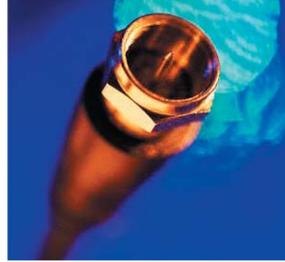


NEW YORK STATE
DEPARTMENT OF PUBLIC SERVICE
PUBLIC SERVICE COMMISSION



ANNUAL REPORT 2002 - 2003



GEORGE E. PATAKI, GOVERNOR
WILLIAM M. FLYNN, ESQ., CHAIRMAN



From Chairman Bill Flynn

I'm honored that Governor George Pataki entrusted me in 2003 with the responsibility to lead the New York State Public Service Commission and Department of Public Service. This Annual Report chronicles the fine work done by the Commission and the Department during fiscal year 2002-2003 under the strong leadership of former Chairman Maureen O. Helmer.

The Department's efforts were wide ranging and included, most notably: advancing customer choices in the telecommunications and energy arenas, including new "green energy" options; enhancing the reliability of our utility systems; strengthening utility customer service quality targets; securing tens of millions of dollars in savings for consumers in rate cases; fostering economic development through utility programs and rate offerings; educating consumers about their rights, protections and options; and developing programs to help meet New York's future energy and telecommunications needs.

As Department staff continues to follow through on the efforts reported here, I have identified additional initiatives for the coming year. Enhancing the security of critical utility infrastructures and cyber facilities and systems will be a top priority, as will be developing strategies to provide further choices in, and to enhance the reliability of, energy and telecommunications services to support economic growth across the state. We also will begin work on developing a renewable energy policy designed to increase to at least 25 percent by 2013 the proportion of electricity sold to consumers in New York State that is generated from renewable resources.

The fact that this Commission and its staff are viewed as leaders in the field of utility regulation is testimony to the quality of our work. I am confident that New Yorkers will be well-served by the work the Department will complete on their behalf.

William M. Flynn

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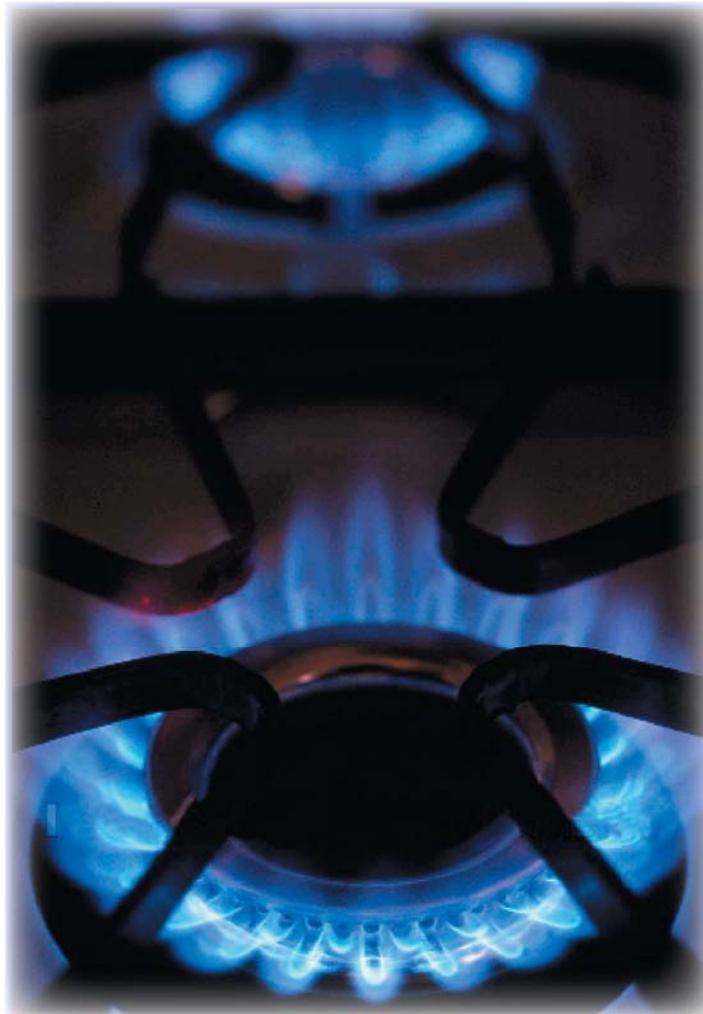
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GAS

\$75 Million Rate Reduction for Con Edison Gas Customers

In April 2002, the Commission voted to adopt a three-year gas rate and restructuring plan for Consolidated Edison Company of New York, Inc. (Con Edison) that reduced base gas rates by \$25 million for the first year, which was followed by a rate freeze for the next two years. The rate reductions, the first reductions in 15 years for Con Edison gas customers, became effective on May 1, 2002.

Because the market sets the price of natural gas, about 98% of which comes from sources outside New York State, the rate reduction was applied to the regulated, delivery portion of customer bills. As a result, the regulated transmission and delivery rates decreased by approximately 5.5%. Depending on usage and the market price of natural gas, often referred to as the “gas commodity,” the total gas bill (delivery and commodity) for an average residential heating customer decreased by approximately 3% when the new rates took effect.

Included in the rate and restructuring plan are a number of provisions designed to increase retail gas service competition in Con Edison’s territory, including the unbundling

of customers’ bills so that the supply costs (gas commodity) are more clearly delineated from delivery costs and other rate components. Unbundling commodity costs will help Con Edison customers shop for natural gas by making it easier for them to compare offers from other gas suppliers.

Customers also benefit from several other provisions in the new rate plan, including a number of performance incentives and penalties. The incentives are designed to encourage Con Edison to reduce controllable operating costs, improve service reliability and safety through an accelerated distribution main replacement program, and to ensure that the company continues to meet annual satisfaction

“Our continuing goal is to ensure quality service for customers for the lowest prices a fully competitive commodity market can provide,” said then Commission Chairman Maureen O. Helmer at the time of the Commission’s decision. “This comprehensive rate and restructuring plan is well balanced in that it reduces rates, provides for increased competition, and provides for prudent system planning over the course of three years.”

targets for handling gas service calls to its Emergency Response Center. Further, the rate plan provides an incentive to the company to promote the migration of retail customers to competitors.

The Commission determined that \$36.4 million in customer credits should be held

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for possible future use to offset gas service costs related to the September 11 attack on the World Trade Center that are not otherwise reimbursed by insurance carriers or the federal government. Given the magnitude of the costs involved, and the fact that the amount to be recovered from the federal government and insurance carriers was unresolved at the time, the Commission found that the deferral of these funds represented a financially sound planning measure.

The rate plan approved by the Commission stemmed from a Joint Proposal that was filed on February 15, 2002, and ultimately supported by seven parties, including: the New York State Consumer Protection Board; the City of New York; the Small Marketer Coalition; Smart Energy, Inc.; Consolidated Edison; Consolidated Edison Solutions, Inc.; and, the Department of Public Service staff.

The Restructuring of NFG Distribution Corp.: More Competition, Choices for Consumers; Benefits for Locally Produced Gas

The Commission approved a plan in April 2002 to restructure the way National Fuel Gas Distribution Corporation (NFG) provides natural gas services to consumers in western New York. The plan took effect on May 1 and is designed to further open NFG's service territory to competitive gas supply choices for consumers, advance the state's economic interests by promoting the sale of natural gas produced in western New York gas wells, and continue a number of consumer benefits, especially for low-income, elderly and disabled customers.

For the first time, NFG will recognize a significant portion of locally produced natural gas as being available on a continuous or "firm" basis for the purposes of ensuring reliable supplies to small customers, especially during the winter. Designating this gas as firm supply increases its value to producers, because marketers will be able to satisfy some of their supply requirements with local, rather than out-of-state, gas. This in turn is expected to stimulate more investment in locally produced gas operations.

The plan maintains current gas rates for NFG's approximately 517,000 customers located in Niagara, Genesee, Erie, Wyoming, Cattaraugus, Chautauqua, Allegany, Steuben, Livingston, Monroe and Ontario Counties. It was developed by all 16 of the participants in a Commission proceeding,

“Western New York will reap many benefits from a plan that will change the way NFG does business,” Commission Chairman Maureen O. Helmer stated at the time of the decision. “It will be much easier for NFG’s competitors to offer services, thereby providing more choices for consumers who wish to shop for their natural gas supplies. Further, gas produced in western New York will now have more value locally, which should stimulate investment in gas operations and produce economic benefits in that region and added energy security in the state.”

including Department of Public Service staff representing public and consumer interests, a group representing large users of natural gas, a local municipality, gas producers, regional pipeline companies, marketers of natural gas, a broker, and NFG. The Commission’s proceeding was initiated to consider how best to restructure the company within the framework of a statewide effort by the Commission to introduce more competition into the natural gas industry. In an earlier phase of the proceeding, the Commission reduced customers’ bills by almost \$29 million over a three-year period.

