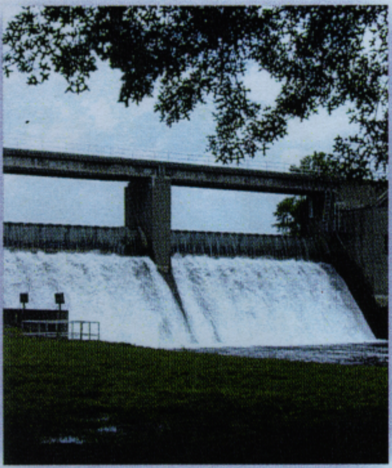
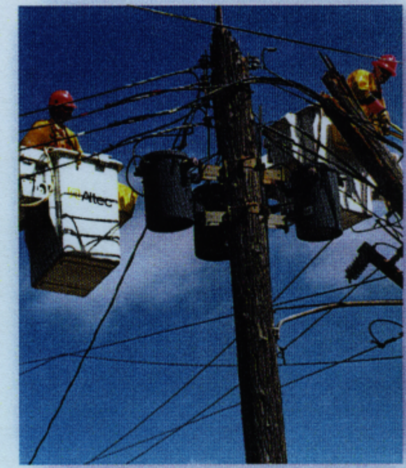
New York State Public Service Commission

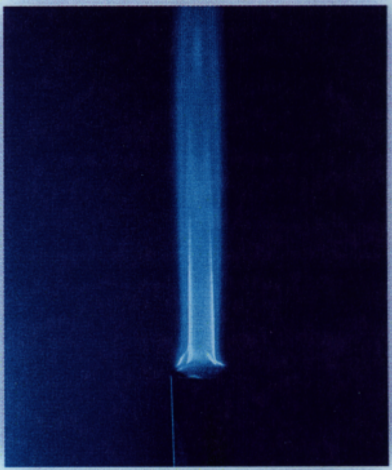


Annual Report
1998-1999

George E. Pataki,
Governor

Maureen O. Helmer,
Chairman





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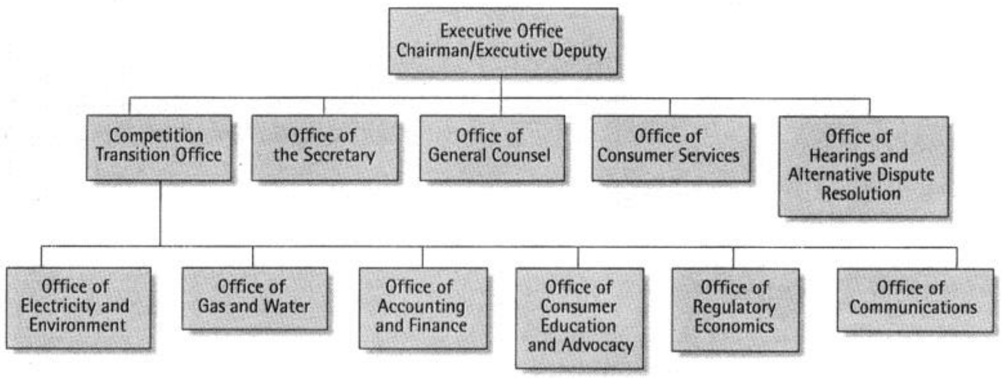
Reorganization Reflects Industry Changes

In early 1999, Chairman Maureen O. Helmer announced the results of a planned reorganization of the Department of Public Service. The reorganization was structured to position the Department to more effectively and efficiently meet its changing responsibilities as deregulation of the utility industry continues and competitive markets develop. While many of the offices remain structurally the same, the intent is for all offices to work in unison to focus on the issues that are important to consumers and market participants as competition develops in various utility industries.

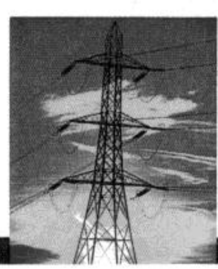


One of the major changes to the Department was the creation of a Competition Transition Office (CTO). This office will coordinate policies related to the developing competitive utility markets and focus on competitive issues in each of the affected utility industries. It will also coordinate agency and federal energy policies, and direct the Department's interdisciplinary team projects.

