.S.C. No. 88 - Gas and in the Memorandum of Understanding ("MOU") entered into among NYSEG and several marketers, dated April 20, 1998, which MOU process is provided in Appendix I, will continue for the term of the Gas Rate Plan.

XXVI. Aggregation Initiatives

1. NYSEG will host aggregation education forums for both marketers and customers.

2. NYSEG will work with marketers interested in aggregation to create vehicles that would help the marketers reach out to NYSEG's customers.

3. Low Income Aggregation Program

a. During Phase 1 of the Gas Rate Plan, NYSEG will develop and implement specific plans for a pilot aggregation program targeted to serve approximately 1,000 low-income Home Energy Assistance Program ("HEAP") eligible customers. The program will be implemented by October 1, 2003.

b. Through appropriate outreach efforts, NYSEG will solicit HEAP eligible low-income customers who are not currently enrolled in the Affordable Energy Program or Power Partner Program to participate in a natural gas aggregation program. NYSEG will solicit bids from marketers interested in supplying natural gas for the aggregated pool of approximately 1,000 customers. NYSEG will provide bundled gas service, which includes both delivery and supply, to these customers.

c. As an incentive for eligible low-income customers to participate in the aggregation program, participants entering the program with utility arrears will be afforded the opportunity to apply the commodity savings toward paying off their arrearages. In addition, NYSEG will match dollar-for-dollar, with a maximum of $100, arrears paid off with program savings. Customers must be current in their bill payments in order to receive the arrears forgiveness benefits. When all of the customers' arrears have been paid off, the commodity savings with NYSEG will be flowed through to the customers.

d. NYSEG and Staff will review the pilot program during the first quarter of 2005 to determine if program changes are warranted and whether the program should be modified, expanded, continued at current levels or terminated. However, the maximum costs for such program shall be no more than $100,000 annually.

e. The cost of the Low Income Aggregation Program will be recovered pursuant to Section XV.3 above.

XXVII. Outreach and Education

1. NYSEG supports the concept that customer outreach and education is an integral part of the customer service function, and that outreach and education about competitive choices is essential for the successful transition to a competitive gas retail market.

2. As part of this Joint Proposal, NYSEG will continue to carry out, consistent with the outreach and education efforts set forth in the Electric Rate Plan and with input from customers, its gas customer outreach and education plan.

3. NYSEG will incorporate gas competition messages, where applicable and appropriate, with electric competition messages sent or otherwise brought to the attention of NYSEG's customers.

4. In areas where NYSEG does not also provide electric service, NYSEG will provide gas competition messages to its customers that are similar to the messages contemplated in Section XXVII.3.

5. Where appropriate, NYSEG will modify the electric surveys to incorporate gas issues, including measuring awareness and understanding of gas competition.

6. The annual Outreach and Education Plan will incorporate gas outreach and education activities.

7. NYSEG will work with Staff to develop and implement an education program on any Phase 2 rate design changes contemplated in Section XXIX. 1 .a that are agreed to by the parties and/or ordered by the Commission.

8. The cost of NYSEG's outreach and education efforts will be recovered pursuant to Section XV.3 above.

XXVIII. Bill Format Changes

1. NYSEG currently provides customers with a bundled bill. In accordance with this Gas Rate Plan, the GSC and unbundled fixed delivery rates will take effect on October 1, 2002. In reformatting the gas portion of its bills, NYSEG will:

a. Separate delivery from supply into distinct sections on the bill, and identify the sections as "Gas Delivery Charges" and "Gas Supply Charges"; and

b. Clearly and separately identify the "Merchant Function Charge" in either a separate line item or in the bulletin board section of the bill, as discussed in Section IV.5.c.

c. Unless otherwise precluded, the bulletin board section of the bill shall include a statement that customers can shop for the gas supply service portion of their bill.

2. NYSEG will submit its proposed revised draft bill format that reflects the terms and conditions contained in this Joint Proposal to the Director of the Office of Consumer Education and Advocacy for review no later than October 3 1, 2002. This submission is in compliance with the Order Establishing Regulatory Policies Regarding Billing issued March 29, 1999 in Case 98-M-0632.

XXIX. Phase 2 Topics

1. The Parties agree to convene to address Phase 2 issues after this Joint Proposal has been approved by the Commission. It is intended that all Phase 2 issues, unless otherwise specified, would be resolved pursuant to a schedule that would bring the matter to the Commission in April 2004. The Parties further agree that they will recommend an effective/implementation date of July 1, 2004 for the Phase 2 issues, unless otherwise specified. The issues to be resolved in Phase 2 are the following:

a. Rate Design for Delivery Rates - Rate design changes will be made in a revenue neutral manner consistent with the billing units and firm delivery revenues set forth in Appendix A. The following testimony submitted in the Gas Rate Filing will serve as the starting point for the rate design discussions:

(i) Paul M. Normand - Embedded Cost of Service Study;

(ii) James L. Harrison - Marginal Cost of Service Study; and

(iii) Panel of Steven R. Adams and James L. Harrison - Rate Design.

b. Cost of Service Study – The period covered by the embedded cost of service study submitted by NYSEG in the Gas Rate Filing, (i.e., the twelve months ended September 2000), is acceptable for use as a guide in allocating the delivery revenue requirement.[25]

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[25] Case 00-M-0504, supra, Order Directing Filing of Embedded Cost Studies (issued November 9, 2001), mime0 p. 10.

c. Unbundling - Unbundling issues will be addressed consistent with Section IV of this Joint Proposal.

d. Affordable Energy Program – The Parties may consider modifying the Affordable Energy Program as discussed in Section XXI.

e. Billing Format - NYSEG will work with Staff collaboratively to address the specifics and feasibility of any additional bill format and content changes within information system limitations.

f. Comnetition Performance Mechanism – A CPM, which may include customer awareness of competition, marketer satisfaction and facilitation of customer aggregation programs, will be developed and implemented no later than October 1, 2003.

2. Phase 2 Cost Recovery – As provided in Section XV, NYSEG will be allowed to defer for recovery new program costs associated with the resolution of Phase 2 issues. NYSEG will also be allowed to defer for recovery revenue shortfalls associated with the implementation of Phase 2-related rate changes.

XXX. Reporting Requirements

This Joint Proposal contains a number of reporting requirements that NYSEG must satisfy. For the ease of administration, this Section XXX lists these reporting requirements, namely:

1. Earnings Sharing (Section VIII) – NYSEG shall file its earnings sharing report within 60 days after the applicable measurement period. As part of this filing, NYSEG will report on the Deferred / Uncontrollable Costs that satisfy the criteria for recovery pursuant to Section XV, the balance of the Deferred/Uncontrollable Costs, and deferred credits available.

2. GCIM (Section XII.2) – As part of its monthly GSC filing, NYSEG will file workpapers delineating the cost and savings associated with the GCIMs. NYSEG also will file a report regarding the level of GCIM savings as part of the GSC annual reconciliation.

3. Affordable Energy Program (Section XXI.51 - No later than 60 days after each calendar year of the Gas Rate Plan, NYSEG willl file a report on the enrollment levels and costs of the gas Affordable Energy Program.

4. Economic Development (Section XXIII) - Within 90 days of the date of issuance of a Commission order on this Joint Proposal, NYSEG will file its Economic Development Plan, with copies served on all active parties to Case 0 1 -G- 1668. Thereafter, no later than 60 days after each calendar year of the Gas Rate Plan, NYSEG shall make a compliance filing detailing the prior year's expenditures and the present year's budget, as well as any proposed changes to the Economic Development Plan. This filing may be combined with NYSEG's filings related to its Electric Economic Development Plan, approved by the Commission as part of the Electric Rate Plan.

5. Marketer Survey (Section XXV.21 - After the marketer survey is completed NYSEG will report within 60 days to Staff and marketers the results of the survey and how NYSEG plans to address legitimate marketer suggestions, if any, that are expressed in the survey. NYSEG will provide Staff access to the raw data used to compile the results of the survey.

6. IRM Project Backcast Study (Appendix B) - NYSEG will file a backcast study detailing savings and costs attributable to each IRM Project. The initial backcast study will be conducted two years after the in-service date to evaluate that two-year period and subsequent backcast studies will be conducted annually to evaluate the respective annual period. Each backcast study will be submitted no later than 90 days after the conclusion of the period subject to evaluation. The Company must show that the IRM Project savings equaled or exceeded the revenue requirement attributed to the IRM Project.

7. Service Oualitv - Customer Service Indicators (Appendix H) - NYSEG will submit the results of its three Customer Service Indicators quarterly to the Director of the Office of Consumer Education and Advocacy. No later than 60 days after each calendar year of the Gas Rate Plan a final report will be filed and include an assurance of the integrity of the results either by including verification of all reported survey data by a third party audit or by an attestation of a NYSEG officer that the results are accurate and verifiable.

8. Service Quality - Oualitv Assurance Program (Appendix H) - No later than 60 days after each calendar year of the Gas Rate Plan

NYSEG will develop and submit a separate annual Quality Assurance report to its Senior Management and to Staff.

9. Service Quality - Gas Operations and Safety Measures (Appendix H) - No later than 60 days after each calendar year of the Gas Rate Plan, NYSEG will file a report detailing the number of miles of mains, by size and material, replaced; the number of bare steel services replaced; the number of miles of bare steel mains isolated; and a summary of the information on the gas emergency response times. NYSEG's Quality Assurance report will be appended to this report.

XXXI. Additional Provisions

1. Amortizations - Except as otherwise specifically provided in this Joint Proposal, NYSEG shall have the ability to accelerate the amortization of any regulatory assets and/or regulatory liabilities, with the Commission's permission, during the term of the Gas Rate Plan.

2. Interest on Deferred Balances - Interest will be accrued at the before-tax rate of 10.5% on the after-tax balance on non-rate base deferral accounts except as otherwise stated in this Joint Proposal.

3. Public Service Law Section 68 - NYSEG's right and obligation under New York Law and its Public Service Law ("PSL") Section 68 Certificates to provide gas service to its customers remain unchanged and in full force and effect for the full term of this Joint Proposal and thereafter unless and until duly changed.