Six-Year NYSEG Gas Plan Avoids Delivery Rate Increase, Freezes Delivery Revenue, and Adopts Measures to Ease Bill Impacts of Moving to Market-Based Gas Supply Costs

In November 2002, the Commission established a six-year plan governing New York State Electric & Gas Corporation’s (NYSEG) gas delivery service through 2008 and restructuring the way NYSEG operates its gas business and provides natural gas service to consumers.

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

For a number of years, residential customers had been paying NYSEG a fixed price that had been less than what it costs the company to obtain gas supplies for those customers. Commercial and industrial customers had been paying actual market supply costs. All other New York State gas companies had been reflecting the actual cost of natural gas in their customers’ bills. The NYSEG plan provided for the “unbundling” or “itemizing” of the monthly bill so that residential customers can see the cost of the gas supplies they use separately from the cost of delivering that gas to them. The “supply charge” – that is, the cost of the natural gas itself – began appearing on bills to identify what it actually costs NYSEG to obtain gas supplies for its customers. This gas supply charge fluctuates with the market price of natural gas supplies throughout the country.



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Under the plan, NYSEG implemented measures to ease residential heating bill impacts during the transition to market-based gas supply costs. Beginning December 1, 2002, increases in the cost of the gas itself, which varies among NYSEG's service rate areas, were phased in over 5 to 10 months depending on service rate area. Without the mitigation phase-in measures, customers would experience abrupt increases in winter bills.

The plan required NYSEG to take a number of actions to open its service rate areas to more competition and provide customers with more choice for obtaining gas supplies. The requirement that NYSEG "unbundle" or "itemize" its monthly bills is designed to facilitate more competition. Beginning December 1, 2002, bills were unbundled showing separate supply and delivery charges. This makes it easier for customers to shop for gas supplies because they will have a NYSEG price to compare to the prices of other suppliers who may sell gas in NYSEG's territory.

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

Commission Limits RG&E Gas Rate Increase

In March 2003, the Commission limited an increase in Rochester Gas and Electric Corporation (RG&E) gas delivery rates to \$5.1 million (1.7%), achieved through rate design changes. RG&E had requested an increase of \$19.3 million (6.8%). The decision required the company to decrease gas usage rates while increasing the monthly minimum charge to increase overall revenues by \$5.1 million. The increase in the monthly service charge more closely aligns it with actual fixed costs to maintain customers' connections to the local gas distribution system.

Protecting the Public’s Interest in the Safety of Utility Gas Facilities

The Commission and its staff frequently take legal action to enforce regulations designed to protect the safety of the public, especially when excavation work is performed near underground utility facilities. The Commission imposes monetary penalties against excavators and construction companies that violate the Commission’s rules. In the 2002-2003 reporting period, the Commission approved penalties totaling about \$100,000. The penalties collected went into a special fund called the Underground Facilities Safety Training Account. Funds from that account were used to support training programs for excavators. Often the violations involve failure to properly notify the “One-Call Notification Systems” that allow for utility and municipal operators of underground facilities to mark their locations before construction at a site begins. These vital communication links between contractors/excavators and the local utilities/municipalities are the keys to preventing damage to underground facilities.

In addition to the notification requirements, excavators must follow Commission-mandated excavation procedures when working near underground utility facilities designed to protect the facilities during the excavation project. Besides being subject to civil penalties, excavators who damage underground facilities due to failure to follow the regulations are liable for repair costs. State law exempts excavators from liability for repair costs

if the damage is caused by the utility’s or municipality’s failure to comply with the law (such as, for not participating in the One-Call Notification Systems or for not marking the location of their underground facilities). Commission staff conducts an extensive education program every year to inform excavators and contractors of the safety procedures they must follow. These efforts include participating in educational seminars for excavators and in utility efforts to keep excavators informed.

Ensuring Gas Utilities are “Winter Ready”

In New York State, there are about 4.5 million natural gas customers, most of whom are residential, who heat with natural gas. About 50% of the households in the state use natural gas for heating purposes. Approximately 98% of the natural gas used by New York residents, businesses and industries comes from outside New York, primarily from the Gulf States and Canada.

Each year, beginning in the summer months, Commission staff conducts an annual evaluation of utilities’ winter preparedness for the next winter season. Important goals in the evaluation are to determine if the local utilities providing natural gas in the state obtain adequate supplies to meet forecasted customer demands during the coming winter and have taken steps designed to reduce price volatility as much as possible. Efforts to minimize price volatility are especially important given the fact that the price of natural gas is set by



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national and international markets, not by the utilities or the Commission. The Commission's assessment of natural gas supplies and prices during the fall of each year is based on its staff's monitoring of local distribution utilities and gas marketer actions to prepare for the winter. Throughout the year, staff monitors, among other things, gas supply portfolios, pipeline capacity, storage inventories, contract strategies and commodity pricing.

In addition to evaluating utility winter preparedness related to natural gas supplies and prices, Commission staff also ensures that the companies implement education programs to inform customers about potential price and bill changes, and the actions customers can take to control their heating costs. The individual company efforts complement staff's outreach and education efforts directly to the public regarding New York State's natural gas outlook for the heating season.

ELECTRIC



Commission Advances “Green Energy”

The Commission took several steps during this reporting period to advance the development of renewable or “green” energy in New York State. Chief among them was the initiation of a process for developing and implementing a Renewable Energy Portfolio Standard (RPS) with a goal of increasing to 25% the amount of the electricity purchased in the state generated from renewable resources. Renewable resources provide approximately 19% of the electricity currently used in New York. The goal of an RPS initiative is to help diversify New York’s generation capacity portfolio with electricity generated from clean and renewable resources. The public examination process initiated by the Commission was designed to gather input from a wide range of interested parties on how best to achieve the 25% RPS.

Some of the key issues to be examined in the collaborative process for developing the RPS include:

- The types of resources that should be considered as “renewable.”
- The entities that should be required to meet the renewable standard (e.g., utilities, municipal electric corporations, competitive energy services companies).
- The appropriateness of a “renewable trading system,” and the components of any program that might be developed.
- The appropriateness of including renewable resource energy from outside the state, such as hydropower from Canada or wind energy from New England.

In addition to the RPS initiative, the Commission approved a Niagara Mohawk Power Corporation (Niagara Mohawk) program in 2002 designed to encourage the sale of renewable or “green” energy service by making it easier for companies to market

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such energy service to consumers throughout Niagara Mohawk's franchise area. The program was developed by the Commission's staff, Niagara Mohawk, Clean Energy Intervenors (which includes Community Energy, Environmental Defense, American Wind Energy Association, and the

"The expeditious and effective implementation of the RPS will be one of the Commission's highest priorities in 2003," said PSC Chairman William M. Flynn. "While I recognize that this process will involve a broad range of interests – including the utilities, competitors, generators, and environmental and consumer groups – the goal is to conduct a full and fair review of the issues and to develop a policy statement on a RPS. Through this initiative, we have an opportunity to lower air emissions, reduce wholesale price volatility, increase capacity, and increase customer choice by developing a more robust green power market in New York State."

Natural Resources Defense Council), Green Mountain Energy Company, and NativeEnergy LLC.

Niagara Mohawk's Renewable Energy Program provides streamlined procedures for allowing energy service companies (ESCOs) and "green energy marketers" to use Niagara Mohawk's billing systems to make green energy service available to its customers. The procedures are designed to help facilitate preparation and mailing of environmental disclosure data associated with green energy sources, and billing and payment services. These new procedures allow Niagara Mohawk's customers to choose more easily a green power option for their energy.

Niagara Mohawk's program is one of a series of the state's efforts to promote green power in New York. Also in 2002, electricity customers throughout the state began receiving information with their bills about the types of fuel, and their related air emissions, used to generate their electricity, based on a previous Commission environmental labeling initiative. New York is the first state in the nation to use a verifiable, third-party tracking system to produce such environmental labels. The Commission's staff initiated a comprehensive outreach and education program to inform New Yorkers about the environmental disclosure labels.

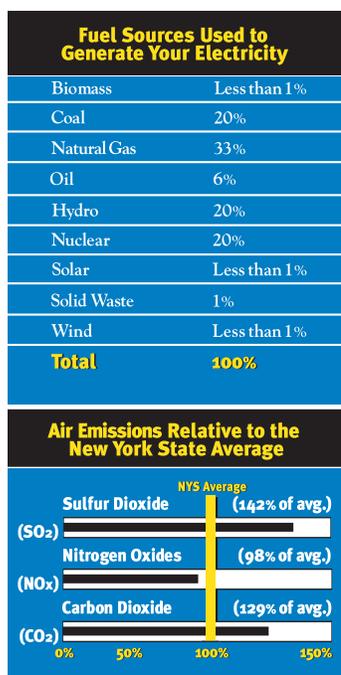
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This program included distribution of a plain language brochure to thousands of service providers, community leaders, libraries, and utilities throughout New York, as well as mailings, placement of media stories, and coordinated efforts with local electric distribution utilities and community groups.