One of the major changes to the Department was the creation of a Competition Transition Office (CTO). This office will coordinate policies related to the developing competitive utility markets and focus on competitive issues in each of the affected utility industries.

The Department's new Office of Electricity and Environment (OEE) will focus on electric issues and environmental matters. Staff from the former Office of Energy Efficiency and the Environment and the former Office of Utility Efficiency and Productivity were absorbed into OEE and other existing offices.

The new Office of Consumer Education and Advocacy will focus on consumer-oriented competition issues, including outreach and education, compliance, service quality, and residential and business advocacy. The Office of Consumer Services will continue to provide direct and timely assistance to consumers in utility-related complaint-handling matters.



Competitive Opportunities In The Electric Industry

Over the last several years, the Commission has made a concerted effort to reduce electric rates, stimulate economic development and establish a framework for competition. The Commission's actions were in response to an escalation of New York's electric rates, which were about 50% more than the national average.

In late 1997 and early 1998, the Commission approved rate and restructuring plans for Consolidated Edison Company of New York, Inc. (Con Edison); Central Hudson Gas & Electric Corporation (Central Hudson); Orange and Rockland Utilities, Inc. (O&R); New York State Electric and Gas Corporation (NYSEG); Niagara Mohawk Power Corporation (Niagara Mohawk); and Rochester Gas and Electric Corporation (RG&E). Each rate and restructuring plan set out the terms and conditions for the introduction of retail competition and called for the divestiture of the utilities' generating plants to promote an open and competitive wholesale market for electricity.

Through these Competitive Opportunities cases, the Commission not only ushered in the era of electric competition, but also arrested the escalation of energy rates in New York by providing more than $4 billion in rate reductions and cost savings.

Fostering Retail Access

In a competitive electric industry, customers now have access to alternative energy suppliers, commonly known as energy service companies, or ESCOs. The prices for electricity purchased from ESCOs are unregulated and determined by the competitive market, while rates for electricity supply purchased from the utilities remain regulated during the transition period. Rates for the utilities' delivery of the electricity also remain regulated.

Retail electric competition began in Con Edison's service territory in June 1998. Soon afterwards, the five remaining utilities began phasing in competition in their service territories. During the same period, all but one of the utilities began to sell or divest their generation plants. After the completion of the sales, the utilities will no longer be the sole suppliers and producers of electricity, and the Commission will have ushered in an era of competition for both the retail and wholesale sectors of the electric industry.

Concurrent with implementation of the Commission orders and the establishment of a framework for electric competition, the Commission began the process of unbundling utility rates. As a result, a utility's cost for services that are provided by ESCOs will be subtracted from its rates.

The Commission also approved the utilities' retail access tariffs and agreements that govern transactions among customers, ESCOs, and utilities and instituted a collaborative proceeding to implement a standard Electric Data Interchange (EDI) methodology between ESCOs and the utilities.

The results of these initiatives should ensure that competition among suppliers develops while system reliability is not impaired.

Environment Labeling for Electricity

As part of its vision for a transition to a competitive electricity marketplace in New York, the Commission identified the need to give customers useful information so they can make informed choices. On December 15, 1998, the Commission adopted environmental disclosure requirements and a tracking mechanism to facilitate informed customer choice, which could, in turn, lead to improved environmental quality and resource diversity.

The Commission's Order (98-19) establishes an environmental labeling process that will inform consumers of the fuel mix and air emissions of the generating sources used to produce the electricity they obtain in New York's competitive market. Every investor-owned electric utility, every energy service company providing retail electricity, and those municipal or cooperative electric utilities subject to Commission jurisdiction, will be required to provide the environmental disclosure label. Also, the Commission has encouraged Long Island Power Authority, New York Power Authority, and non-jurisdictional municipal and cooperative electric utilities to participate in the program.