4. Mergers and Acquisitions - In the event of a merger with or acquisition of or by another company which is the subject of a Petition filed jointly or individually by NYSEG, RG&E, RGS or Energy East pursuant to the PSL, the terms of NYSEG's Gas Rate Plan will survive any such merger or acquisition. Any Commission proceeding addressing such merger or acquisition will establish the conditions associated with such merger or acquisition. The conditions may include the disposition of incremental net synergy savings applicable to NYSEG's gas business, to the extent there are any savings.

5. Binding Effect of the Joint Proposal

a. This Joint Proposal is intended to resolve all issues in NYSEG's Deferral Petition, the Phase 1 rate and revenue issues in NYSEG's Gas Rate Filing that are addressed herein and to establish the structure, and in specified instances the parameters, under which Gas Rate Filing issues designated as Phase 2 issues will be addressed. Except as set forth herein, none of the Parties is deemed to have approved, agreed to, or consented to any principle, methodology or interpretation of law underlying or supposed to underlie any provision hereof.

b. Each Party to this Joint Proposal has expressly conditioned its support upon the approval and adoption of this Joint Proposal in its entirety by the Commission. If the Commission does not approve this Joint Proposal in its entirety, or with accepted modifications, or if this Joint Proposal, or Commission order approving same, or any provision of either is materially modified by a court order which has become final and non-appealable, then each of the Parties reserves the right to withdraw its acceptance of this Joint Proposal by serving written notice on the Commission and the other Parties and to renegotiate and, if necessary, to litigate without prejudice, any or all issues as to which such Party agreed in this Joint Proposal. A Party who so withdraws its acceptance of this Agreement will not be bound by its provisions, and this Joint Proposal will be null and void as to such Party.

c. This Joint Proposal is subject to any required approval of NYSEG's Board of Directors.

d. It is the intent of the Parties that the provisions of this Joint Proposal will apply to and be binding only with respect to the matters that are the subject of these proceedings. Except to the extent matters in this Joint Proposal relate to other proceedings (primarily Case 00-M-0504), no provision of this Joint Proposal, nor any methodology or principle utilized herein, nor any of the positions taken herein by any Party may be referred to, or cited or relied upon as precedent in any other proceeding before the Commission, or any other regulatory agency or before any court of law for any purpose other than the furtherance of the purposes, results and disposition of matters expressly governed by the Joint Proposal.

6. Compliance with the Joint Proposal - If during the term of the Gas Rate Plan any Party believes that NYSEG is in material noncompliance with the terms of this Joint Proposal, such Party has the right to inform Staff of its concern(s). Upon receiving that Party's concern(s), Staff will notify NYSEG and provide NYSEG a reasonable opportunity to address the concern(s) of the Party. If the Party's concern(s) is(are) not addressed to the reasonable satisfaction of the Party and Staff, Staff or the Party will have the right to bring the Party's concern(s) before the Commission.

7. Effect of Commission Approval

a. The Parties agree and request that the Commission find upon approving this Joint Proposal that: (a) this Joint Proposal is in the public interest; and (b) the rate provisions of this Joint Proposal are just and reasonable.

b. The Commission's authority to act on the level of NYSEG's base gas rates is reserved in the event of unforeseen circumstances that, in the Commission's opinion, render NYSEG's actual gas return on equity unreasonable or insufficient for the provision of safe and adequate service at just and reasonable rates. The Parties intend that in such circumstances the Commission should act to ameliorate such substantial impact in order to ensure customers are paying just and reasonable rates and to provide NYSEG an opportunity to earn a reasonable return on its investment, as envisioned by this Joint Proposal.

c. No provision of this Joint Proposal or the Commission's approval of this Joint Proposal shall in any way abrogate or limit the Commission's statutory authority under the PSL. The Parties recognize that any Commission approval of this Joint Proposal does not waive the Commission's ongoing rights and responsibilities to enforce its orders and effectuate the goals expressed therein, nor the rights and responsibilities of Staff to conduct investigations or take other actions in furtherance of its duties and responsibilities.

8. <u>Captions</u> - All titles, subject headings, section titles and similar items herein are provided for the purpose of reference and convenience only and are not intended to affect the meaning, the content or the scope of this Joint Proposal.'

9. <u>Execution</u> - This Joint Proposal may be executed in counterpart originals and will be binding upon each signatory Party when its executed counterpart is filed with the Secretary of the Commission.

Executed as of the 12 day of 20 Sept

New York State Electric & Gas Corporation

By: ______________________

Ralph R. Tedesco
President and Chief Operating Officer

Executed as of the 12 day of September 2002.

Staff of the Department of Public Service

By: John P. Zekoll

Wayne O. Fuhrman

Executed as of the 12th day of September 2002.

New York State Consumer Protection Board

By: Alfred Lerner

Executed as of the 13th day of September 2002.

AllEnergy Gas & Electric Marketing Co., LLC

By: Frank L Peraino
Frank L. Peraino
President

Executed as of the 13th day of Sept 2002.

Empire Natural Gas Corporation

By: Marcel J. Barrows

Marcel J. Barrows, President

Executed as of the 15th day of September 2002.

On Behalf of Multiple Intervenors

By: James A. K

Couch White LLP

APPENDIX A

PROPOSED DELIVERY RATES,
BILLING UNITS AND FIRM DELIVERY REVENUES

New York State Electric & Gas Corporation | **Appendix A**
Gas Business | **Schedule A**
Case No. 01-G-1668 |
Existing Delivery Rate Structure for Firm Service Classes

PSC 87 - Gas (Sales Services)

Service Classification 1: Residential Sales

	RA73 Owego	RA75 Goshen	RA76 Lockport	RA79 Elmira	RA82 Combined	RA86 Champlain
First 3 Therms or Less (Low Income)	56.40	36.40	$6.40	$6.40	$6.40	$6.40
First 3 Therms or Less (Non Heat)	$9.00	39.00	$9.00	$9.00	$9.00	$9.00
Fii 3 Therms or Less (Heat)	513.00	$13.00	$13.00	$13.00	313.00	$13.00
Next 47 Therms, per Therm	so.4437	50.4303	so.4551	so.3949	so.4905	SO.4009
Over 50 Therms, per Thetm	SO.1169	so.1107	$0.1164	SO.1383	SO.1610	SO.2446

	RA84 Binghamton
First 2 Therms or Less (Low Income)	S6.40
First 2 Therms or Less (Non Heat)	$9.00
Fii 2 Therms or Less (Heat)	513.00
Over 2 Therms, per Therm	so.1755

Service Classification 2: General Service - Non Residential Sales

	RA73 Owego	RA75 Goshen	RA76 Lockport	RA79 Elmira	RA82 Combined
First 3 Therms or Less	$17.00	$17.00	$17.00	$17.00	317.00
Next 497 Therms, per Therm	so.2927	SO.2876	SO.3368	SO.3243	SO.3538
Next 14,500 Therms, per Therm	SO.0770	so.1473	SO.1763	SO.1739	SO.1950
Next 35,000 Therms, per Therm	60.0693	SO.0748	So.0789	SO.1118	SO.1282
over 50,000 Therms, per Therm	so.0143	50.0147	so.0146	SO.0148	30.0143

	RA84 Binghamton
First 2 Therms or Less	$17.00
Over 2 Therms, per Therm	so.1754

	RA86 Champlain
First 3 Therms or Less	$17.00
Next 222 Therms, per Therm	so.3737
Next 275 Therms, per Therm	SO.3356
Over 500 Therms, per Therm	so.2166

New York State Electric & Gas Corporation
Gas Business
Case No. 01-G-1668
Existing Delivery Rate Structure for Firm Service Classes

Appendix A
Schedule A
, Page2

Service Classification 5: Seasonal Gas Cooling

	RA73 Owego	RA75 Goshen	RA76 Lockport	RA79 Elmira	RA82 Combined	RA84 Binghamton	RA86 Champlain
First 3 Therms	$17.00	617.00	$17.00	$17.00	$17.00	$17.00	$17.00
Over 3 Therms, per Therm	$0.014270	$0.014270	$0.014270	so.014370	50.014370	$0.014270	$0.014370

Service Classification 8: Firm Sales to Large General Service

	RA86 champlain
First 3 Therms	$17.00
Next 497 Therms, per Therm	SO.3426
Next 14,500 Therms, per Therm	so.2506
Over 15,000 Therms, per Therm	302332

Service Classification 9: Sales for Industrial Manufacturing or Processing Purposes

	RA84 Binghamton
Fii 50 Tllams	$23.98
Next 450 Therms, per Therm	$0.2214
Next 19,500 Therms, per Therm	f0.1710
Over 20,000 Therms, per Therm	so.0739

New York State Electric & Gas Corporation
Gas Business
Case No. 01-G-1668
Existing Delivery Rate Structure for Firm Service Classes

PSC 88 - Gas (Transportation Services)

Service Classification 1: Firm Transportation Service

	RA73 Owego	RA75 Goshen	RA76 Lockport	RA79 Elmira	RA82 Combined	RA84 Binghamton	RA86 Champlain
First 500 Therms	$379.30	$408.30	$391.30	$383.30	$390.30	$386.30	$390.30
Next 49,500 Therms, per Therm	$0.0581	$0.1160	$0.0829	$0.0671	$0.0803	$0.0734	50.0803
over 50,000 Therms, per -Therm	$0.0263	$0.0784	$0.0583	$0.042 1	$0.0508	60.0242	SO.0508

Service Classification 5: Small Firm Transportation Service

	RA73 Owego	RA75 Goshen	RA76 Lockport	RA79 Elmira	RA82 Combined	RA84 Binghamton	RA86 Champlain
First 3 Therms	$200.00	$200.00	$200.00	$200.00	$200.00	$201.00	$200.00
Next 14,997 Therms, per Therm	$0.1323	$0.1323	So.1323	$0.1323	SO.1323	50.2405	so.1323
over 15,000 Therms, per Therm	SO.0880	SO.0880	$0.0880	30.0880	SO.0880	SO.1568	$0.0880