Retail electricity providers throughout the state are required to include “environmental disclosure labeling” information in electricity bills at least once every six months. All investor-owned electric utilities and ESCOs providing retail electricity, as well as those municipal or cooperative electric utilities subject to Commission jurisdiction, are required to provide the environmental disclosure label.

One of the goals of the Commission’s environmental labeling initiative is to encourage ESCOs to adjust their own generation portfolios in response to customer demand for cleaner sources of energy as the market for green power continues to develop.



Encouraging Self-Generation by Small Electricity Users

As part of its nationally recognized efforts to encourage the use of distributed generation

technology, the Commission in 2003 voted to direct the major natural gas utilities throughout the state to file special delivery rates for non-residential customers who operate their own gas-powered distributed electricity generation (DG) units. The utilities will tailor the new rates specifically to DG customer gas usage profiles, resulting in more reasonably priced delivery service that reflects more fairly the costs DG units place on a gas utility’s system.

The Commission also adopted a process designed to establish such rates for residential customers by January 1, 2004, and voted to approve a distributed generation pilot program proposed by the National Fuel Gas Distribution Company.

In contrast to large central electricity generating plants, distributed generation units – such as fuel cells and micro turbines – are small and can be located or “distributed” widely at customer point-of-use sites throughout a utility’s service territory. DG technology is gaining more and more attention. Because of its relatively new applications, existing natural gas delivery rates for DG customers are higher than they should be because they have not reflected the specific system cost and usage characteristics of such customers. The Commission’s actions are designed to advance distributed generation as a resource for meeting the state’s future energy needs by making DG customer natural gas service more economical.

Also in 2003, the Commission approved, with modifications, a three-year National Fuel Gas Distribution Company (NFG)

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“Partnership for Distributed Generation” pilot program. The program will provide funding to customers to help defray the cost of installing distributed generation equipment at their facilities served by NFG.

NFG’s “Partnership for Distributed Generation” pilot program, supported by the Buffalo-Niagara Partnership and the Erie County Department of Environment and Planning, is the first of its kind in the state designed specifically to facilitate DG development. In general, it will allow interested customers to secure loans for their projects from NFG, a source knowledgeable in energy services, and allow up to a six-year payback period to the utility. The program will provide up to \$3 million for such loans over the next three years, a total that is expected to help finance approximately 30 projects. Advances to DG customers are to come from NFG shareholder funds, and the risk of customer nonpayment will be assumed by shareholders. NFG’s pilot program includes a data collection component to gain more information about the development of distributed generation.

“Customers who efficiently generate their own electricity help reduce demands on the local utility system, which, in turn, improves the system’s effectiveness in serving all customers’ needs,” Commission Chairman William M. Flynn explained. “As we encourage more development of efficient small power production facilities through fairer rates, we not only open up a valuable option for customers, but we also enhance our state’s economy since such efforts benefit all consumers.”

In yet another decision related to helping DG customers advance their projects in New York, the Commission in 2002 revised the DG interconnection standards, to become effective the third quarter of 2004, that are designed to facilitate the connection of DG units to a local utility’s distribution system. The effort will allow customers access to new power sources as an alternative to sources provided through the state’s transmission grid. The standards, originally adopted in 1999, apply to residential and commercial customers who generate no more than 300 kilovolt amperes (kVA) of electricity. The new regulations will apply to customers with needs of two megawatts or less of electricity, including

residential and small commercial customers, office complexes, apartment buildings and small industrial applications. The latest modifications are intended to align the interconnection standards with the Institute of Electrical and Electronic Engineers national standards, a goal the Commission set in 1999 when it first adopted statewide standards.

The concept of DG units connected to a utility's local distribution system presents technical and operational challenges, and the Commission's actions since 1999 have provided for a uniform approach to meeting those challenges from the Bronx to Binghamton to Buffalo. Moreover, with uniform standards in place, manufacturers can design and build, and marketers or energy services companies can offer, standard generating units throughout New York, which in turn will provide customers with additional generation opportunities and choices. The modifications over the years have resulted in the elimination of certain steps and a reduction in the overall processing of an application of anywhere from 10-20 business days. The standards continue to be subject to review as technology and competition advance.

“The steps we are taking today create ‘win-win’ situations for everyone in New York. Under the Governor’s leadership, we are helping farmers reduce their costs, diversifying electricity generation in the state, strengthening the state’s electric system reliability, cutting greenhouse emissions, and fostering opportunities for businesses to invest in New York,” Commission Chairman William M. Flynn said when the decision was made.

Promoting Agricultural Self-Generation

In an effort to help farms across the state, the Commission in March 2003 established streamlined criteria and a uniform process of cash payments for farmers seeking to supply their local utilities excess electricity generated on their farms through the use of anaerobic digesters. Anaerobic digesters accelerate the decomposition of agricultural waste, such as manure, other farming wastes and food-processing waste to produce methane, which can then be used to generate electricity for use on farms. Use of such equipment helps reduce farmers' energy costs while providing them a tool to address environmental regulations concerning farm waste.

In September 2002, Governor George E. Pataki signed legislation to expand the state's net-metering law to include farm-waste electric generating equipment on the list of qualifying projects. He originally signed the net-metering law in 1998, requiring investor-owned electric utilities to allow residential customers to interconnect photovoltaic (solar) electric systems to a utility's distribution system. These “grid-connected” systems allow customers

access to a backup source of energy and, as importantly, allow them to supply excess electricity to their local utility and run their electric meters in reverse, helping to offset their utility bill. New York's net-metering initiatives under Governor Pataki have been considered by some to be among the most progressive in the country.



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To make it easier for farmers to provide power to the local utilities' electric distribution systems, the Commission voided individual utility interconnection requirements that deviate from a Commission-approved standard. Further, the Commission took action to increase eligible unit size to 400 kilowatts for the farm-waste generators, effectively expanding self-generating opportunities for farmers. Finally, the new process requires utilities to provide farmers a cash payment at the end of each year if electricity is supplied to the local utility above what is consumed by the farm through the net-metering arrangement.

New York State has almost 1.5 million cattle, 80,000 hogs and 60,000 sheep that are part of a \$3.1 billion agricultural industry on more than 7.7 million acres of farmland. Estimates indicate that net-metering on farms could reduce annual greenhouse gas emissions by 40,000 metric tons of carbon equivalent, or about the equivalent of removing more than 32,000 cars from the state's roadways.

Fostering Economic Development

In the fall of 2002, the Commission approved \$18.7 million in utility economic development programs to attract, retain and expand businesses in the territories served by Niagara Mohawk Power Corporation, New York State Electric and Gas Corporation, and Central Hudson Gas and Electric Corporation.

Pursuant to the Commission approval, Niagara Mohawk was authorized to spend an additional \$12.5 million per year for the next ten years. This spending is in addition to the \$27 million already contained in its economic development plan. Central Hudson was authorized to spend \$2.2 million annually for a total of \$11 million over five years. NYSEG was authorized to add \$4 million to its current \$8 million dollar annual program budget for the next five years.

"In approving these programs, the Commission reaffirms its support for utility economic development initiatives. Programs that promote increased economic activity provide benefits to all utility customers by maximizing the efficient use of utility assets, reducing the cost to serve all customers, expanding the tax base and creating and retaining jobs in the utility service area." Maureen O. Helmer

Generally, the economic development initiatives fall into three broad categories: discounts on utility rates, benefits to reduce infrastructure costs, and assistance with energy efficiency projects. Included in the initiatives approved by the Commission were utility plans to educate customers and promote specific job retention and attraction programs for prospective customers.

Promoting Competition in NYSEG Service Regions

In fall 2002, the Commission approved a new bill format for New York State Electric and Gas Corporation (NYSEG) electricity customers that makes it easier for customers to compare offers for electric supply service from NYSEG's competitors. Under the new bill format, customers began receiving their first "unbundled" electric bill in February 2003.

In conjunction with unbundling bills, NYSEG began offering new electric service options in January 2003 under the "Customer Advantage-Voice Your Choice" program. The program is an important element of the five-year rate plan dating from March 1, 2002, which reduced electric rates by \$205 million annually. As a result of that earlier reduction, monthly electric bills for an average residential customer decreased by approximately 13%. To ensure that the 13% rate reduction complements customers' transition to competition in NYSEG's territory in 2003, the reduction was applied exclusively to the delivery portion of every customer's bill. Consequently, NYSEG customers who select a

NYSEG competitor to supply their electricity under the "Customer Advantage-Voice Your Choice" program will still benefit from the delivery rate reduction.

In 2002, staff worked collaboratively with NYSEG and the Energy Services Companies (ESCOs) in NYSEG's region, as well as other interested parties, to design and implement a comprehensive outreach and enrollment campaign to educate NYSEG customers on the competitive choices they would have under the "Customer Advantage-Voice Your Choice" program. NYSEG launched the campaign with bill inserts/newsletters in June. The campaign culminated with radio and newspaper ads in late September alerting customers to look for the NYSEG enrollment kit in the mail. Mailings of the enrollment kit to all 800,000 customers started on October 4th at a rate of 40,000 per day, moving from west to east across the company's service territory. A survey was later conducted to evaluate the enrollment materials and process and to determine if any additional outreach effort will be required.