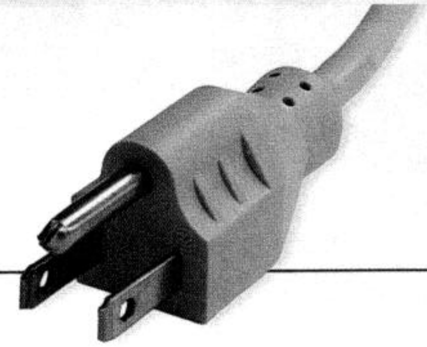
Staff began development of the disclosure labeling process in January 1998, meeting with a wide range of groups representing consumers, environmental interests, government agencies, independent power producers, energy providers, the Independent System Operator (ISO) and utilities. The labeling concept was based on a staff White Paper issued in August 1998 containing a proposal for environmental disclosure. Based on comments received from 23 interested parties, staff recommended certain modifications to the original White Paper proposal, which were approved by the Commission.

The data for the disclosure labels are derived from the ISO for the generation sources and from the Environmental Protection Agency and the New York State Department of Environmental Conservation for the emissions data. Department staff will administer the program. The costs of the ISO and any third-party contractor hired to assist staff in the development of the mechanics will be funded through monies set aside in the state's System Benefits Charge. Staff continues to work on implementation of the Commission Order and expects the first labels to be issued by the fall of year 2000.

Electric Retail Choice Timetable

June 1, 1998	Consolidated Edison customers able to shop for electricity until 10% or 1000 megawatts of the company's load* is enrolled in retail access.
July 1, 1998	Customers of Rochester Gas and Electric able to shop for electricity until 10% of its existing load* is reached; new customers also allowed to choose an alternative supplier.
Aug. 1, 1998	Choice of electric suppliers became available to all New York State Electric and Gas customers in the company's Lockport Division, and the city of Norwich, and to all industrial customers not eligible for the annual 5 percent decreases.
Sept. 1, 1998	Customers of Central Hudson able to shop for electricity until 8% of the company's load* is reached.
Nov. 1, 1998	Choice of electricity supplier became available for large industrial and commercial Niagara Mohawk customers that use two or more megawatts of power.
Jan. 1, 1999	Customers of Central Hudson able to shop for electricity until an additional 8% of the company's load* is reached.
April 1, 1999	Consolidated Edison customers able to shop for electricity until additional 1000 MW of the company's load* is reached.
April 2, 1999	Choice of electricity supplier available for residential Orange and Rockland customers.
May 1, 1999	All Orange and Rockland customers have a choice of electricity supplier. The electricity supply to those customers choosing to stay with O&R is priced by the competitive market.
Aug. 1, 1999	Choice of electric suppliers will be available to all remaining New York State Gas and Electric customers.
Jan. 1, 2000	Customers of Central Hudson able to shop for electricity until an additional 8% of the company's load* is reached.
April 4, 2000	Customers of Consolidated Edison able to shop for electricity until an additional 1000 MW of the company's load* is reached.
July 1, 2000	Rochester Gas and Electric customers able to shop for electricity until an additional 10% of the company's load* is reached.
July 12, 2001	Choice of electricity supplier will be available to all Central Hudson customers.
July 21, 2001	All Rochester Gas and Electric customers will be eligible to select an alternative supplier of electricity.
Dec. 31, 2001	All Con Edison customers will be able to choose an alternate electricity supplier.