Service Classification 13: Residential Firm Aggregaton Transportation Service

	RA73 Owego	RA75 Goshen	RA76 Lockport	RA79 Elmira	R482 Combined	RA86 Champlain
First 3 Therms (Low Income)	$6.40	$6.40	$6.40	$6.40	$6.40	$6.40
First 3 Therms	$13.00	$13.00	$13.00	$13.00	$13.00	$13.00
Next 47 Therms, per Therm	SO.4437	50.4303	$0.4551	so.3949	$0.4905	SO.4009
over 50 Therms, per Therm	$0.1169	$0.1107	$0.1164	SO.1383	SO.1610	so.2446

	RA84 Binghamton
First 2 Therms (Low Income)	$6.40
First 2 Therms	$13.00
over 2 Therms, per Therm	$0.1755

Service Classification 14: Non-Residential Firm Aggregation Transportation Service

	RA73 owcgo	RA75 Goshen	RA76 Lockport	RA79 Elmira	RA82 Combined
First 3 Therms	$17.00	617.00	$17.00	$17.00	$17.00
Next 497 Therms, per Therm	so.2927	SO.2876	SO.3368	SO.3243	SO.3538
Next 14,500 Therm, per Them	$0.0770	so.1473	SO. 1763	so.1739	$0.1950
Next 35,000 Therms, per Therm	50.0693	$0.0748	SO.0789	SO.1118	SO.1282
Over 50,000 Therms, per Therm	SO.0143	so.0147	so.0146	SO.0148	$0.0143

	RA84 Binghamton
First 2 Therms	$17.00
Over 2 Therms, per Therm	so.1754

	RA86 Champlain
First 3 Therms	$17.00
Next 222 Therms, per Therm	so.3737
Next 275 Therms, per Therm	SO.3356
Over 500 Therms, per Therm	so.2166

New York State Electric & Gas Corporation
Gas Business
Case No. 01-G-1668
Summary of Firm Billing Units and Customers

TOTAL DTH (000) - Rate Year 10/02 - 9/03

Service Class	Revenue Class	Owego RA73	Goshen RA75	Lockport RA76	Elmira RA79	Combined RA82	Binghamton RA84	Champlain RA86	TOTAL
SALES CLASSES									
SC01S: Residential Sales	Low Income	21.3	14.1	192.4	283.2	731.7	570.4	2.0	1,815.2
	Heat	250.1	308.9	2,462.7	2,583.6	9,319.6	7,336.5	24.1	22,285.6
	Non Heat	a.4	11.5	72.2	16.8	212.4	186.5	4.1	512.0
	TOTAL	279.9	334.5	2,727.3	2,883.7	10,263.7	8,093.5	30.2	24,612.8
SC02S: General Service		96.2	495.4	768.0	863.8	4,251.3	1,863.0	48.2	8,386.0
SC05S: Seasonal Gas Cooling		-	-	-	-	0.7	0.9	-	1.6
SC08S: Large General Service		-	-	-	-	-	-	0.7	0.7
SC09S: Industrial Manufacturing			-		-	-	50.3	-	50.3
TOTAL SALES		**376.0**	**830.0**	**3,495.3**	**3,747.5**	**14,515.8**	**10,007.7**	**79.2**	**33,051.4**
TRANSPORTATION CLASSES									
SC01T: Firm Transportation		-	-	226.6	1,294.8	5,068.3	1,096.9	-	7,686.7
SC05T: Small Firm Transportation		52.9	-	407.6	383.6	1,984.5	52.9	-	2,881.5
SC13T: Res Firm Aggregation	Heat	5.1	3.1	24.9	52.7	190.2	74.1	-	350.1
	Non Heat	0.2	0.1	0.7	0.3	4.3	1.9	-	7.6
	TOTAL	5.3	3.2	25.6	53.1	194.5	76.0	-	357.7
SC14T: Non-Res. Firm Aggregation		64.1	26.1	192.0	216.0	1,417.1	1,244.7	2.5	3,162.5
TOTAL TRANSPORTATION		**122.3**	**29.3**	**851.8**	**1,947.4**	**8,664.5**	**2,470.5**	**2.5**	**14,088.3**
TOTAL FIRM SALES AND TRANSPORTATION (DTH)		**498.3**	**859.3**	**4,347.1**	**5,694.9**	**23,180.2**	**12,478.1**	**81.7**	**47,139.8**

TOTAL Customers - Rate Year 10/02 - 9/03

Service Class	Revenue Class	Owego RA73	Goshen RA75	Lockport RA76	Elmira RA79	Combined. RA82	Binghamton RA84	Champlain RA86	TOTAL
SALES CLASSES									
SC01S: Residential Sales	Low Income	236	110	1,838	2,547	6,668	4,647	29	16,075
	Heat	2,415	2,436	23,856	22,734	82,590	57,210	246	191,487
	Non Heat	175	273	1339	469	[illegible]	4350	82	13.084
	TOTAL	2,826	2,819	27,033	25.749	95,655	66,206	357	220,646
SC02S: General service		213	578	2.112	2.298	10,517	4,095	110	19,923
SC05S: Seasonal Gas Cooling						6	4		10
SC08S: Large General Service								1	1
SC09S: Industrial Manufacturing							10		10
TOTAL SALES		3,039	33%	**29,145**	**28,047**	**106,178**	70316	**468**	**240,590**
TRANSPORTATION CLASSES									
SC0 IT: Firm Transportation				5	18	74	36		133
SC05T: Small Firm Transportation		9		41	66	2%	6		418
SC13T: Res Fii Aggregation	Heat	49	25	241	464	1,686	578		3,042
	Non Heat	4	3	14	10	131	44	-	204
	TOTAL	53	27	255	474	1,816	622		3.246
SC14T: Non-Res. Firm Aggregation		142	30	528	574	3,506	2,730	6	7,516
TOTAL. TRANSPORTATION		204	58	829	1,132	5,692	3394	6	11313
TOTAL FIRM SALES AND TRANSPORTATION CUSTOMER		**3,243**	**3,454**	**29,974**	**29,179**	**111,870**	**73,709**	**474**	**251,903**

New York State Electric & Gas Corporation
Gas Business
Case No. 01-G-1668
Rate Year (10/02 - 9/03) Billing Units at Existing Delivery Rates
Firm Services

Service Classification IS: Residential Sales Service

Rate Area 73: Owego

	Billing Units	Delivery Rate	Total Delivery Revenue	Customer Months Heat (97%) / Non-Hear (3%)	Affordable Energy Discount	Affordable Energy Amount
Customer Months - Low Income	2,829	$6.40	$18,105			
Customer Months - Heat	28,980	$13.00	$376,742	2,744	$6.60	$18,110
Customer Months - Non Heat	2,105	$9.00	$18,941	85	$2.60	5221
First 3 Therms	113260					
Next 47 Therms	1203.828	so.4437	$534,138			
Over 50 Therms	1,481,490	S0.1169	$173,186			$0
	2,798,578		$1,121,113	2,829		$18331

Rate Area 75: Goshen

	Billing Units	Delivery Rate	Total Delivery Revenue	Affordable Energy Program		
C-Months - Low Income	1,323	$6.40	58,467			
Customer Months - Heat	29,228	$13.00	$379,959	1,283	$6.60	$8,470
C-Months - Non Heat	3.273	$9.00	$29,458	40	$2.60	$103
First 3 Therms	98,084					
Next 47 Therms	1,148,624	S0.4303	$494,253			
over 50 Therms	2.098.712	$0.1 107	$232.327			$0
	3,345,420		$1,144,465	1,323		58,573

Rate Area 76: Lockport

	Billing Units	Delivery Rate	Total Delivery Revenue	Affordable Energy Program		
Customer Months - Low Income	22,054	$6.40	5141,148			
Customer Months - Heat	286.276	$13.00	$3,721,582	21,393	$6.60	6141.192
Customer Months - Non Heat	16.072	$9.00	$144,649	662	$2.60	$1.720
First 3 Therms	947,085					
Next 47 Therms	11,162,388	so.455 1	$5,080,003			
Over 50 Therm	15.163.523	SO.1164	$1.765.034			$0
	27,272,997		$10,852,416	22,054		$142,912

Rate Area 79: Elmira ..

	Billing Units	Delivery Rate	Total Delivery Revenue	Affordable Energy Program		
Customer Months - Low Income	30,569	$6.40	5195.643			
C- Months - Heat	272,806	$13.00	$3,546,484	29,652	56.60	6195,704
Customer Months - Non Heat	5,618	$9.00	$50,564	917	$2.60	42,384
First 3 Therms	918,464					
Next 47 Therms	11,206,452	so.3949	$4,425,428			
Over 50 Therms	16.711.630	$0.1383	$2.311.218			$0
	28,836,545		$10,529,337	30,569		$198,088

Rate Area 82: Combined

	Billing Units	Delivery Rate	Total Delivery Revenue	Affordable Energy Program		
Customer Months - Low Income	80,012	$6.40	$5 12.076			
Customer Months - Heat	991,084	313.00	S 12.884.087	77,612	$6.60	$512,236
Customer Months - Non Heat	76,764	$9.00	5690.873	2,400	$2.60	$6,241
First 3 Therms	3374,004					
Next 47 Therms	39,288,870	so.4905	$19,271,191			
Over 50 Therms	59.9743 17	SO.1610	$9.655.865			$0
	102.637.190		$43,014,092	80.012		$518,477

Rate Area 84: Binghamton

	Billing Units	Delivery Rate	Total Delivery Revenue	Customer Months Heat (97%) / Non-Heat (3%)	Affordable Energy Discount	Affordable Energy Amount
Customer Months - Low Income	55,762	$6.40	16356,877			
Customer Months - Heat	686518	613.00	$8,924,734	54,089	$6.60	$356,989
Customer Months - Non Heat	52,194	$9.00	S469.748	1,673	$2.60	S4.349
First 2 Therms	1,578,375					
Over 2 Therms	79.356.671	so.1755	$13.927.096			$0
	80,935,046		$23,678,455	55.762		$361,338

Service Classification IS: Residential Sales Service, Cont

Rate Am 86: Champlain

		Delivery Rates		Affordable Energy Program		
	Billing Units	Delivery Rate	Total Delivery Revenue			
Customer Months - Low Income	352	$6.40	52252			
Customer Months - Heat	2.950	513.00	338346	341	$6.60	$2,252
Customer Months - Non Heat	983	$9.00	$8,844	11	$2.60	$27
First 3 Therms	10,676					
Next 47 Therms	110,342	$0.4009	$44,236			
Over 50 Therms	181273	S0.2446	$44,339			$0
	302,291		5138.037	352		$2,280
TOTAL SC1S:	246,128,068		$90,477,894			$1,250,000