At the time the Commission approved the new bill format and service offerings, it also approved revised electric delivery rates that more accurately reflect the actual cost of service for NYSEG electricity customers. The Commission's goal of gradually moving toward cost-based rates is designed to ensure that no customer class is required to pay more than its fair share of utility costs. To do otherwise would impede both the competitive market and future economic development in NYSEG's



territory. The Commission determined that the changes adopted in the NYSEG rate case represent a beginning and that further, gradual alignment of prices and costs will be needed beyond the current five-year plan.

Approving \$10 Million in Refunds for Central Hudson Customers

In October 2002, the Commission approved refunds totaling \$10 million to electricity customers of Central Hudson Gas and Electric Corporation. In addition, the Commission approved another \$300,000 to fund a program for aggregating low- and moderate-income residential customers so that they can participate more effectively in choosing their electricity and natural gas supplier. The funds were part of the net revenue benefits from the sale of the utility's generating facilities. Remaining funds from that sale are to be used for future customer benefits.

The aggregation program is designed to provide access to competitive market benefits for residential customers who might otherwise find it difficult to participate in the market. The goal is to combine the purchasing power of low- and moderate-income residential customers and facilitate the commonly used technique of contracting with a service provider, often referred to as an energy services provider or ESCO.

Stabilizing RG&E Electric Rates and Strengthening Service Quality

The Commission, in March 2003, adopted a plan governing Rochester Gas and Electric Corporation's (RG&E) electric service. Under the plan, the average electric customer using about 600-kilowatt hours of electricity a month experienced no bill impact. RG&E had requested an electric rate increase request of \$40.2 million (5.6%). The electric rate plan maintained overall rate levels for each customer class and allowed for revenue-neutral

"This decision on rates provides RG&E adequate revenues to cover long-term debt, allow for a fair return on equity, and manage its operating costs to maintain services for customers. It will help to keep electric delivery rates stable at a time when there is tremendous upward pressure on energy prices," Commission Chairman William M. Flynn stated at the time of the decision. "Further, the Commission's decision includes a strengthening of a quality assurance program designed to provide reliable services to RG&E's customers."

rate-design changes that adjust service charges to more accurately reflect the cost of service.

In addition to the rate issues, the Commission strengthened RG&E's Service Quality Performance Program by increasing the rate adjustment in the event the company fails to meet service quality targets. The RG&E Service Quality Performance Program measures the company's performance in six service areas: retail billing accuracy, Public Service Commission complaint rate, estimated meter reads, calls answered within 30 seconds, appointments kept, and the satisfaction of those customers who have been in contact with RG&E representatives. In a related matter, the Commission also set new targets – and rate adjustments for failing to meet those new targets – designed to maintain the reliability of the company's electric system.

In its decision, the Commission reached out to assist more low-income households in RG&E service regions by modifying an RG&E low-income customer program. RG&E's Residential Energy Consumer Assistance Program (RECAP) had provided about 900 qualified low-income electric and gas heating households budget counseling and related services and helped make their service more affordable by reducing their monthly bills by \$20. Under the modified program, the number of eligible households receiving RECAP benefits doubled to 1,800. On a related issue, the Commission voted to have the company continue the practice of providing a discount on the monthly minimum charge for eligible low-income nonheating gas customers.

Facilitating Competitive Choices for Consumers through EDI Standards, Revised Billing Practices

Many New Yorkers who receive electricity or natural gas from an energy services company (ESCO) competing with a local utility seek the convenience of a bill format that shows at least two services: one for the energy "commodity" -- the electricity or natural gas -- from the ESCO and one for the "delivery" from the local utility over whose system the commodity is delivered. This bill option, often referred to as a combined or consolidated bill, is a service feature that helps attract participants — both customers and ESCOs — into the retail energy market. In many regions of New York, residential customers currently enjoy the opportunity to obtain their energy supplies from an ESCO and receive a consolidated bill for commodity and delivery services.

The Commission took a number of steps in 2002 and early 2003 to encourage the continued development of electronic data interchange (EDI) standards designed to support the consolidated-bill option for consumers and retail competition in general. Computer-to-computer exchange of routine business information among competitive energy suppliers through uniform EDI standards helps to facilitate transactions relating to enrolling customers, the switching and billing of customers, and the exchange of historic and current energy usage data that is helpful not only to consumers but also to suppliers as well.

In this reporting period, the Commission approved revisions to EDI standards related to the reading of meters and the recording

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of meter data, monthly usage data to accommodate the need to issue interim bills, and communicating accounts receivable information among companies to ensure that customers receive prompt credit for payments. The Commission set a number of testing schedules throughout the reporting period to advance their application to the competitive retail energy market here in New York. A number of EDI-related issues, standards and guidelines, however, remained to be worked out to continue to move competitive choices forward for New Yorkers.

In an early 2003 decision related to facilitating electric and gas competition, the Commission also modified its Uniform Billing Practices governing billing and payment practices that utilities and ESCOs follow when providing services in New York State. Under the prior practices, payments were applied first to past-due and current electric and gas distribution utility charges for delivery services and then to ESCO past-due and current charges for the supplies or commodity. Under the modified practices, customers can rearrange payment priorities to pay ESCO arrears before distribution utility current charges are satisfied. The revisions were designed to more fairly apportion customer payments between the local electric and gas distribution utility and ESCOs serving customers in a utility's region, while at the same time protecting customer interests in maintaining continuance of both supply and delivery services.

Evaluating Electric Reliability Measures

Throughout the state, utilities are faced with the challenge of providing electric service to customers in both urban and rural communities as well as across diverse geographical settings. Electric utilities have used several approaches to meet their customers' needs within settings from radial distribution systems to underground networks. The rapid pace of technological advancements in the industry continues to add new dimensions to these systems that affect service reliability. In addition, residential consumer expectations have risen due to the growing use of electronic devices associated with home businesses, telecommuting, and personal applications.

As a means of ensuring adequate levels of service quality for electric customers in the state, the Commission adopted service standards in 1991 for the large electric utilities. The standards established reliability measures for the average frequency and duration of electric service interruptions for

each utility throughout the state. Objective and minimum performance levels were based on a historical assessment of the five years prior to 1991. Utilities were also required to report annually their performance with respect to the frequency and duration measures, worst performing circuits, and power quality programs.

Since 1991, the Commission has at various times modified the service standards, including making 11 targets more stringent. Over the past decade, incentive mechanisms established in the context of individual rate proceedings or merger cases have been joined in conjunction with the service standards. The incentive mechanisms directly connect reliability performance with potential revenue adjustments. The incentive mechanisms were a means of encouraging utilities to take the necessary steps to provide their customers with safe and reliable electric service. In many instances, the incentive programs utilized the service standards as a basis for establishing company-wide reliability targets. The service standards and incentive plans for the various utilities were developed using common principles and should, to the extent practicable, provide a common level of service quality.

In April 2002, Orange and Rockland Utilities, Inc. (O&R) sought Commission approval to update its Customer Average Interruption Duration Index (CAIDI) for its Central and Western operating divisions. CAIDI measures the average interruption duration time for those customers who experience an interruption during the year.

It approximates the average length of time required to complete service restoration and is determined by dividing the annual sum of all customer interruption durations by the sum of customers experiencing an interruption (five minutes or greater) over a one-year period.

The Commission determined that O&R's petition raised issues related to the Commission's electric reliability measures and standards in general, beyond just the CAIDI, that warrant a more comprehensive analysis. As a result, the Commission instituted a proceeding in October 2002 to evaluate all existing measures of reliability. Participants in the proceeding will examine the indices for judging utility performance and will review the methods used to develop the targets for electric service reliability. Moreover, Commission staff will investigate alternative means of monitoring electric services reliability and power quality to ensure adequate levels of service. As part of its assessment, staff may conduct forums or employ other means to ensure industry and consumer involvement. The Commission's goal is to ensure that electric utilities maintain or improve current reliability levels for their customers.

Commission Encourages Utility Customer Load-Reduction Programs

Sound energy management is crucial, especially during times of peak electricity demand when electricity usage surges. The Commission, in coordination with the New York State Energy Research and Development

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Authority (NYSERDA) and the New York Independent System Operator (NYISO – the federally authorized organization designated to coordinate the state’s wholesale generation market and the transmission system) has been instrumental in facilitating “demand-response programs” designed to promote customer energy load-reduction efforts. All of the state’s electric utilities have initiated programs that help customers manage energy use during times of peak demand. In addition, electric customers can take advantage of programs that help them conserve energy in general.

Commission staff initiated a demand reduction campaign in 2002 for commercial and industrial customers, “How to Get Everything You’ve Always Wanted --- Money and Power.” As a part of that effort, staff completed a series of workshops around the state, co-sponsored by NYSERDA and the Commission, to encourage commercial and industrial customers to curtail electrical load during peak demand periods by participating in NYISO demand-response programs. These demand-response programs, under which customers reduce energy use at critical times, can help a large customer control its electricity costs and help New York better manage its electricity needs. By 2003, large numbers of commercial and industrial customers were participating in various demand response programs throughout the state, helping to reduce the average hourly statewide peak demand for electricity by hundreds of megawatts – enough electricity to meet the needs of tens of thousands of residences.