**Load is the total demand for service on a utility system at any given time.*



Divestiture and Market Penetration

Central Hudson Gas and Electric	The restructuring order calls for Central Hudson to divest its generation facilities prior to June 30, 2001, with the company to file an auction plan with the Commission prior to January 2000.	As of March 1999, 70% of the commercial program was subscribed and 160 residential customers had chosen alternative electricity suppliers.
Consolidated Edison Company of New York Inc.	As of March 1999, the first phase of the Retail Choice Program was fully subscribed with almost 51,000 customers.	Contracts signed for the sale of 5500 MW of in-city capacity to three new owners. NRG Energy agreed to purchase the Arthur Kill Generating Station and gas turbines at Astoria. KeySpan Energy agreed to purchase the Ravenswood Station. Orion Power agreed to purchase the Astoria Steam Units and the Gowanus and Narrows turbines. Further, Southern Energy, Inc. agreed to purchase Con Edison's 2/3 share of the Bowline Station.
New York State Electric and Gas	As of August 1, 1998, all small industrial customers throughout the company's territory, and all customers in the City of Norwich and NYSEG's Lockport Division were eligible to choose an alternative supplier of electricity. Through March of 1999, over 5,000 customers have switched suppliers.	The Commission approved the sale of NYSEG's New York coal plants to AES and the Homer City coal plants to Mission Energy Westside, Inc. in December of 1998. The New York and Homer City plants each sold for more than their book values. The sale of the Homer City plants closed in March of 1999.
Niagara Mohawk Power Corporation (NMPC)	As of March 1999, 15 large industrial and commercial customers that use two or more megawatts of power are receiving their commodity from an Energy Service Company.	As of March 1999, Niagara Mohawk had filed petitions for the sale of its hydro generation assets to Orion Power and its Huntley and Dunkirk coal-fueled generation facilities to NRG Energy. Commission decision expected in the fall of 1999.
Orange and Rockland Utilities, Inc. (O&R)	As of March 1999, more than 1000 customers (761 non-residential) participated in O&R's retail access program and were served by an ESCO.	O&R began the process of auctioning its generation assets in June of 1998. Following a two-phase auction process, O&R signed final contracts with the winning bidder, Southern Energy, Inc., on November 24, 1998.
Rochester Gas and Electric Corporation (RG&E)	On March 31, 1999, the full availability of retail power was taken with about 1200 customers acquiring approximately 700 GWH of electricity annually from alternative providers.	RG&E has no formal plan to divest its generation assets. On August 31, 1998, the Commission authorized RG&E to purchase the 55 MW Kamine/Besicorp Allegany generating facility, resolving a long-standing dispute and ending litigation over associated IPP contracts.

Farm and Food Processor Retail Access Pilot Program

In 1997, The New York State Public Service Commission set the framework for bringing choice to New York's electric customers by approving a retail access pilot program for qualified farmers and food processors. Approximately 17,000 farms and 600 food processors were eligible to use the pilot to make choices about electricity and other energy services.

Customers in the service territories of Niagara Mohawk, Central Hudson, Rochester Gas and Electric, and New York State Electric and Gas were involved in the Pilot Program. By the end of March 1999, approximately 7500 customer accounts had been switched to retail access under the pilot program.

The Commission endorsed the retail pilot program because it involved several utilities and it offered a valuable opportunity to test key systems and procedures needed as competition and consumer choice become a reality for all New Yorkers. The retail access pilot's goals were:

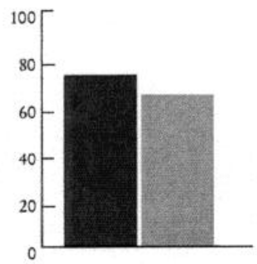
- Develop the Rural Economy – Agribusiness is New York's number one business. Our dairy industry is the third largest in the nation. With better rates for electricity, farms and food processors had an opportunity to lower production costs and invest the savings in their business.
- Provide Choice of Electricity Supplier – Customers would be able to select a supplier other than the local utility company for electricity and other energy services.
- Improve New York State's Competitiveness – Competitive electricity rates and increased customer choices provide greater flexibility and opportunities to do business in New York. They also offer economic incentives to bring new companies to the state.
- Test Aggregation & Retail Access Principles – The pilot was intended to demonstrate how aggregation will work and how retail access principles would apply to transforming New York's electric industry into a broader, fully competitive marketplace.

Survey Results Show Positive Trends in Electric Competition

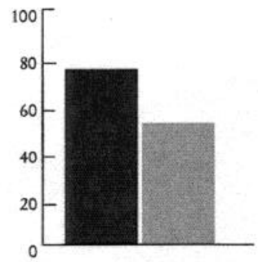
A Department survey of participants in the Farm and Food Processor Pilot Program found that the majority of participants had positive feelings about the program and were encouraged by the Commission's efforts to introduce competition into the electric industry. Specifically, 76 percent of the survey respondents indicated that the program would have a positive effect on their business. Further, 51 percent said the savings achieved through the program either met or exceeded their expectations.

A broader, statewide survey, conducted as part of the Department's customer education and outreach program, showed that 64 percent of residential customers and 62 percent of businesses had a general awareness of the move to competition in the electric industry.

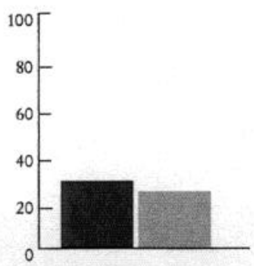
The residential and small business surveys were designed to measure consumers' general awareness levels throughout the state, as well as their attitudes toward competition and information needs.