Service Classification 2S: General Sales Service

Rate Area 73: Owego

	Billing Units	Delivery Rates: Delivery Rate	Total Delivery Revenue
Customer Months	2,556	$17.00	$43,452
First 3 Therms	8,882		
Next 497 Therms	497,377	$0.2927	5145,582
Next 14,500 Therms	45551 1	S0.0770	$35,074
Next 35,000 Therms		S0.0693	$0
Over 50.000 Therms		So.0143	$0
	961.769		$224,108

Rate Area 75: Goshen

	Billing Units	Delivery Rates: Delivery Rate	Total Delivery Revenue
Customer Months	6.931	$17.00	$117,830
First 3 Therms	20,109		
Next 497 Therms	1,252,351	$0.2876	$360,176
Next 14,500 Therms	2,872,770	$0. 1473	$423,159
Next 35,000 Therms	770,005	S0.0748	$57,596
over 50,000 Therms	39.130	so.0147	$575
	4,954,365		3959,337

Rate Area 76: Lockport

	Billing Units	Delivery Rates: Delivery Rate	Total Delivery Revenue
Customer Months	25,344	$17.00	$430,848
First 3 Therms	69,708		
Next 497 Therms	4,029,576	S03368	$1,357,161
Next 14,500 Therms	3507.125	S0.1763	$618,306
Next 35,000 Therms	73,601	S0.0789	$5,807
Over 50.000 Therms	0	XI.0146	$0
	7,680,009		$2,412,122

Rate Am 79: Elmira

	Billing Units	Delivery Rates: Delivery Rate	Total Delivery Revenue
Customer Months	27,571	517.00	$468,710
First 3 Therms	80,336		
Next 497 Therms	4,862,998	S0.3243	$1,577,070
Next 14.500 Therms	3.6693 11	S0.1739	$638,093
Next 35,000 Therms	25,775	S0.1118	$2,882
Over 50,000 Therms	0	S0.0148	$0
	8,638,420		$2,686,755

Service Classification 2S: General Sales Service, Cont.

Rate Area 82: Combined

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	126,207	$ 17.00	$2.145.519
First 3 Therms	376.396		
Next 497 Therms	23,360,128	SO3538	$8.264,813
Next 14.500 Therms	17,911,369	so.1950	$3,492,7 17
Next 35,000 Therms	73 .1.400	SO.1282	S93.766
Over 50.000 Therms	134.040	so.0143	$1,917
	42.513333		$13,998,732

Rate Am 84: Binghamton

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	49,140	$17.00	6835380
Fim 2 Therms	80,744		
over 2 Therms	18.549.3 15	so.1754	$3.253.550
	18,630,059		$4,088,930

Rate Area 86: Champlain

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	1,322	fi7.00	$22.481
Fim 3 Therms	2,752		
Next 222 Therms	110,792	so.3737	$41,403
Next 275 Therms	73,661	SO3356	424,721
Over 500 Therms	295.163	$0.2166	$63.932
	482,368		6152,537

	Billing Units		Total Delivery Revenue
TOTAL SC2S:	83,860,323		$24,522,522

Service Classification 5S: Seasonal Gas Cooling

RA73: Owego N/A - No Customers
RA75: Goshen N/A - No Customers
RA76: Lockport N/A - No Customers
RA79: Elmira N/A - No Customers

Rate Area 82: Combined

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	12	$17.00	$202
First 3 Therms	16		
Over 3 Therms	7306	SO.014370	$105
	7322		$307

Rate Area 84: Binghamton

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	6	517.00	5103
First 3 Therms	8		
Over 3 Therms	8.789	SO.014270	$125
	8,797		$229

Rate Area 86: Champlain N/A -No Customers

	Billing Units		Total Delivery Revenue
TOTAL SC05S:	16,119		$536

Set-vice Classification 08% Firm Sales to Large General Service

Note: SC08S is offered in the Champlain Rate Area Only.

Rate Area 86: Champlain

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	12	517.00	3204
First 3 Therms	36		
Next 497 Therms	5,835	SO.3426	51,999
Next 14,500 Therms	1,121	so.2506	$281
Over 15,000 Therms		SO.2332	$0
	6,992		52.484

Service Classification 09S: Industrial Manufacturing

Note: SC09S is offered in the Binghamton Rate Area Only

Rate Area 84: Binghamton

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	119	S23.98	$2,853
First 50 Therms	4,248		
Next 450 Therms	38,019	so.2214	58,417
Next 19,500 Therms	460,606	SO.1710	578,764
Over 20,000 Therms		SO.0739	$0
	502.873		$90,034

TOTAL SALES CLASSES	330,514,375	$115,093,470

Service Classification 1T: Fii Transportation Service

Rate Area 73: Owego N/A - No Customers
Rate Area 75: Goshen N/A - No Customers

Rate Area 76: Lockport

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	60	s391.30	S23.478
First 500 Therms	26,301		
Next 49,500 Therms	1,745,350	so.0829	$144,689
Over 50,000 Therms	494.586	SO.0583	$28,834
	2,266,236		$197,002

Rate Area 79: Elmira

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	216	$383.30	S82.793
First 500 Therms	144,394		
Next 49,500 Therms	9,893,961	90.0671	5663.885
ova 50,000 Therms	2909.989	so.0421	$122,51 1
	12,948,344		$869,188

Rate Area 82: Combined

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	893	$390.30	5348.538
First 500 Therms	480,408		
Next 49,500 Therms	32,269,464	so.0803	$2,591,238
Over 50,000 Therms	17.933.135	50.0508	~911.003
	50,683,007		$3,850,779

Service Classification 1T: Firm Transportation Service, Cont.

Bate Area 84: Binghamton

	Billing Units	Delivery Rate	Total Delivery Revenue
Customer Months	432	5386.30	$166,882
First 500 Therms	190.504		
Next 49,500 Therms	8,852,734	$0.0734	$649,791
Over 50,000 Therms	1,925,990	$0.0242	$46,609
	10,969,228		$863,281

Rate Am 86: Goshen — N/A -No Customers

TOTAL SC1T:	76,866,815	$5,780,250

Service Classification 5T: Firm Transportation Service

Bate Area 73: Owego

	Billing Units	Delivery Rate	Total Delivery Revenue
Customer Months	108	$200.00	$21,600
First 3 Therms	326		
Next 14.997 Therms	521,025	so.1323	568,932
Over 15,000 Therms	7.848	SO.0880	$691
	529,199		$91,222

Bate Area 75: Goshen — N/A - No Customers

Rate Area 76: Lockport

	Billing Units	Delivery Rate	Total Delivery Revenue
--Customer Months	492	$200.00	$98,400
First 3 Therms	1,487		
Next 14,997 Therms	3,455,092	SO.1323	$457,109
ova 15,000 Therms	618.967	SO.0880	$54,469
	4,075,546		$609,978

Rate Area 79: Elmira

	Billing Units	Delivery Rate	Total Delivery Revenue
Customer Months	788	$200.00	5157,600
First 3 Therms	2.364		
Next 14,997 l-hems	3,658,997	$0.1323	$484,085
Over 15,000 Therms	174.394	SO.0880	$15,347
	3,835,755		$657,032

Rate Area 82: Combined

	Billing Units	Delivery Rate	Total Delivery Revenue
Customer Months	3,551	$200.00	$710,200
First 3 Therms	10.949		
Next 14,997 Therms	18,154,086	so.1323	$2,40 1,786
ova 15,000 Therms	1,680.178	SO.0880	$147,856
	19,845,213		$3,259,841

Rate Am 84: Binghamton

	Billing Units	Delivery Rate	Total Delivery Revenue
Customer Months	72	$201.00	$14,472
First 3 Therms	218		
Next 14,997 Therms	484.187	SO.2405	5116,447
over 15,000 Therms	44.642	SO.1568	$7,000
	529,046		$137,919

Rate Area 86: Champlain — N/A • No Customers

TOTAL SC5T	28,814,759	$4,755,992

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Rate Year (10/02 - 9/03) Billing Units at Existing Delivery Rates
Firm Services

Service Classification 13T: Residential Firm Aggregation Transportation Service

Rate Area 73: Owego

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months - Heat	591	$13.00	57,689
Customer Months - Non Heat	43	$13.00	$558
First 3 Therms	2,112		
Next 47 Therms	22,451	so.4437	$9,962
Over 50 Therms	28.205	SO.1169	$3,297
	52.768		$21,506

Rate Am 75: Goshen

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months - Heat	295	s13.00	53,838
Customer Months - Non Heat	33	$13.00	$430
First 3 Therms	953		
Next 47 Therms	11.125	SO.4303	$4,787
Over 50 Therms	20.29 1	so.1107	$2,246
	32,370		$11,301

Rate Area 76: Lockport

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months - Heat	2892	$13.00	$37,592
Customer Months - Non Heat	162	$13.00	$2,110
First 3 Therms	8,919		
Next 47 Therms	104.850	so.455 1	$47,717
Over 50 Therms	142276	SO.1164	$16,561
	256.045		5103.981

Rate Area 79: Elmira

	Billing Units	Delivery Rates: Delivery J&e-	Delivery Rates: Total Delivery Revenue
-Customer Months - Heat	5.567	$13.00	$72,377
Customer Months - Non Heat	115	$13.00	$1,491
First 3 Therms	16,884		
Next 47 Therms	205,412	so3949	$81,117
Over 50 Therms	308.406	SO.1383	$42,653
	530,702		5197,637

Rate Area 82: Combined

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months - Heat	20,226	513.00	$262,941
Customer Months - Non Heat	1,567	$13.00	$20366
First 3 Therms	64.034		
Next 47 Therms	742,876	30.4905	5364381
Over 50 Therms	1.138398	S0.1610	$183,282
	1345309		$830,969

Rate Area 84: Binghamton

	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months - Heat	6,935	$13.00	$90,149
Customer Months - Non Heat	527	$13.00	$6,854
First 2 Therms	14.815		
Over 2 Therms	745,091	so.1755	$130,763
	759,906		s2n.766