The Commission shared with NYSERDA and the NYISO the Peak Load Management Alliance’s 2002 Demand Response Award for leadership in facilitating one of the best demand response programs in the country here in New York State. The Alliance, a not-for-profit organization, was created by a group of organizations interested in addressing the tremendous price fluctuations experienced in the electricity supply markets during the last few years of the twentieth century. These price fluctuations resulted from the market’s inability to either generate or transmit a supply of electricity sufficient to meet the demand at certain times. The Alliance seeks to create a community of expertise on the role of demand response programs in creating efficient electricity markets by providing information on market participants’ roles, customer needs and actions, enabling technologies, and specific demand response programs.

The Alliance’s award recognized the effectiveness of New York’s utility and

state-sponsored demand-response programs, which include the following:

- **Emergency Demand Response (EDRP)**
 - During power shortages or other emergencies declared by the NYISO, utilities contact incentive-based program participants with a request to curtail voluntarily their power use.
- **Distribution Load Relief** – Program participants in a local network are requested to curtail power voluntarily during times of heavy demand.
- **Voluntary Real-Time Pricing** – This is typically a rate category that is available to full-service customers who can benefit from hourly changes in wholesale energy rates.
- **Installed Capacity Program (ICAP)** – Incentives are available for customers who contractually reduce electric load during a specified period by using generators or other means of curtailment under certain circumstances.
- **Day-Ahead Demand Reduction (DADRP)**
 - Customers may request market-based monetary compensation for their agreement to curtail energy use at a pre-determined price.
- **Energy-Efficiency Programs** – NYSERDA funds are available for businesses to purchase and install energy-efficient equipment, and there are a variety of energy-efficiency programs providing assistance to government facilities, public schools and state university campuses.
- **New York Energy \$mart Peak Load**

Reduction – This is a program that offers financial and technical support to help reduce demand on the state’s electric system and save on energy bills.

- **Steam Air-Conditioning** – To help reduce peak summer electric load, Consolidated Edison Company of New York, Inc. offers reduced steam rates to help offset the costs of installing new steam air-conditioning systems. (Con Edison is the only utility in the state with steam customers.)

Commission Acts to Protect Customer Interests Regarding Walk-in Services

In the fall, 2002, Rochester Gas and Electric Corporation (RG&E) announced plans to close seven of its customer service centers, and in January, 2003, New York State Electric and Gas Corporation (NYSEG) announced plans to close 13 of its customer service centers. The Commission instituted separate proceedings to examine the proposals, their impacts on customers, each company’s alternate plans for providing services to customers that are offered at the centers, and each company’s outreach and education plans to alert customers to such alternative service options. In each case, the Commission stayed the closings pending the outcome of the public examination of the proposals.

The Commission determined that the customer service centers comprise an important and essential part of each company’s ability to carry out its customer service obligations and may provide necessary functions for customers to apply for and continue service. The functions provided

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by the centers include receipt and processing of applications for service, handling billing complaints, providing information about bills and services, and negotiating deferred payment agreements and other arrangements to avoid service termination. To ensure that customers of both utilities are adequately protected, the Commission directed RG&E and NYSEG to keep the Centers open until the Commission is able to address the issues related to the proposals.

The Siting Process Governing Construction of Major Electric and Gas Transmission Lines

New York State has a special public review process for any application for a “Certificate of Environmental Compatibility and Public Need” (Certificate) to construct and operate a major electric or gas transmission facility. Article VII, “Siting of Major Utility Transmission Facilities,” is the section of the New York State Public Service Law that requires a full environmental, public health and safety impact review of the siting, design, construction, and operation of major transmission facilities in New York State. While the Public Service Commission makes the final decision regarding all applications, Article VII establishes the forum in which community residents can participate with members of state and local agencies in the public review process.

New transmission lines are proposed because of the public’s demand for reliable, economic utility services and because energy sources are usually located at a distance from the populations they serve. Transmission lines interconnect the various utility systems within the state with those in other states and Canada. They enable utilities and energy services companies (or ESCOs – electric or natural gas suppliers that compete with utility companies to sell energy supplies to New Yorkers) to buy and sell energy, assist in emergencies and improve the reliability of the state’s electric and natural gas systems. Often new lines are required to allow the operation of new power plants, and they can help to ensure that the most economic energy will be available to ratepayers throughout the state. A determination of the need for any particular project, however, depends on the circumstances of the case and is a major element in the review conducted under the Article VII Law.

In May 2002, the Commission granted an amendment to a Certificate issued to Cross Sound Cable Company (New York) L.L.C. to construct the

New York portion of a 24-mile, 300-megawatt, high-voltage direct-current underwater electric transmission cable from New Haven, Connecticut, to the Town of Brookhaven, Suffolk County. The amendment allowed the company to extend the spring construction period by a short period to complete the placement of the last 2,400 feet of cable consisting of approximately 1,100 feet of submarine cable installation in the Long Island Sound and 1,300 feet in the Shoreham Intake Canal. The facility is designed to carry enough electricity to meet the needs of nearly 300,000 homes and will help meet the growing demand for electricity in both Long Island and Connecticut.

In November 2002, the Commission approved a Certificate allowing the Niagara Mohawk Power Corporation (Niagara Mohawk) to construct a natural gas transmission line in the Towns of Rotterdam and Glenville in Schenectady County and the Town of Charlton in Saratoga County. Niagara Mohawk was authorized to construct the 24-inch fuel gas transmission pipeline, approximately 9.16 miles in length, to meet expected growth in local customer demand in Northern Saratoga County as well as in the Glens Falls area. The pipeline was proposed to be located along existing electric rights-of-way, almost entirely on Niagara Mohawk property.

Commission staff continued its involvement to protect New York State's interests in the federal review of the proposed Millennium Pipeline project, an interstate natural gas transmission pipeline. Originally filed in

1997 with the Federal Energy Regulatory Commission, the Millennium Pipeline would follow a 424-mile route from the international border at Lake Erie to a termination point in Mount Vernon, New York. The line would be designed to improve the reliability of existing natural gas transmission capacity into the Southern Tier Region of New York, serve an electric generation facility in Rockland County, and provide additional gas transmission capacity into New York City. Staff intervened in the case to urge a routing change – away from an existing stretch of electric transmission right-of-way serving New York City – that would better protect the safety of those facilities and the public in general. The Commission's staff worked with local officials and citizens to help develop not only a new route for that portion of the proposed line but also additional safety maintenance requirements for the pipeline itself.



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TELECOMMUNICATIONS

A New Area Code for Western New York

Effective August 17, 2002, use of a new 585 area code serving many western New York counties became mandatory for completing calls into the region, which includes all of Orleans, Monroe, Genesee, and Wyoming Counties and parts of Allegany, Steuben, Livingston, Ontario, Yates, and Wayne Counties. This region was previously served by the 716 area code, which continues to serve Erie, Niagara, Chautauqua, and Cattaraugus Counties and the Tonawanda and Oil Springs Indian Reservations. The Commission's staff initiated a major outreach and education program to inform residents and businesses of the area code change and dialing instructions.

The Federal Communications Commission's North American Numbering Plan Administrator notified the New York State Public Service Commission in 1998 that a new area code was needed because the region served by the 716 area code was running out of available telephone numbers. This was due to an increase in recent years in the demand for new telephone numbers, including those needed for fax machines, computer modems, cell phones, and pagers. On May 17, 2000, the Commission determined that a geographic division along an easily recognized border was the most effective means of introducing a new area code to provide additional local telephone numbers for the western region of New York State originally served by the 716 area code.

Commission Adopts Procedures to Conserve Local Telephone Numbers

As population grows, demand for local telephone lines increases to serve a variety of needs, including business and residential uses, computer modems, cell phones, pagers, and fax machines. The increasing demand for telephone lines throughout the country can cause a shortage of available local telephone numbers in many area code regions. It is essential, therefore, that telephone companies offering local service implement strategies to use available numbers as efficiently as possible. Doing so helps prolong the need to introduce a new area code into a region, which usually occurs either by splitting a region geographically or by "overlaying" a new area code onto the region. While a new area code provides an opportunity to reuse existing numbers by assigning them to the new area code prefix, the introduction of a new area code, and the attendant changes to phone numbers, can cause disruptions, especially to businesses.

To improve local telephone number utilization in New York State, the Commission adopted procedures and standards in May 2002 designed to reclaim unused local telephone numbers in blocks of one thousand and create a pool of them to be preserved for future use. The "number pooling" procedures place New York

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at the forefront of number conservation efforts in the nation. The procedures were adopted after an extensive public process that began in 2000 with a trial program in the 716 area code in western upstate New York monitored closely by other states. The trial proved to be successful in delaying the introduction of a new area code for that region, leading to subsequent Commission staff efforts to develop and implement the statewide procedures adopted by the Commission in 2002.