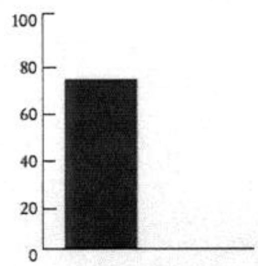
***75%** of residential and **69%** of business customers believed they would benefit from competition.*



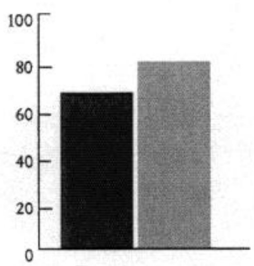
***76%** of residential customers considered environmental impacts to be an important factor in selecting an alternative supplier, and **55%** expressed a willingness to pay more for 'clean' electricity.*



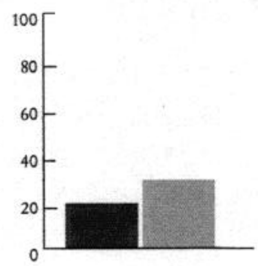
***32%** of residential customers expressed concern about the impact of competition on reliability and **25%** expressed concern about the impact on rates.*



***75%** of all respondents cited rates and reliability as the most important factors in choosing an alternative supplier.*



***70%** of residential customers and **83%** of small businesses said they needed more information to choose an alternative electric supplier.*



***23%** of residential customers and **34%** of small business customers were aware of competition in the natural gas industry.*

Ensuring a Competitive Wholesale Electric Market

The Commission's policy of encouraging divestiture of utility generation assets was a key element of its vision for a competitive electric industry.

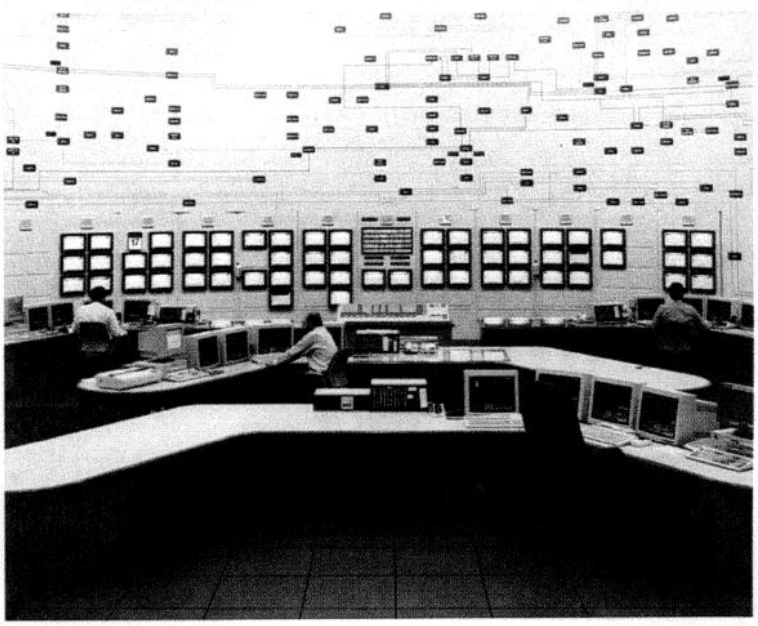
To evaluate the effect of generation asset sales on the competitiveness of New York's markets, the Commission issued two sets of market power guidelines: horizontal market power guidelines and vertical market power guidelines. Horizontal market power occurs when one or a few generation entities own such a large percentage of the market that they are able to profitably raise prices above competitive market levels. Vertical market power occurs when an entity that has market power in one stage of the process, for instance in the transmission and delivery system, leverages that power to gain advantage in a different stage of the process — for example, in the generation phase. The guidelines set forth the criteria the Commission would use to evaluate whether a proposed generation asset sale posed a market power threat to the competitiveness of New York's wholesale electric markets.

The Commission performed a detailed analysis of market power in the New York City area and, as a result, approved a series of bid and price caps for existing generators in New York City designed to protect New York City ratepayers from the exercise of market power by the new owners of Con Edison's generators.