Rate Area 86: **Champlain** — N/A No Customers

TOTAL SC13T: 3577,099 — $1,393,160

New York State Electric & Gas Corporation
Gas Business
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Rate Year (10/02 • 9/03) Billing Units at Existing Delivery Rates
Firm Services

Service Classification 14T: Non-Residential Firm Aggregation Transportation Service

Rate Area 73: Owego

	Billing Units	Delivery Rata: Delivery Rate	Delivery Rata: Total Delivery Revenue
Customer Months	1,704	517.00	528,968
First 3 Therms	5,921		
Next 497 Therms	331,584	SO.2927	$97,055
Next 14.500 Therms	303,674	so.0770	523.383
Next 35.000 Therms		SO.0693	$0
Over 50,000 Therms		50.0143	$0
	641,179		$149,406

Rate Am 75: Goshen

	Billing Units	Deliverv Rates: Delivery Rate	Deliverv Rates: Total Delivery Revenue
Customer Months	365	417.00	$6,202
First 3 Therms	1,058		
Next 497 Therms	65.913	SO.2876	$18,957
Next 14,500 Therms	151,198	so.1473	$22,272
Next 35,000 Therms	40,527	SO.0748	$3,031
over 50,000 Therms	2.059	so.0147	$30
	260,756		$50,491

Rate Area 76: Lockport

	Billing Units	Deliverv Rates: Delivery Rate	Deliverv Rates: Total Delivery Revenue
Customer Months	6,336	$17.00	5107,712
First 3 Therms	17,427		
Next 497 Therms	1,007,394	SO3368	$339,290
Next 14,500 Therms	876,781	SO.1763	SW.577
Next 35,000 Therms	18,400	SO.0789	51,452
over 50,000 Therms	0	so.0146	$0
	1,920,002		$603,031

Rate Area 7% Elmira

	Billing Units	Deliverv Rates: Delivery Rate	Deliverv Rates: Total Delivery Revenue
Customer Months	6,893	s17.00	5117,178
First 3 Therms	20,084		
Next 497 Therms	1,215,749	SO.3243	S394.268
Next 14,500 Therms	917,328	60.1739	$159,523
Next 35,000 Therms	6,444	SO.1118	$720
over 50,000 Therms	0	50.0148	$0
	2,159,605		$671,689

Rate Am 82: Combined

	Biig units	Deliverv Rates: Delivery Rate	Deliverv Rates: Total Delivery Revenue
Customer Months	42,069	$17.00	$715,173
First 3 Therms	125,465		
Next 497 Therms	7,786,709	SO3538	$2,754,938
Next 14,500 Therms	5,970,456	so.1950	$1,164,239
Next 35,000 Therms	243,800	SO.1282	$31,255
over 50,000 Therms	44,680	50.0143	$639
	14,171,111		$4,666,244

Rate Am 84: Binghamton

	Billing Units	Deliverv Rates: Delivery Rate	Deliverv Rates: Total Deliverv Revenue
Customer Months	32.766	$17.00	$557.026
First 2 Therms	53.843		
over 2 Therms	12.392.664	so.1754	$2.173.673
	12,446,507		$2,730,700

New York State Electric & Gas Corporation
Gas Business
Case No. 01-G-1668
Rate Year (10/02 - 9/03) Billing Units at Existing Delivery Rates
Finn Services

Service Classification 14T: Non-Residential Firm Aggregation Transportation Service, Cont.

Rate Area 86: Champlain	Billing Units	Delivery Rates: Delivery Rate	Delivery Rates: Total Delivery Revenue
Customer Months	70	$17.00	$1,183
First 3 Therms	145		
Next 222 Therms	5,831	so.3737	$2,179
Next 275 Therms	3.877	$03356	51,301
Over 500 Therms	15.535	$0.2166	$3.365
	25,388		$8,028
TOTAL SC14T:	31,624,548		$8,879,588
TOTAL TRANS CLASSES	140,883,221		$20,808,991

	Total Firm Billing Units - Therms	Total Firm Delivery Revenue
TOTAL ALL FIRM CLASSES	471,397,596	$135,902,461

APPENDIX B

GAS COST SAVINGS
INVESTMENT RECOVERY MECHANISM (IRM) GUIDELINES

During the term of the Gas Rate Plan, NYSEG may petition the Commission for approval of distribution system gas supply related capital project(s) that provide benefits to customers ("IRM Project(s)"). The IRM will permit NYSEG the opportunity to recover the revenue requirement associated with such IRM Project(s).

A. Minimum Requirements of an IRM Project

The minimum requirements of a IRM Project are:

1. The IRM Project must be at least $2 million.

2. The IRM Project must be projected to produce a 10.5% ROE over its expected life.

3. The IRM Project must provide open access to all transporters.

B. Implementation of the IRM

All IRM Projects must conform to the following parameters, and each such Project must be approved by the Commission:

1. The IRM will be implemented contemporaneously with the in-service date of the IRM Project.

2. The in-service date of an IRM Project will not be targeted to occur before savings/revenues exceeding the IRM Project revenue requirement at a 10.5% return on equity are projected to be realized.

3. NYSEG's recovery of the IRM Project revenue requirement will be through IRM Project savings and marketer revenues ("IRM Project Savings").

4. The IRM will be assessed to applicable sales customers and any marketer (or pool operator) using the IRM Project facilities.

5. Service to marketers will be subject to capacity availability absent a firm service commitment as determined on a project-by-project basis.

6. The IRM will be reconciled and credited/surcharged for any over/under recovery. The IRM initially will be reconciled over the

two-year period after the in-service date of the IRM Project and reconciled annually thereafter.

7. The IRM will be calculated based on forecasted usage and reconciled as provided in B.6 above and B.9 below.

8. Migration will be considered in original calculations supporting the IRM Project.

9. NYSEG will file a backcast study detailing savings and costs attributable to each IRM Project. The initial backcast study will be conducted two years after the in-service date to evaluate that two-year period and subsequent backcast studies will be conducted annually to evaluate the respective annual period. Each backcast study will be submitted no later than 90 days after the conclusion of the period subject to evaluation. The Company must show that the IRM Project Savings equaled or exceeded the revenue requirement attributed to the IRM Project.

   If the IRM Project costs, including the attributed revenue requirement, exceed the Savings attributed to the IRM Project for the evaluation period, the revenue received from the IRM Project that exceeds the IRM Project Savings will be returned to customers in a manner found acceptable by the Commission. In no event will NYSEG be permitted to defer or surcharge any revenue deficiencies created by costs, including the attributed revenue requirement, that exceed Savings.

   If the IRM Project Savings exceed the IRM Project costs, including the attributed revenue requirement, for the evaluation period., there will be a 80%/20% sharing of those additional Savings between customers and shareholders for the first 100 basis points above the 10.5% ROE and a 75%/25% sharing of those additional Savings between customers and shareholders for amounts above 11.5% ROE. IRM revenues will be reconciled to ensure that customers receive their share of Savings that exceed the IRM Project revenue requirement.

10. IRM Projects will be on a Rate Area ("RA") specific basis (i.e., not system wide unless all RAs can benefit).

11. The IRM will be imposed until such time as the IRM Project is afforded normal rate treatment. The sharing of additional Savings outlined in B.9 will continue until the IRM Project is afforded normal rate treatment.

12. For all purposes including, but not limited to, revenue requirement and the normal rate treatment for the IRM Project, the IRM

Project's service life for depreciation purposes shall not exceed its anticipated economic life.

13. All active parties in Case 01-G-1668 will be notified of filings requesting approval of an IRM Project.

14. Supply savings produced by a distribution system project that is afforded recovery through an IRM will not be considered when determining savings subject to the Gas Cost Incentive Mechanism (GCIM) or RG&E Merger Enabled Savings.

APPENDIX C

GAS SUPPLY CHARGE (GSC) GUIDELINES

The Company will implement a GSC that is consistent with requirements contained in Section 720-6.5 of 16 NYCRR. Generally, the GSC will adhere to the following guidelines.

1. Applicability: The GSC will be applicable to all firm sales customers taking service pursuant to Service Classification Nos. 1, 2, 5, 8 and 9 of PSC No. 87 Gas and prorated as required.

2. Monthly GSC Calculation: The GSCs will be calculated on a monthly basis for each applicable service classification of each Rate Area (RA). Each GSC will be a function of the applicable Gas Supply Area (GSA). The GSAs and applicable Rate Areas are GSA 1 (comprised of the Combined, Elmira, Goshen and Champlain RAs); GSA 2 (comprised of the Binghamton and Owego RAs); and GSA 3 (comprised of the Lockport RA).

   The Bill Mitigation Plan as described in Section XI and Appendix D of the Joint Proposal, provides for phase-in of residential bill impacts associated with the implementation of the GSC.

3. Cost of Gas: The Total Average Cost of Gas is the sum of the Average Demand Cost of Gas, the Average Commodity Cost of Gas, Merchant Function Charge and Gas Cost Savings Adjustments; multiplied by the product of the Load Factor Adjustment (LFA) and the Factor of Adjustment (FA).

   a The Average Demand Cost of Gas shall be a per unit charge based on the costs associated with transportation capacity, storage capacity, and supply reservation, as adjusted.

   b. The Average Commodity Cost of Gas shall be a per unit charge based on the costs associated with the transportation, storage and gas supply, as adjusted, for the forecasted weather normalized quantities of gas to be taken for delivery to the Company's sales customers during the month in which the GSC will be in effect.

   c. NYSEG will use a "proxy" for the Merchant Function Charge of 16.4 cents per dekatherm. The "proxy" Merchant Function Charge shall be a per unit charge and will be adjusted annually, beginning July 1, 2003 and based on 1) Gas Supply Uncollectibles calculated annually based on the expected GSC revenues times the actual uncollectible percentage experienced by the Company, 2) Gas Inventory Carrying Charges will be based on a rolling 12-month average gas inventory balance and will be calculated based on an annual pre-tax rate of return, using the actual common equity ratio or 45%, whichever is less, and a return on equity of 10.5%; 3) Administrative & General Expenses of $411,000 annually, which will be updated annually for wages and benefits; and (4) Adder of $297,464 annually.

d. Once unbundled rates are implemented pursuant to the Unbundling Track and unless otherwise ordered therein, the Merchant Function Charge shah be a per unit charge based on 1) Gas Supply Uncollectibles calculated annually based on the expected GSC revenues times the actual uncollectible percentage experienced by the Company; 2) Gas Inventory Carrying Charges will be based on a rolling 12-month average gas inventory balance and will be calculated based on an annual pre-tax rate of return using the actual common equity ratio or 45%, whichever is less, and a return on equity of 10.5%; and 3) Administrative & General Expenses of $411,000 annually, which will be updated annually for wages and benefits.

e. Gas Cost Savings Adjustments: The Gas Cost Savings Adjustments shall include the Merger Savings Adjustment for Net Supply Savings as detailed in Section XIV.4. of the Joint Proposal, Gas Cost Incentive Mechanisms (GCIMs) as set forth in Section XII.2. of the Joint Proposal and any approved IRM as set forth in Section lx.

f. A LFA will be applicable to each service classification of each GSA. The LFA will allocate forecasted demand and commodity cost, including pipeline reservation charges, in a manner that recognizes the differing load factors of the sales service classes and the costs to serve them.

g. (i) The GSC will include a Factor of Adjustment (FA) to reflect lost and unaccounted for quantities and company use. The FA will be 1.0110 for all RAs.