1+10-Digit Dialing in New York City

February 1, 2003, marked the beginning of mandatory 1+10-digit dialing in New York City. To complete every call – including calls to another number in the same area code – callers must dial a 1+ the area code + the 7-digit local number (that is, 1+10 digits). The Federal Communications Commission (FCC) requires 1+10-digit dialing for all calls when a geographic region has more than one area code. New York City is served by five area codes. The 917 area code serves the entire City. The 212 and 646 area codes serve Manhattan. The 718 and 347 area codes serve Brooklyn, Queens, the Bronx, and Staten Island.

Beginning in the spring of 2002, the New York State Public Service Commission staff worked with phone companies to ensure that they implemented multi-lingual public education plans to inform residents and businesses in New York City about the dialing change. These efforts included informational bill inserts, radio and print advertising, mailings to security alarm companies, meetings with targeted groups, and press releases.

The FCC requirement regarding 1+10-digit dialing is designed to ensure that competing local phone companies are not disadvantaged in regions served by more than one area code. Thus, customers of all local phone companies in such areas will dial the same number of digits to place a call, ensuring uniform dialing requirements for all customers.

New Guidelines Adopted to Facilitate Customer Choices Among Carriers

New York is a recognized leader in developing customer choices for telephone services, and, as a result, New Yorkers have a wide range of companies from which to choose the kinds of services they want and need. The ability to switch, or “migrate,” from one carrier to another efficiently

is an important element in the evolution of competitive choices for consumers. In June 2002, the Commission expanded and refined its “migration guidelines” to further facilitate the migration of customers among competing local service providers.

The new guidelines were the result of a consumer/industry/government collaborative effort and embody the goal of enabling customers to migrate to the provider of their choice smoothly and without delays, service problems, interruptions, or cumbersome procedures. The goal of the guidelines is to encourage telecommunications carriers to work together in good faith to minimize problems and to follow consistent methods for information exchange and for implementing other procedures to facilitate customer choices while respecting customer privacy.

Commission Acts to Preserve Telecommunications Services for Hearing Impaired

In the spring of 2002, the Commission approved a contract for the provision of telephone relay service (TRS) that allows hearing-impaired New Yorkers using operators and teletypewriting equipment to communicate by telephone to anyone. From 1989 to 1997, intrastate TRS was provided by contract between AT&T Communications, Inc. and the New York State Telephone Association (NYSTA). Beginning in 1997 and extending into 2002, Sprint Communications Company, L.P. provided TRS through a contract with NYSTA. To ensure that New Yorkers with

hearing impediments continued to receive this valuable service, the Commission approved a two-year extension of the NYSTA-Sprint contract to provide TRS. In addition, the Commission approved transfer of oversight for, and administration of, TRS in New York from NYSTA to the New York State Targeted Accessibility Fund, representing all segments of the telecommunications industry in the state, as well as a large number of public interest groups.

The Telecommunications Service Priority (TSP) Program

In 1988, the Federal Communications Commission (FCC) created a Telecommunications Service Priority (TSP) program that provides national security and emergency preparedness (NS/EP) users priority authorization of telecommunications services that are vital to coordinating and responding to crises. Telecommunications services are defined as the transmission, emission, or reception of information of any nature, by wire, cable, satellite, fiber optics, laser, radio visual or other electronic, electric, electromagnetic, or acoustically coupled means, or any combination thereof. As a result of hurricanes, floods, earthquakes, and other natural or man-made disasters, telecommunications service vendors may become overwhelmed with requests for new telecommunications services and requirements to restore existing telecommunications services. The TSP Program provides service vendors with an FCC mandate for prioritizing

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service requests by identifying those services critical to NS/EP. A telecommunications service with a TSP assignment is assured of receiving full attention by the service vendor before a non-TSP service. Customers request assignment to the TSP system through a federal agency that “sponsors” the request. The purpose of the sponsorship is to ensure that a service merits TSP treatment, and priority status is reconfirmed every two years. In the fall of 2002, the Department increased awareness of the TSP program among competitive local exchange companies (CLECs) and end users by including TSP program information on the Commission’s Web site. Further, telephone company tariffs were modified to ensure that they reflect current TSP procedures.

Almost 50 Commendations for High Service Quality Given in 2002

The Commission has an established set of telephone service quality measurements to foster high service quality for New Yorkers. Its staff monitors the service quality of telephone companies to ensure adherence to these standards. In 2002, the Commission issued letters of commendation to 47 local telephone companies or telephone company operating divisions throughout the state for providing excellent service to customers during the year. Many companies have been commended for several years in succession, with one company –Pattersonville Telephone Company – receiving a commendation for fifteen consecutive years. Verizon of New York, the largest provider of local telephone service in the state, received commendations for four of its eleven operating divisions. In 2001, two of Verizon’s operating divisions received commendations.

The commendations for excellent service are based on telephone companies’ performance in relation to service quality standards established by the Commission. The criteria to measure the condition of each

“The Commission commends these telephone companies for meeting and exceeding their customers’ service quality expectations in 2002,” stated Commission Chairman William M. Flynn. “The high standards we set here in New York help ensure that our residents and businesses throughout the state benefit from being at the world’s crossroads of telecommunications technology.”

company's infrastructure includes an evaluation of "customer trouble report rates" (CTRR) and the number of consumer complaints received by the Commission. Measurements are taken monthly for each of 912 central office switches in the state. The measurements may be supplemented by staff inspections, if necessary. When service in a particular office is found to be less than satisfactory, staff intervenes to achieve compliance with Commission standards. The commendations also are based on a requirement that any company operating under an incentive regulatory plan must have no incidence of service-related penalties for CTRR or PSC complaints during the year.

Verizon Service Quality

Verizon-New York serves over ten million access lines in New York State from over 540 central offices. It is the largest incumbent local exchange carrier in the state and serves about 80% of the access lines. Because Verizon is classified as a large company (i.e., serving more than 500,000 access lines) under the Commission's telephone service quality standards, it reports on all metrics addressed in those standards. Moreover, the company is subject to a special set of service quality targets under the Verizon Incentive Plan (VIP), approved by the Commission in early 2002. While the VIP is a two-year plan, it contains a three-year Service Quality Plan of annual service performance targets generally based on the Commission's existing standards and complaints to the Public Service Commission.

Under the VIP, Verizon is subject to penalties of up to \$170 million per year and the loss of pricing flexibility for failure to achieve the VIP annual service quality targets. Verizon service quality is measured under the VIP during the 12-month periods from March of one year through February of the next year.

In Plan Year One (2002-2003), the company missed one of the five VIP service quality targets, the "Percent Out-of-Service Over 24 Hours." As a result, it provided credits to customers whose service was out for more than 24 hours at any given time during the first plan year. The total amount of credit issued was \$15 million, and each affected customer saw a credit in either April or May 2003 bills amounting to \$35. This is in addition to any other credit customers may have been due based on existing service quality measures.

Protecting New Yorkers Against "Slamming"

Slamming is a term that describes a situation where one's telephone service is switched from the telephone company of choice to another company without legitimate authorization. Slamming can occur in several ways. Some companies use contests, prizes, surveys, bonus checks, or confusing telemarketing calls in an attempt to lure a consumer's consent to change the long distance and/or local toll/regional telephone service provider. Usually, the consumer does not realize that by responding to offers and answering telemarketer's questions, he/she may be authorizing a service change. The long distance/local toll telephone

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company (or telemarketer acting on its behalf) will then notify the local telephone company that the consumer has agreed to switch his/her long distance or local toll/regional service to another company.

State law prohibits the use of prize boxes to collect sweepstakes entries together with authorizations to change telephone service providers. State law also allows for companies found guilty of slamming to be penalized \$1,000 per slamming occurrence, per telephone number. In 2002, the Commission imposed penalties on violators of over \$140,000, which were deposited into the state's general fund.

To protect against slamming, the Commission mandates that telephone companies offer customers a "freeze" of their long distance and local toll carriers where available. By "freezing" service to a chosen company, calls may not be carried on another company's network without verbal or written authorization.

WATER



Ensuring Financial Viability of Private Water Companies

The Commission and its staff work not only to help ensure that safe and adequate service is provided to the customers of the hundreds of privately owned water companies throughout the state, but also to help strengthen each company's financial viability to benefit customers. As staff becomes aware of service problems through their regular monitoring responsibilities, they step in to help facilitate resolutions. In some cases, the service problems are related to a company's financial viability. Staff typically will bring interested parties together to help ensure a system's future either through establishment of escrow accounts to ensure funds are available for repairs and maintenance of facilities, the linking of profit levels with company performance, consolidation of services with

neighboring water systems, including municipal systems, or mergers. The Commission took several such actions in 2002 and 2003.

In 2002, the Commission approved the transfer of the Pine Hill Water Company system assets to the Town of Shandakan in Ulster County. That particular system, which is over 100 years old, needed extensive improvements. In assuming responsibility for the system, the town arranged for funding from a combination of grants and no-interest loans to pay for rehabilitation of the system. As a result, it was estimated that a typical residential customer's overall annual bill would remain about the same, while substantial improvements to the system were completed.