The Commission approved NYSEG's generation asset sales as well as a call contract. Under a call contract, NYSEG has the right, but not the obligation, to purchase electricity at an agreed-upon price formula from one of the new generation owners during the term of the option. The Commission determined that call contracts were necessary to protect against market power in part of NYSEG's service territory.

Federal Energy Regulatory Commission

The Commission provided detailed comments to the Federal Energy Regulatory Commission (FERC) as part of two FERC inquiries about market power. The first set of comments focused on the use of computer models in evaluating the potential for market power. The second set of comments addressed the analytical techniques that would be used to assess whether a proposed merger of electric corporations would threaten the competitiveness of electric markets.



New York's Independent System Operator

In order to have competitive generation services, open access to the transmission system is required. The Commission supported the development of an Independent System Operator (ISO), charged with providing open access while coordinating daily operations and ensuring the reliability of the New York bulk power system.

The Commission participated actively in the development of the New York ISO through its intervention in the FERC's proceeding regarding the member companies of the New York Power Pool's (NYPP) "Comprehensive Proposal to Restructure the New York Wholesale Electric Market." The Department urged FERC to act quickly to approve the ISO, with certain modifications. FERC issued orders approving in part, and modifying, the ISO filing in its orders of June 30, 1998 and January 27, 1999. Throughout the year, Department staff worked with market participants and NYPP staff to reach agreement on procedures, rules, technical matters, and a settlement on ISO governance.

The ISO Board of Directors was selected in October 1998 and began meeting immediately. The Department, as provided in the filing to FERC, has participated (without vote) at all meetings of the ISO Board. Similarly, the New York State Reliability Council members have been selected and preparations made to activate the Reliability Council.

Framework for Meeting New York's Future Capacity Needs

Article X of the New York Public Service Law (PSL) and its predecessor, Article VIII, share the common purpose of creating a siting process for most state and local permits required for the construction and operation of electric generating facilities with over 80 MW of capacity. Article X requires a Siting Board, consisting of several state agency heads and local citizens from the area surrounding the proposed project, to balance the public interests and environmental impacts of a proposed electric generator in deciding whether or not to issue a Certificate of Environmental Compatibility and Public Need to the applicant before a facility can be built.

In 1992, Article X was enacted. While similar to Article VIII, it reflected several changes to conform to electric industry changes. It remains effective until January 1, 2003.

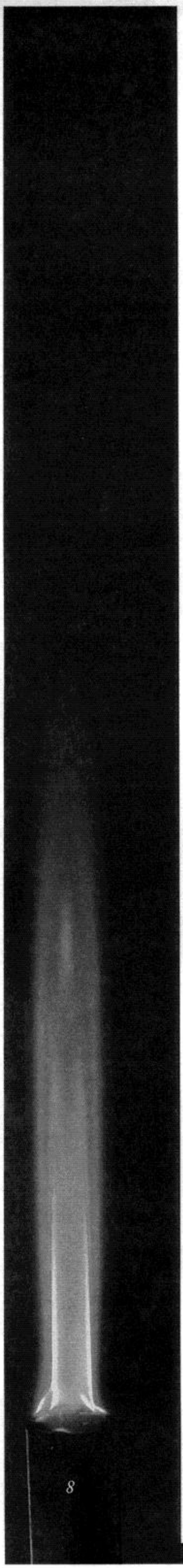
The Siting Board activities are administered by the Department of Public Service (DPS), which, through the Chairman of the Public Service Commission (PSC), who is also Chairman of all Siting Boards, provides personnel; hearing examiners; other staff; and such legal, technological, scientific, engineering, and other services as may be required. In addition, the NYS Department of Environmental Conservation provides an associate hearing examiner. The Department's staff is required to present expert testimony and advise whether and how the proposed major electric generating facility would comply with applicable state and municipal environmental protection laws, standards, rules and regulations.

The Commission's efforts to restructure and bring competition to the electric industry initiated several milestones related to Article X. After investor-owned utilities sold generating units at auction, new or prospective owners of those plants began to explore the potential of repowering or adding to their newly-acquired assets. Also, developers of merchant plants began investigation of sites and preparation of materials necessary to apply for an Article X certificate. Two applications (Athens and BEC) were filed in the second half of 1998; by the first quarter of 1999, three additional pre-application reports (Torne Valley, Ramapo, Independence 2) had been filed. In addition, several other potential Article X projects (Poletti and Besicorp) were announced, and others were being considered.