(ii) The FA will be reset on January 1, 2005 and every two years thereafter unless or until a new gas rate plan approved by the Commission becomes effective. The FA will be reset based on the average of the immediately preceding two twelve month periods ending August 3 1.

(iii) All FAs will be posted prominently on NYSEG's SmarTrac or any successor system.

(iv) All proposed tariff changes and related filings will be contemporaneously served on all Parties to Case 01-G-1668.

4. <u>Supplier Refunds:</u> The Company shall return to customers any refund received from a supplier attributable to charges assessed to customers pursuant to the GSC.

5. <u>Research and Develonment (R&D):</u> An R&D surcharge will be applied consistent with the Commission's Order in Case 99-G-1369.

6. <u>Annual Reconciliation:</u> GSC recoveries will be reconciled with actual gas supply expenses on an annual basis. The result of the annual reconciliation will be included as an adjustment, as applicable, on future GSC statements. The adjustment for the annual reconciliation may be modified to provide for interim refunds or surcharges. Interim refunds or surcharges will be permitted for the purpose of preventing a large over-collection or under-collection balance from accruing.

7. Monthly GSC Statement: A GSC statement will be filed monthly. Each GSC statement will contain: a) identification of the schedule and service classifications; b) the effective period of the GSC; c) the date and period for which the GSC was determined; d) the cost on a per therm basis, before adjustments; e) a summary of adjustments; and f) the net amount of the GSC on a per therm basis.

   The Company will file supporting data and workpapers underlying the GSC statement.

8. Alternative Gas Cost Pricing: The Company may seek to offer customers alternative pricing mechanisms subject to approval by the PSC prior to implementation. Any filing made pursuant to this paragraph will be served on all Parties in Case 01-G-1668.

APPENDIX D

BILL MITIGATION PLAN

1. Purpose: To gradually phase-in the bill impacts on residential customers of moving from below-market gas costs to a market-based Gas Supply Charge (GSC).

2. Term: Phase-in of the market-based GSC will occur over a one-year period commencing October 1, 2002. Associated deferred gas costs will be recovered over a period no later than September 30, 2005.

3. Definitions:

   Mitigation Rate – the unit cost/therm that is not billed to customers; this rate is based on the difference between the mitigated gas supply charge and the market-based supply charge.

   Mitigation Amount – the amount of gas supply costs not charged to customers; this amount includes October and November 2002 gas costs not charged to customers and the applicable monthly Mitigation Rates multiplied by the actual billed therms (December 2002 through September 2003).

   Deferred Credits – credits retained by NYSEG for the benefit of customers; specifically, Account 254 (Other Regulatory Liabilities - Unbilled Revenue Pool) and Account 182.3 (Other Regulatory Assets - New York State Tax Deferral), except as provided in Sections XV.3.b and XVII.3 of the Joint Proposal.

   Mitigation Deferral – the amount of gas supply costs NYSEG defers on its books with accrued interest for later recovery; this amount is calculated by summing the monthly Mitigation Amount, then subtracting Deferred Credits.

   Mitigation Adjustment – the unit cost/therm that is charged to applicable customers to effect recovery of the Mitigation Deferral.

   SC-01S – customers receiving service pursuant to PSC No. 87 Gas - Service Classification No. 1 - Residential Service.

   SC-13T - customers receiving service pursuant to PSC No. 88 Gas - Service Classification No. 13 - Residential Firm Aggregation Transportation Service (SC-13T).

4. Calculation of Mitigation Rate and Amount:

   a. All Mitigation Rates and Amounts will be determined on a rate area (RA) basis

b. In the months of October and November 2002, the gas cost rates embedded in SC-01 S rates will continue as follows:

Rate Area	Gas Cost Rate (per therm)
Owego	$0.3075
Goshen	$0.2982
Lockport	$0.3985
Elmira	$0.4258
Combined	$0.4272
Binghamton	$0.3054
Champlain	$0.3915

c. The difference between the gas costs billed in each of October and November 2002 and the gas costs that would otherwise be billed for each month pursuant to the market-based GSC shall be deemed the Mitigation Amount for that month.

d. The Mitigation Amount for December 2002 will be determined as follows:

i. the gas cost rate for each RA set forth in Section 4.b above will be subtracted from the rate that would otherwise be charged in the same rate area pursuant to a market-based GSC for December;

ii. the difference calculated in (i) will be multiplied by the monthly mitigation percentages set forth below, expressed as a $/therm rate.

Month	Owego, Goshen, Lockport, Binghamton, Champlain RAs	Elmira, Combined RAs
Dec-02	90%	80%

iii. The $/therm rate will be multiplied by the monthly forecast level of SC-01S sales to compute the Mitigation Amount. The Mitigation Amount will then be divided by the applicable forecast therms to derive the Mitigation Rate.

e. The Mitigation Amounts for January 2003 through September 2003 will be determined as follows:

i. the prior month's mitigated GSC will be calculated by subtracting the prior month's Mitigation Rate from the prior month's market-based GSC;

ii. the prior months mitigated GSC will be subtracted from the amount that would otherwise be charged pursuant to the current month's market-based GSC;

iii. the difference calculated in (ii) will be multiplied by the monthly mitigation percentages set forth below, expressed as a $/therm rate.

Month	Owego, Goshen, Lockport, Binghamton, Champlain RAs	Elmira, Combined RAs
Jan-03	85%	70%
Feb-03	80%	60%
Mar-03	75%	50%
Apr-03	70%	40%
May-03	55%	20%
Jun-03	45%	0%
Jul-03	35%	--
Aug-03	25%	--
sep-03	15%	--
act-03	0%	--

iv. The $/therm rate will be multiplied by the monthly forecast level of SC-01 S sales to compute the Mitigation Amount. The Mitigation Amount will then be divided by the applicable forecast therms to derive the Mitigation Bate.

f. If, in any month prior to achieving a mitigation percentage of 0%, the difference between the prior month's mitigated GSC and the current month's market-based GSC is negative, there would not be any Mitigation Bate for that month.

5. Collection and Deferral of Mitigation Amounts:

a. NYSEG will offset the Mitigation Amounts for October and November 2002 by the Deferred Credits. Any remaining balance of Deferred Credits will continue to offset the Mitigation Amounts until such Deferred Credits are exhausted.

b. NYSEG will defer on its books the Mitigation Amounts for December 2002 through May 2003 or September 2003, as appropriate (i.e., the Mitigation Deferral). The Mitigation Deferral will be calculated separately for each RA.

c. Interest will be accrued on the balance of the Mitigation Deferral for each RA at the Other Customer-Supplied Capital Rate from December 1, 2002 until it is fully recovered.

6. Recovery of Mitigation Deferrals:

a. A Mitigation Adjustment for each RA will be calculated by dividing the Mitigation Deferral by the applicable forecasted therms for the 12-month period starting the month after the completion of the phase-in of the market-based GSC.

b. The Mitigation Adjustment will be applied beginning the first month after the completion of the phase-in on a volumetric basis in each RA.

c. In the event the Mitigation Adjustment exceeds $0.04/therm, it will be designed to recover the remaining Mitigation Deferral over a period up to 24 months.

7. Bill Format:

Two options are presented to the Commission for its consideration. Under Option A, customers would immediately see the impact of the market-based GSC on their bills, offset by a credit on their delivery charge. Under Option B, customers would see a transition to the market-based GSC on their bills. Both options provide approximately the same degree of mitigation on customers' bills (i.e., the amount of the customer's bill under both options is approximately the same).

Option :

a. The gas supply section of SC-01 S customers' bills, beginning in December 2002, will be calculated using the market-based GSC applicable to each RA.

b. A credit will be applied to the Transition Surcharge (TS) line item under the gas delivery section of SC-01S and SC-13T customers' bills. For each RA, the amount of the credit each month shall be equal to the Mitigation Rate for that RA for that month.

c. In the event the application of the Mitigation Rate to any SC-13T customer's bill results in a negative total NYSEG gas bill, the Mitigation Rate (and associated Mitigation Deferral) will be adjusted to result in a zero amount due on the bill.

d. Beginning the first month after completion of the phase-in, a debit equal to the Mitigation Adjustment will be applied to the TS line item of SC-01 S and SC-13T customers' bills.

e. The applicable therms for this option are those associated with SC-01 S and SC-13T.

Option B:

a. The GSC rate shown on SC-01 S customers' bills, beginning with their December 2002 bills, will reflect the subtraction of the Mitigation Rate for the respective RAs from the market-based GSC (*i.e.*, customers will see a reduced GSC rate).

b. Once the phase-in of the market-based GSC is completed, the applicable Mitigation Adjustment will be applied to the TS line item of SC-01S and SC- 13T customers' bills.

c. The applicable therms are those associated with SC-01 S.

d. SC-13T customers as of September 30, 2002 will not be adversely affected by this option.