Also in 2002, the Commission adopted the terms of a joint proposal designed to transfer the Long Island Water Corporation, a subsidiary of the American Water Works

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Company, to Thames Aqua Holdings. The Commission determined that the proposal will be in the public interest based on the preservation of the existing rate plan that shields customers from a base rate increase, synergies that the merger and acquisition will achieve to benefit customers, improved access to capital, and customer benefits resulting from the resolution of a number of issues, including a one-time payment obtained from Long Island Water Company's insurance company.

In early 2003, the Commission authorized Philadelphia Suburban Corporation to acquire the interests of AquaSource Utility, Inc., the owner of five small water companies in the state providing service to approximately 1,000 customers. The transfer of the water companies to Philadelphia Suburban provided the systems with the support of a large, financially sound company with extensive experience in meeting water quality standards and providing water services. The transfer also presented an opportunity to obtain economies of scale that should benefit customers of the five New York water companies over the longer term.

The Drought of 2002

The 2002 drought, which affected the entire eastern seaboard and was identified as the worst in over 100 years, ended late in the fall of 2002. The Commission water staff actively monitored the drought's effects on the regulated water systems in New York and helped affected systems coordinate their responses to mitigate customer impacts. United Water New York in Rockland County was hit the hardest. The drought caused the company, local officials, and staff to reconsider the concept of indirect water reuse projects to augment supply. Moreover, staff expects accelerated efforts to develop water supply initiatives will help mitigate the effects of future droughts in Rockland County.

CABLE



State Assistance to Local Franchise Authorities.

The Commission's Cable Television Municipal Assistance conducted a number of regional seminars throughout the state in 2002 to educate and assist local governments in dealing with cable television and related telecommunications issues. This effort is enhanced through direct consultation with local franchise authorities on specific issues including franchise renewals, granting of competitive franchises, right-of-way management, public access, rates, and technical assistance.

Ongoing Monitoring Responsibilities

As part of its ongoing responsibilities, staff monitors the technical quality of the services provided by cable television companies in New York State and provides technical assistance to augment other Commission staff activities related to telecommunications. Staff also conducts field investigations into areas such as public safety aspects of providing telecommunications services, pole attachment issues, and underground facilities enforcement activities.

During this reporting period, staff continued to monitor the operation of the Emergency Alert System that is used to provide emergency warnings to the public via cable and broadcast media and the emergency restoration of cable services under the Department's Emergency Plan. It also provides assessment and on-going analysis of the technical capabilities of the cable and broadband industries for studies conducted by the Department, such as the legislatively mandated rural advanced services study that is to be completed in 2003.

Coordination with Federal Authorities

The Commission's cable staff participated with the staff of the Federal Communications Commission (FCC) on a wide range of issues in 2002 as a result of the Telecommunications

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Act of 1996. Staff became involved in FCC activity on rights-of-way, the status of home wiring, rate regulation, cable terminals, consumer electronics, and consumer protection standards. Staff monitors these federal proceedings and interacts with the FCC to provide input on issues as they relate to the cable industry in New York.

GENERAL

Improved Monitoring of Utility Security Measures.

In October 2001, in the aftermath of the attack on the World Trade Center, the Chairman formed the Utility Security Assessment Team with the objective of evaluating the utilities' efforts to maintain system reliability and security. The team met with the state's 25 largest utilities and developed a series of findings and recommendations that it presented to the Chairman in March 2002. Throughout the remainder of 2002, the team monitored utility efforts to implement cyber and physical security enhancements.

In August 2002, the Commission issued an Order initiating a proceeding to investigate security issues and required the utilities to arrange for third-party evaluations of their physical and computer security arrangements. The third-party vendor evaluations, performed under the direction of each utility, must be documented in individual utility-specific reports. Staff will continue to monitor utility efforts to implement cyber and physical security assessments throughout 2003.

Electronic Filing System Facilitates Public Access to Utility Tariffs

Early in 2003, the Commission launched a new electronic filing system that will make it easier for both regulated utilities in New York to submit their tariffs and the public to access and view the tariffs. Utility tariffs

are the official documents electric, natural gas, telecommunications, cable television and private water utilities file with the Commission defining and detailing services offered to customers. Utility tariffs contain all pertinent information related to services, including descriptions and prices of the services; conditions under which, and areas where, the services are offered; the "customer category" – that is, residential, business, commercial, industrial – for whom the services are designed; and, other related details.

In 2000, Governor George E. Pataki commenced a statewide "e-Commerce/e-Government Initiative" designed to provide on-line access to critical state services and resources in a user-friendly and easily-accessible environment. The initiative signaled the creation of a digital "Government Without Walls" in New York State. The foundation of the "government without walls" theme is to breakdown the walls of individual state agencies for citizens doing business with state government and allow citizens, as much as possible, to conduct business and find information at anytime from anywhere.

Over the years, as technology developed, revisions to electronic tariff filing have occurred. Current revisions under the Governor's e-Commerce/e-Government Initiative constitute a major evolutionary step in the on-going development of the Commission's Electronic Tariff System (ETS).

The new system allows utilities to submit their tariffs as a single electronic file rather

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than as the numerous multiple files required under the old system, saving time and work. Further, tariffs can now be filed using the “PDF” format, the most universal and widely-used document format on the Internet. Previously, tariffs were filed using a format that predated Microsoft Windows, which is now widely used. Among other advances, security has been upgraded to present-day standards, and all submissions are encrypted.

Customers and the general public will find searching for tariffs to be several times faster than under the previous system. The “user interface” with the electronic tariff system has been completely redesigned to be more intuitive and user-friendly. Once a customer accesses a particular tariff, it will open automatically within the user’s web browser and it will look just like the original document created at the utility.

In assessing the importance of the new system, Commission Chairman William M. Flynn said, “One of the Commission’s goals is to make utility regulation more efficient and cost-effective in New York through the Governor’s e-Commerce/ e-Government Initiative. Our new Electronic Tariff System helps achieve that goal. As markets become increasingly competitive, easy access to tariff information may be useful to consumers as they explore service provider choices.”

Commission Reaches Out to Help Educate New Yorkers

Each year, the Commission’s Outreach and Education (O&E) staff initiates several strategies and programs designed to provide helpful consumer information to utility customers and the public in general. Staff develops and provides the information in both English and Spanish at workshops, community events, in schools, at public meetings, through print and electronic media and direct mailings, and on the Commission’s Web site.

During this reporting period, O&E staff launched the third year of the Commission’s energy conservation campaign. To improve recognition and understanding of the program, staff unified the winter and summer campaign slogans under the year-round theme, “Conserve a little. Save a lot.” The fall segment of the campaign was designed specifically to encourage New Yorkers to take steps before the winter season to help

lower their heating bills. Regional metro radio traffic spots ran more than 1,000 times in the state's five major markets during the winter heating season. The radio messages featured a different energy conservation tip each week. Mass transit bus cards in New York City, in English and Spanish, encouraged people to lower their thermostats at night and when they are out. In all of the major upstate markets, billboards, as well as 60-second and 10-second metro traffic radio advertisements, provided winter heating tips to help consumers handle the high natural gas prices and the extended cold weather. Staff also reached out to Community Action Agencies around the state that administer weatherization programs to provide them with education brochures aimed at controlling consumer energy costs.

The Governor's "Task Force for Project 2015 – Adapting to Population and Ethnicity Changes" was formed to address the expected doubling of New York's population over the age of 50 by the year 2015. Both the Hispanic and Asian populations are expected to grow significantly. The Commission's O&E group was asked to enhance its outreach activities to facilitate communications regarding energy and telephone services and consumer rights for aging and non-English speaking populations. Staff developed a brochure to ensure that senior and minority New Yorkers are aware of consumer protections and programs available to help them understand the changes taking place in the competitive energy and telecommunications markets. The Commission's Web site was expanded to include a "Senior Corner" with helpful information and links to senior resources and

a series of articles was prepared for senior newsletters. Staff made "Project 2015" magnifiers available for use at public events to promote the availability of information and assistance to seniors and non-English speaking citizens regarding energy and telephone consumer rights and protections. As part of this overall effort, in early 2003, O&E staff produced a new brochure: *A Consumer Guide to Utility Service Tips, Assistance Programs and Protections*. It explains the various assistance programs that are available to help consumers, customer rights and responsibilities, special needs programs, tips on protecting one's self from slamming and cramming, and tips on controlling energy costs.

A pilot education program, "Kids Can Make a World of Difference," officially started in 2002. The core of the program consisted of a mailing to all fifth grade students in Suffolk, Nassau, Queens, Westchester, Albany, and Chautauqua Counties. In addition to the distribution of materials, staff added a "Kids Korner" on the Commission's consumer Web site (www.AskPSC.com), and participated in youth conservation field days.