The Athens Generating application, Case 97-F-1563, was determined to be complete on October 22, 1998. Hearings began in November 1998 and were completed in mid-1999 with a final decision expected in late 1999. Other cases proceeded through the initial pre-application steps in 1999.

Proposed Generation Projects

Project	Developer	Town/County
Athens Generating Plant 1080 MW	Athens Generating Company, LP	Athens/Greene
Bethlehem Energy Center 750 MW	Niagara Mohawk	Bethlehem/ Albany
Ramapo Energy Project 1100 MW	Ramapo Energy, LP	Ramapo/ Rockland
Torne Valley Station 827 MW	Sithe Torne Valley, LLC	Ramapo/ Rockland
Astoria Energy, LLC 1000 MW	SCS Energy	Astoria/ Queens
Bowline Unit 3 750 MW	Southern Company	Haverstraw/ Rockland
Heritage 800 MW	Heritage, LLC	Scriba/ Oswego
Besicorp 450 MW	Empire State Newsprint	Ulster/ Ulster



Gas and Water

Future of the Natural Gas Industry

During the Fiscal Year 1998-99, the Commission continued activities to make competitive natural gas service options available to all customers. On November 3, 1998, the Commission issued its Policy Statement Concerning the Future of the Natural Gas Industry In New York State and Order Terminating Capacity Assignment. In its statement, the Commission spelled out its finding that the most effective way to establish a competitive market in gas supply is for the local distribution companies (LDCs) to exit the merchant function.

This objective should be achieved through a review of each LDC's operations, taking into consideration such issues as contract expiration schedules, rate plans, and the state of market development in the franchise area. The Commission ordered each LDC to develop proposals that address the following issues:

1) a strategy to hold capacity contracts to a minimum;
2) quantification of and a plan to mitigate and manage stranded costs;
3) a long-term rate plan with a goal of reducing or freezing rates;
4) a plan to further unbundle rates;
5) a plan for customer education and facilitation of customer participation; and,
6) a more aggressive role for the LDCs in facilitating the move to a competitive market.

These individual plans would be worked out on a company-by-company basis. In addition, the Commission initiated collaborative processes that include pipeline owners, LDCs, marketers, staff, and other stakeholders to address such vital issues as system operation, reliability, and market power. These issues must be resolved before the Commission's goal of LDCs exiting the market function can be realistically achieved.

Status of Competition

As of the end of the fiscal year, 89 marketers were certified to serve aggregated gas loads in New York State. Approximately 87,000 customers, with a combined load of 57 million dekatherms throughout the state, were participating in aggregated transportation programs. Included in that total were approximately 50,000 residential customers.

While all of the companies are experiencing measured, steady growth in small customer transportation, the greatest activity has occurred downstate within the territories of Brooklyn Union (including the former LILCO territory) and Con Edison. Upstate, National Fuel Gas has experienced significantly increased customer participation, particularly during the first three months of 1999.

Water Companies

Many of the approximately 400 water systems regulated by the Public Service Commission are small and often do not have the financial capability to cope with major repairs and other expenses involved in system maintenance. To address this situation, the Commission issued its Statement of Policy on Acquisition Incentive Mechanisms for Small Water Companies ("AIM Policy") in 1994. This policy statement indicates the Commission's willingness to encourage consolidation and acquisitions of small companies using non-traditional ratemaking approaches, including allowing a return premium, recognizing acquisition premiums in rate base, bringing rates of the acquired company up to regional rates, and accelerating write-offs of acquisition costs.

In 1999, the Commission approved requests by AquaSource Utility, Inc. (ASI) to acquire three small water systems in New York: the Wild Oaks Water Company, Cambridge Water Works, and Kingsvale Water Company, Inc. ASI, a subsidiary of DQE (parent of Duquesne Light, a Pennsylvania electric utility), was formed in 1997 and has subsequently acquired water and wastewater utilities serving about 372,000 customers in 12 states. ASI has stated its intention to become a significant player in the private water business in New York State.