APPENDIX E

WEATHER NORMALIZATION ADJUSTMENT (WNA) PROVISIONS

A. Applicability:

(1) The WNA will be applicable to all space heating customers, except as otherwise set forth herein, taking service pursuant to Service Classification Nos. 1, 2, 8, and 9 of PSC No. 87 Gas, or superseding issues thereof, and Service Classification Nos. 1, 4, 5, 13 and 14 of PSC No. 88 Gas, or superseding issues thereof

(2) A firm industrial revenue class customer, taking service pursuant to a tariff that imposes the WNA, will be deemed a space heating customer if more than 50% of such industrial customer's annual usage is experienced in the period November 1 through March 3 1.

(3) The WNA will be applied to the total gas usage during the WNA season of October 1st through May 3 1st. If only a portion of customer's total gas usage is applicable to the WNA season, then the W'NA will be adjusted to reflect the portion applicable to the WNA season.

(4) The WNA will only be billed if the actual heating degree days for the billing cycle are less than 97.8% or more than 102.2% of the normal heating degree days for the billing cycle. In such cases, the WNA will be based on the variation that is less than 97.8% or more than 102.2% of the normal heating degree days for that billing cycle.

B. Calculation of the WNA:

(1) The WNA will be calculated using the following formulas:

$$WAF = \frac{DDF * [NHDD + (NHDD * \pm 0.022) - AHDD]}{(BP * BLT) + (DDF * AHDD)}$$

$$Therms_{Normal} = Therms- + (Therms_{Actual} * WAF)$$

$$WNA_n = (R_n * Therms_{Normal(n)}) - (R_n * Therms_{Actual(n)})$$

$$WNA_{Total} = Sum(WNA_n)$$

(2) Where,

(a) **"WAF"** is the Weather Adjustment Factor.

(b) "HDD" or Heating Degree Days are the difference between sixty-five degrees (65) Fahrenheit and the average of the minimum and maximum temperature as reported by the applicable National Weather Service station for a particular day. The HDD are zero (0) when the average temperature is greater than sixty-five degrees (65°) Fahrenheit. HDD is also used to refer to the cumulative HDD for any defined period greater than one (1) day.

(c) "NHDD" or Normal Heating Degree Days, for any given calendar day, are based upon a thirty (30) -year average of the heating degree days for that calendar day. The applicable thirty (30) -year period ends on December 31st of the year before the current WNA season. NHDD is also used to refer to the cumulative NHDD for any defined period greater than one (1) day.

(d) "AHDD" or Actual Heating Degree Days are the actual difference between sixty-five degrees (65) Fahrenheit and the average of the minimum and maximum temperature as reported by the applicable National Weather Service station for a particular day. AHDD is zero (0) when the average temperature is equal to or greater than sixty-five degrees (65) Fahrenheit. AHDD is also used to refer to the cumulative AHDD for any defined period greater than one (1) day-

(e) "BP" or Billing Period is the actual number of billing days that occur during the WNA season.

(f) "BLT" or Base Load Therms is the estimated number of non-temperature sensitive therms per day. The estimate is based on the average daily use during the summer months. If the customer has insufficient billing history to calculate the BLT, the average BLT for the applicable customer group will be used. The customer group average BLTs will be revised annually.

(g) "DDF" or Degree Day Factor is the estimated number of temperature sensitive therms required for each heating degree day. If the customer has insufficient billing history to calculate the DDF, the average DDF for the applicable customer group will be used. The customer group average DDFs will be revised annually.

(h) "$\text{Therms}_{\text{Normal}}$" is the estimated number of therms the customer would have used if the weather were normal during the billing cycle.

(i) "$Therms_{Actual}$" is the number of therms the customer actually used during the billing cycle.

(j) "$Therms_{Normal(n)}$" is the number of $Therms_{Normal}$ that fall in the applicable rate block.

(k) "$Therms_{Actual(n)}$" is the number of $Therms_{Actual}$ that fall in the applicable rate block.

(l) "WNA_n" is the weather normalization adjustment for the applicable rate block and is expressed in dollars.

(m) "R_n" is the applicable block rate and is expressed in dollars per therm.

(n) "WNA_{total}" is the customer's weather normalization adjustment and is expressed in dollars.

APPENDIX F

DEFERRED/UNCONTROLLABLE COSTS

NYSEG
Gas Business
Deferred / Uncontrollable Cost Factors

	Catqgory 1	Category 2
	One-Time Event	Ongoing Costs
General Description of Qualifying Events:	Natural Disasters and Acts of Terrorism	Inflation Accounting, Legislative, Regulatory or Tax Changes
Examples of Potential Qualifying Events:	Force Majeure Bombings Earthquakes Etc.	FASB Accounting Pronouncements Costs Resulting from the Unbundling Order Revenue Shortfalls and Costs from Phase II Changes in Federal or State Income Tax Rates Changes in Property Tax Affordable Energy Program Changes in Pension Costs Outreach & Education Costs Marketer Initiatives
Materiality Requirements	Aggregate Annual Costs in Excess of $200,000 Annually (Rate Year I [I5 months] - Aggregate of $250,000)	Annual Costs in Excess of Thresholds Set Forth on Page 2, Subject to Overall Annual Threshold of $200,000 (Rate Year I [I 5 months] - Aggregate of $250,000)
Recovery Method	First - Remaining Unbilled Revenue Pool (after recovery of Mitigation Deferral) Second - Remaining State Income Tax Liability (after recovery of Mitigation Deferral) Third - Customer Share of Excess Earnings (after recovery of Deferred Gas Costs) Fourth - Surcharge Mechanism Fifth - Deferred for Future Recovery as per Joint Proposal	First - Remaining Unbilled Revenue Pool (after recovery of Mitigation Deferral) Second - Remaining State Income Tax Liability (after recovery of Mitigation Deferral) Third - Customer Share of Excess Earnings (after recovery of Deferred Gas Costs) Fourth - Surcharge Mechanism Fifth - Deferred for Future Recovery as per Joint Proposal

NYSEG
Gas Business

Deferred / Category 2 Uncontrollable Cost Thresholds
($ Millions)

	Rate Year I 10/02 - 12/03 (IS Months)	Rate Years 2 - 6 Calendar Yrs. 2004 -2008 Annual Threshold Amounts	Rate Year(s) / Calendar Year(s) beginning 1/09 Annual Amounts
Environmental Remedialion Costs (I)	$1.5625	$1.25	$1.25
Costs Resulting from the Unbundling Order - Case 00-M-0504	so.3125	so.25	S0.25
Outreach and Education Costs, Marketer Initiatives including the marketer survey, Aggregation initiatives including the Low Income Aggregation Program	so.4373	so.35	$0.35
Economic Development Costs	$0.3125	so.25	$0.25
Incremental Security Costs (2)			
O&M	so.325	S0.26	S0.26
Capital	so.375	so.30	S0.30
Internal R&D costs (including labor, materials and transportation), Excludes costs recovered pursuant to 99-G-1369.	51.75	$1.4	$1.4
Revenue Loss I Program Costs from Phase 2 of Case 01-G-1668	so.0	so.0	so.0
Pension Expense I (Income) - I/S amount	see note (5)	see note (5)	see note (5)
Affordable Energy Program	N/A	Annually beginning 2005 = S 1.25	51.250
Property Tax Expense	$20.63	2004 517.16 (3) 2005 317.85 (3) 2006 $18.56 (3) 2007 $19.30 (3) 2008 520.07 (3)	$20.87 (3)
Annual General Inflation (4)	5.0%	4.0%	4.0%
Mandatory Regulatory, Legislative, Accounting and 'fax Changes	so.0	S0.0	so.0
All Other Uncontrollable Costs	so.0	$0.0	so.0

(I) Environmental remediation costs Include, but are not limited to, Consent Orders for manufactured gas plant site remediation and Superfund remediation.
(2) Including mandated costs lo implement security requirements in the aftermath of the September I I, 2001 terrorist attacks.
(3) Represents 4.0% compounded annual growth from baseline of $16.5 million in calendar year ending 2003. NYSEG will be allowed to defer for recovery incremental costs above the threshold identified.

(4) Applicable lo operating expenses (excluding gas costs) and payroll taxes of $53.5 million annually through 2005 ($66.9 million for RYI = IS months), and 557.75 million annually for calendars years beginning January I, 2006

(5) Beginning January I. 2003, incremental or decremental financial market changes from the assumed 9% return on assets and the 6.75% discount rate will be deferred. Beginning January 1, 2003, financial gains and losses in calendar year 2002 will be included in the Wc-up calculation. Financial gains and losses will continue lo be amortized over ten years consistent with the Commission's Policy Statement enunciated in Case 91-M-0890.

APPENDIX G

AMENDMENT TO TRANSITION SURCHARGE FORMULA

$cap = MA_$cap + SA_$cap

where,

MA_$cap = Market Area stranded capacity costs
SA_$cap = Supply Area stranded capacity costs

MA_$cap = [(tcap - MA_ucapD - MA-fgrow) / (ucap - MA_ucapD)] * [MA_ucap$ - MA_ucapD$]

Where,

tcap = amount of capacity associated with customers using their own capacity to bring gas to the citygate (dt).

MA_ucapD = the Company's market area pipeline capacity that has been de-contracted due to customer migration from sales to transportation (dt).

MA_fgrow = the amount of tcap used to meet growth in the Company's firm sales load (dt).

Ucap = total utility upstream pipeline capacity (dt).

MA_ucap$ = utility upstream market area capacity costs ($).

MA_ucapD$ = utility market area capacity costs that have been decontracted ($).

SA_$cap = [(tcap - SA_ucapD - SA_fgrow) / (ucap - SA_ucapD)] * [SA_ucap$ - SA_ucapD$]

Where,

tcap = amount of capacity associated with customers using their own capacity to bring gas to the citygate (dt).

SA_ucapD = the Company's supply area pipeline capacity that has been de-contracted due to customer migration from sales to transportation (dt).

SA_fgrow = the amount of tcap used to meet growth in the Company's design day firm sales load (dt).

Ucap = total utility upstream pipeline capacity (dt).

SA_ucap$ = utility upstream supply area capacity costs ($).

SA_ucapD$ = utility supply area capacity costs that have been decontracted ($).