O&E staff participated in the largest consumer education event of the year, the New York State Fair, from August 22 through September 2. The year's campaign was "Your Energy...Your Telephone...Your Choice" featuring two of the Commission's main messages -- competition and conservation. A new exhibit design, with a new backdrop, overhead banners and floor kiosks, enabled staff to convey themes in a clear and attractive manner. The State Fair effort also featured an energy pledge for children and adults to take.



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In the fall of 2002, O&E staff planned and implemented the Commission's annual residential tracking survey to measure changes in New York State residents' awareness and understanding of competition in the electric, natural gas, and local telecommunication industries. Approximately 100 telephone interviews were conducted in each of the state's seven major utility service territories for a total of 716 completed interviews. Staff will analyze the responses and use the information to further refine outreach and education efforts related to the provision of competitive choices to consumers throughout New York State.

Throughout 2002, O&E staff also conducted numerous partnership meetings to build stronger relationships with local community leaders and service providers, gather comments and ideas from the participants, and explore ways that the Commission could work with them to facilitate the exchange of utility-related information.

Tens of Thousands of Consumers Helped by Commission Staff

The Commission's Office of Consumer Services (OCS) is responsible for assisting consumers who are experiencing difficulties with a service provider under the jurisdiction of the Commission. During 2002, OCS handled about 80,000 customer contacts, of which approximately 35,000 are forwarded to service providers for investigation and reply. In a continuing effort to reduce consumer difficulties and provide timely resolution to those consumers who experience a utility-related problem, OCS developed a Quick Resolution System (QRS) for implementation in June 2002. The QRS is designed to, among other goals, provide customers with an expedited and more satisfactory resolution of their difficulty and provide OCS staff with additional time and resources to handle the more difficult consumer matters that require staff intervention.

QRS requires service providers to contact any customer with a collection- or service-related issue within two working hours. All other customers must be contacted by the close of the business day following receipt of the referral. The provider will discuss the matter with the customer and take the necessary action to satisfactorily resolve the matter with the customer within 14 days or within five days for Executive Correspondence cases. The provider will forward to OCS a list of customers whose cases were closed, as often as possible. The list will indicate that the service provider believes it was able to resolve the matter with the customer or

that it was unable to resolve the matter to the customer's satisfaction. Service Providers must file a complete report in response to cases designated as Executive Correspondence or Consultant cases.

At any time during or within 60 days after the handling of a customer's QRS case by the service provider, the customer may contact OCS staff and express dissatisfaction with the manner in which the provider attempted to resolve the issue. Should that happen, the case will be reclassified as a complaint (under the Standard Resolution System or SRS), charged to the service provider and submitted to the provider for investigation and a full response to the Office of Consumer Services. The

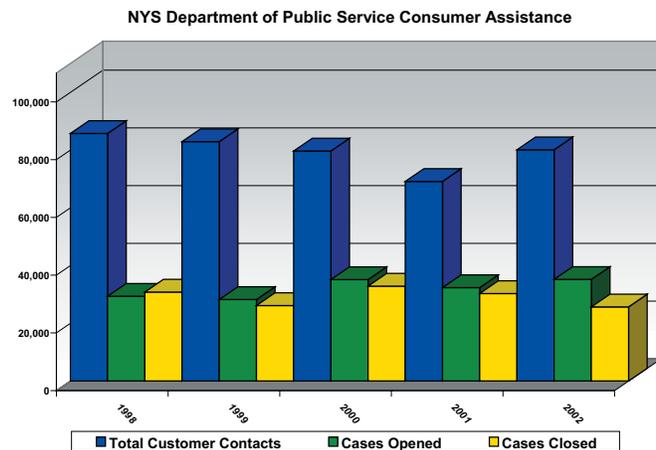
service provider will have 10 calendar

days to respond to an

SRS Complaint. If the customer expresses dissatisfaction within 60 days of the service providers' resolution, OCS will assess the matter and may reclassify the case as a complaint. If 60 days have elapsed from the date of the service providers' resolution, OCS will enter a new QRS case if further action by the service provider is needed.

OCS staff tracks each utility service provider's performance under the QRS program. Data is collected and analyzed and OCS develops performance metrics that are used to measure the level of customer service each provider delivers under this program. In the twelve months between April 1, 2002, and March 31, 2003, OCS staff assisted 6,900 New Yorkers in resolving complaints that were eventually filed involving electric, natural gas,

telecommunications, private water and cable providers in the state. Staff assisted tens of thousands of other consumers through the QRS and through calls that were made to the Commission's tollfree HELPLINE and HOTLINE and comments filed at the Commission's Web site by consumers seeking assistance.



Successes with Alternative Dispute Resolution

The Commission continues to support the use of various innovative alternative dispute resolution (ADR) techniques to address a wide variety of disputes among utilities and stakeholders. ADR techniques are also used in a variety of situations by interdisciplinary Commission staff teams. For example, staff efforts continue to expand the use of ADR in both the pre-application and application phases of the Article X siting proceedings to facilitate the resolution of issues and to minimize litigation. In particular, the application of ADR techniques in telecommunications continued through the reporting period with favorable results. Ongoing collaborative efforts are addressing the issues raised in a

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variety of proceedings and the use of mediation and arbitration continues to be successful in carrier-to-carrier disputes. In both the energy and telecommunications' areas, the extensive use of web pages for posting ADR committee minutes, meeting schedules, academic papers, report drafts, and other documents made information more accessible to all parties and to the public. In addition, the telecommunications expedited dispute resolution procedures (that is, "competitor complaints") are being implemented in the energy arena through the uniform business practice rules. Several forums were held in 2002-2003 to provide additional education on ADR techniques and issues for staff and participants in Commission proceedings.

Siting Board Approves New Generating Capacity for New York State

Article X of the New York State Public Service Law sets forth a public review process in the state for consideration of any application to construct and operate an electric generating facility with a capacity of 80 megawatts or more. An applicant must meet Article X requirements to obtain the Certificate of Environmental Compatibility and Public Need that is needed before construction of such a facility. Article X was enacted in 1992 to replace Article VIII that expired on January 1, 1989. Article X was amended in November 1999, to clarify the permitting process regarding air and water permits. The law expired on December 31, 2002, but all applications received prior to that date continue under the Article X review process.

Under state law, the New York State Board on Electric Generation Siting and the Environment (Siting Board) consists of the Chairman of the New York State Department of Public Service or a designee and the Commissioners or their designees from the New York State Departments of Environmental Conservation, Health, Economic Development and the New York State Energy Research and Development Authority. Also, two additional members are named by the Governor to consider each application. According to state law, one is chosen from the judicial district and the other from the county where the facility is proposed to be located.

The Siting Board voted during this reporting period to approve three applications for a Certificate of Environmental Compatibility and Public Need to construct and operate electric generating facilities in New York State. The decisions complete comprehensive environmental and technical reviews of applications that included public statement hearings and public comment

periods, as well as participation by numbers of interested parties in each individual case, including local municipalities, environmental and community interest groups, and state agencies.

Certificates were issued for the 580-MW Brookhaven Energy Limited Partnership plant in the Town of Brookhaven, Suffolk County; the 540-MW Wawayanda Energy Center in Orange County; and, the 500-MW New York Power Authority facility in Queens County.

The Article X process guarantees opportunities for public involvement. Under Article X, an applicant must communicate with the public early in the pre-application

process through the use of various means such as media coverage, direct mailings, fliers or newsletters. To facilitate the application process and to enable public participation, an applicant must carry out a meaningful public involvement program. When an applicant submits its Article X application, it must also submit a fee of \$1,000 per megawatt of capacity, up to \$300,000, for an intervenor fund to help municipal and other local parties defray the expenses of expert witnesses and consultants. Article X expired on January 1, 2003.

Department of Public Service - Article X Cases - Plants Approved				
Project Name	Owner/Developer	Size (MW)	Connecting Utility	Certification Date or Estimated Decision Date
UNDER CONSTRUCTION				
Athens Gen	Athens Gen Co/ PG&E	1080	NM-NG	06/15/00
Bethlehem Energy Center	PSEG Power NY	750	NM-NG	02/28/02
East River Repowering	Con Edison	360	CONED	08/30/01
Poletti Expansion	NYPA	500	CONED	10/02/02
KeySpan Ravenswood	KeySpan Energy, Inc.	250	CONED	09/07/01
APPROVED				
Brookhaven Energy	Brookhaven Energy LP	580	LIPA	08/14/02
Bowline Point Unit 3	Mirant	750	CONED	03/26/02
Astoria Energy	SCS Energy, LLC	1000	CONED	11/21/01
Spagnoli Road CC Unit	KeySpan Energy, Inc.	250	LIPA	05/08/03
Wawayanda Energy Center	Calpine Eastern Corp.	540	NYPA	10/22/02

Department of Public Service - Article X Cases - Applications Pending			
Project Name	Owner/Developer	Size (MW)	Connecting Utility
APPLICATION PENDING			
PPL Kings Park	PP&L Global, Inc.	300	LIPA
Empire State Newsprint	Besicorp/Empire State	505	NM-NG
Glenville Energy Park	Glenville Energy Park LLC	520	NM-NG
Astoria Repowering	Reliant Energy	1,816	CONED

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