APPENDIX H

SERVICE QUALITY MECHANISM

The gas Service Quality Mechanism will incorporate the following three Customer Service Measures and five Gas Operation and Safety Measures:

Customer Service Measures

1. Overall Customer Satisfaction Index
2. Customer Contact Satisfaction Index
3. Commission Complaint Rate

Gas Operation and Safetv Measures

1. Cast Iron Main Replacement Program
2. Bare Steel Services Replacement Program
3. Bare Steel Main Isolation Program
4. Quality Assurance Program
5. Gas Leak Response Program

Performance for each of the eight measures will be assessed on a calendar year basis. Each measure will be tracked on a calendar year basis and calculated separately. In the event that NYSEG fails to achieve any of the service quality thresholds, a revenue adjustment will be imposed for that year equal to the dollar amount assigned to that threshold. Revenue adjustments shall be in pre-tax dollars. The maximum dollar revenue adjustment for all eight **measures** will be $1,300,000, with $500,000 of that total apportioned among the three customer service measures and $800,000 allocated among the five gas operation and safety measures.[1] The dollar revenue adjustments per measure will be further apportioned among the threshold values as set forth below.

Customer Service Indicators

1. Overall Customer Satisfaction Index

An overall customer satisfaction index will be calculated based on the results of the annual customer expectation survey and will reflect the percentage of

[1] The maximum dollar revenue adjustment and Gas Operation and Safety Measures revenue adjustment are based on a $300,000 revenue adjustment for the Cast Iron Main Replacement Program.

customers satisfied with the service they receive from NYSEG. The survey will be conducted by an independent consultant on a calendar year basis from a representative sample of NYSEG customers from all regions of NYSEG's service territory and will include a proportionate number of NYSEG customers that have selected alternative suppliers. If the overall satisfaction index in any calendar year of the Gas Rate Plan is equal to or below 73.0%, NYSEG will be subject to a minimum revenue adjustment. If the calendar year survey results drop to 70.0% or below, NYSEG will incur the maximum revenue adjustment. NYSEG will be assessed revenue adjustments on this measure based on the following scale:

Overall Customer Satisfaction Index (%)	Revenue Adjustment
<=73.0	$41,666
<=72.0	$83,333
<=71.0	$124,999
<=70.0	$166,666

2. **Customer Contact Satisfaction Index**

The Customer Contact Satisfaction Index measures the level of satisfaction of customers who have had recent contact with NYSEG. Each month, NYSEG will conduct a customer contact or follow-up survey comprised of a statistically valid sample of customers who have recently contacted NYSEG, including a representative sample of customers who have requested a change in gas commodity suppliers. A final calendar year average of the monthly survey results will be calculated for each calendar year of the Gas Rate Plan. If the annual results are equal to or below 85.0%, NYSEG will be subject to a minimum revenue adjustment. If the annual results are equal to or below 82.0%, NYSEG will incur the maximum revenue adjustment. Revenue adjustments will be imposed on this measure according to the following scale:

Customer Contact Satisfaction Index (%)	Revenue Adiustment
<=85.0	$41,666
<=84.0	$83,333
<=83.0	$124,999
<=82.0	$166,666

3. **Commission Complaint Rate**

a. For the period October 1, 2002 through December 3 1, 2003, a complaint target will be measured by complaint rate data pursuant to the Commission's preJune 3, 2002 complaint handling procedures. NYSEG's Commission complaint rate target will be 3.5 for this U-month period. If the Commission complaint rate is equal to or greater than 3.5, NYSEG will incur the minimum revenue adjustment. If NYSEG's Commission complaint rate is equal to or greater than 6.0, NYSEG will be subject to the maximum revenue adjustment. Revenue adjustments will be assessed on the following scale:

Commission Complaints per 100,000 customers	Revenue Adiustment
>= 3.5	$41,666
>= 4.0	$83,333
>= 5.0	$124,999
>= 6.0	$166,666

b. During the period October 1, 2002 through December 3 1, 2003, a contact with a customer will be counted as a Commission Complaint only in those instances where NYSEG has been given an opportunity to resolve the issue with the customer and NYSEG has failed to resolve the issue consistent with the preJune 3, 2002 Commission practices.

c. Recognizing that the Office of Consumer Services will modify its complaint handling procedures, effective June 3, 2002, Staff and NYSEG will meet between July 1, 2003 and October 1, 2003 to agree on new Commission complaint rate target levels for the period from January 1, 2004 through the end of the Gas Rate Plan. The annual target levels will carry a minimum revenue adjustment of $41,666 and a maximum revenue adjustment of $166,666. Those target levels will be established based on new baseline data to be collected over a twelve-month period after the change in complaint handling procedures takes effect. The meeting(s) between Staff and NYSEG will be coordinated so that the terms of the Electric Rate Plan regarding this item can be addressed concurrently. This matter will be discussed pursuant to a schedule that will bring it to the Commission for consideration no later than its November 2003 session.

4. Customer Surveys

The Company will consult Staff in the event that NYSEG proposes to make modifications to either of the survey instruments or to the manner in which the surveys are conducted.

5. Reporting Requirements

NYSEG will submit the results of its three Customer Service Indicators quarterly to the Director of the Office of Consumer Education and Advocacy. No later **than 60 days** after each calendar year of the Gas Rate Plan a final report will be filed and include an assurance of the integrity of the results either by including verification of all reported survey data by a third party audit or **by an** attestation of a NYSEG officer that the results are accurate and verifiable.

Gas Operations and Safety Measures

There will be gas operations and safety measures in the following five categories: cast iron main replacement; bare steel service replacement; bare steel main isolation; quality assurance program; and gas leak response time.

1. Cast Iron Main Replacement Program

a. NYSEG will replace an average of 10 miles per calendar year of cast iron mains **until** the majority of such mains are replaced.

b. Failure to replace eight miles of cast iron mains per calendar year, provided that more than eight miles of cast iron mains remain in service, will result in a pre-tax revenue adjustment of $150,000.

c. Failure to replace six miles of cast iron mains per calendar year, provided more than six miles of cast iron mains remain in service, will result in a pre-tax revenue adjustment of $300,000.

d. Failure to replace the majority of cast iron mains by December 3 1, 2005 will result in the pre-tax revenue adjustment of $500,000. For the purposes of this subdivision, the term "majority of cast iron main" shall be defined to mean not more than three miles of cast iron mains remaining in service.

e. The revenue adjustments for cast iron main replacement will be waived if NYSEG is prevented from replacing cast iron mains for reasons beyond NYSEG's control (e.g., NYSEG is unable to obtain the requisite municipal permits).

2. **Bare Steel Services Replacement Program**

a. NYSEG will replace an average of 2,000 bare steel services per calendar year.

b. Failure to replace 1,900 bare steel services over any calendar year of the Gas Rate Plan will result in a pre-tax revenue adjustment of $150,000.

c. NYSEG will develop and implement a tracking optimization program for replacement candidates using NYSEG's established O&M criteria.

3. **Bare Steel Main Isolation Program**

a In an effort to extend the life of bare steel pipe, NYSEG will eliminate electrical contacts between bare steel gas facilities and foreign structures, and, where practical, increase the cathodic protection on 10 additional miles of bare steel pipe in each calendar year.

b. Failure to isolate 10 miles of bare steel mains per calendar year will result in a pre-tax revenue adjustment of $100,000.

c. NYSEG will develop and implement a tracking optimization program for isolation candidates using NYSEG's established O&M criteria.

4. **Quality Assurance Program**

a. NYSEG will develop written guidelines for annual audit schedules.

b. NYSEG will perform an assessment of its Operations and Maintenance Procedures and Emergency Plans on a calendar year basis.

c. No later than 60 days after each calendar year of the Gas Rate Plan, NYSEG will develop and submit a separate annual report to its Senior Management and to Staff.

d. NYSEG will conduct focused reviews of compliance with the Company's Operations and Maintenance Procedures and Emergency Plans for NYSEG divisions with Quality Assurance concerns. Consistent with these focused reviews, NYSEG will perform a root cause analysis of the particular division's Quality Assurance concerns. NYSEG will then develop and implement remedial plans for the particular division.

e. Failure to implement and follow all elements of the Quality Assurance Program will result in a pre-tax revenue adjustment of $100,000.

5. **Gas Leak Response Program**

a. NYSEG will maintain, on a calendar year basis, a log or other similar record tabulating all gas leak and odor calls received from customers and the elapsed time until a NYSEG employee arrives at the premises of the customer making the call. For the purposes of this subdivision, the arrival of a NYSEG employee at the customer's premises shall be deemed the time at which NYSEG responds to the customer's call.

b. NYSEG will calculate on a calendar year basis the total number of gas leaks and odor calls received and the number responded to, on a system-wide basis, within 30 minutes, 45 minutes, 60 minutes, and over 60 minutes.

c. Failure to respond to 75% of all gas leak and odor calls within 30 minutes, on a system-wide basis, will result in a pre-tax revenue adjustment of $50,000 annually.

d. Failure to respond to 90% of all gas leak and odor calls within 45 minutes, on a system-wide basis, will result in a pre-tax revenue adjustment of $50,000 annually.

e. Failure to respond to 95% of all gas leak and odor calls within 60 minutes, on a system-wide basis, will result in a pre-tax revenue adjustment of $50,000 annually.

6. **Reporting Requirements**

a. No later than 60 days after each calendar year of the Gas Rate Plan, NYSEG will file a report detailing the number of miles of mains, by size and material, replaced; the number of bare steel services replaced; the number of miles of bare steel mains isolated; and a summary of the information on the gas emergency response times.

b. NYSEG's Quality Assurance report will be appended to the above report.

APPENDIX I

MEMORANDUM OF UNDERSTANDING (MOU)

DISPUTE RESOLUTION PROCESSES AND PROCEDURES

NYSEG and marketers recognize the necessity of regular communications, and commit to an informal complaint resolution procedure with the primary objective of resolving all issues at the operational staff level. Subsequent steps of resolution will be as follows:

- NYSEG's Manager - Gas Supply and Control
- NYSEG's Vice President - Gas Operations and Marketing
- NYSEG, the gas marketer and PSC Staff.

If a dispute remains unresolved, a formal complaint can be filed with the Commission under existing PSC procedures.