In each case, staff and ASI developed an acquisition plan that met the interests of the customers for good service at reasonable rates, the interests of the Commission for consolidation, and the interests of the company in the potential for a reasonable return on investments. The Commission adopted proposals under which ASI committed to run the systems more efficiently, perform necessary system improvements and operate under 11-year price cap plans.

Telecommunications

Serving as a National Model

Beginning in January of 1998, Department staff undertook several months of extensive discussions with the U.S. Department of Justice, Bell Atlantic-New York, and competitive local exchange carriers (CLECs), to determine what Bell Atlantic must do to fully open the New York local exchange market to competition and meet the requirements of Section 271 of the Telecommunications Act of 1996.

As a result of these discussions, Bell Atlantic filed a "Pre-filing Statement" on April 6, 1998, which set forth a comprehensive series of rigorous tests and commitments the company agreed to meet in order to earn a positive recommendation from the Chairman to the Federal Communications Commission upon application for entry into the long-distance telephone market. The Pre-Filing Statement was hailed by many as a roadmap for opening the local phone market and for entry into the long distance market by a Regional Bell Operating Company.

In accordance with the Pre-filing commitments, the Department retained KPMG Peat Marwick and Hewlett Packard to conduct an independent third-party test of the Bell Atlantic-NY Operations Support Systems (OSS). This very comprehensive test began in July of 1998.

A Performance Assurance Plan was also negotiated, in accordance with another Pre-filing commitment, to ensure that BA-NY's performance remains satisfactory following long-distance approval. This plan provides for $235 million/year in market adjustments, or bill credits, to CLECs for substandard performance.

After the Pre-filing Statement, Bell Atlantic-NY implemented the commitments and filed several milestone compliance reports, upon which there have been comments from the parties to the proceeding. In addition, Bell Atlantic-NY filed affidavits detailing the company's performance on each of the 14 items contained in the Section 271 checklist.

Third party testing of Bell Atlantic's OSS and examination of results and underlying data by staff and other interested parties will continue. Upon completion of the testing, KPMG will issue a final report.

Consumer Education and Advocacy

The Office of Business Advocacy was established to meet the evolving needs of the state's business community as the electric, gas, and telecommunications industries move to a more competitive environment.

The Office has assisted hundreds of companies from Manhattan to Malone. The Office's efforts have helped retain and expand businesses in New York.

Assistance is provided by the Office of Business Advocacy to help secure competitive energy prices by:

- facilitating special rate contracts and business incentive rates;
- assisting economic development agencies in retaining businesses at risk and encouraging businesses to expand operations or locate new facilities in New York;
- intervening and providing dispute resolution assistance on behalf of business customers who may be experiencing billing, collections, or customer service difficulties with utilities;
- educating the business community through speaking engagements, conferences, and trade shows; and,
- promoting business interests in policy development and proceedings involving the Commission.

Staff continues its involvement in the Power for Jobs program, working closely with the New York Power Authority (NYPA) and Empire State Development Corporation by analyzing more than 700 applications, conducting evaluations (cost/benefit, jobs per MW, and qualitative analysis), and helping to prepare recommendations for allocations to the Economic Development Power Allocation Board and the NYPA Board of Trustees. The program has created or retained more than 220,000 jobs throughout New York. A total of 480 allocations have been made to 269 large businesses, 123 small businesses, and 88 not-for-profit organizations through March 31, 1999.

Small Customer Aggregation

Aggregation programs combine individual consumers into groups to strengthen their buying power in New York's competitive gas and electricity markets. Programs begun to date are bringing the benefits of competition to small customers. Interest in developing additional small customer aggregation programs throughout the state is increasing. The Public Assistance for Cooperative Energy (PACE) program began April 1, 1998, in Erie and Chautauqua Counties. The Counties aggregated 6,300 eligible, vouchered Public Assistance recipients and bought gas supply from a marketer on a competitive basis for the aggregated customers. To date, savings for residential participants and the Counties have totaled $775,759, or 8.16%. The PACE program has recently expanded to include Niagara County.

The Commission also approved a program to aggregate electric supply for 834 low income customers in Tompkins and Tioga Counties. In addition, 2,701 residential and 452 commercial customers have opted to join the Counties' aggregation program. Savings to participants have been 2% of the commodity price and 5% in sales tax on distribution. Staff is actively participating in discussions with Onondaga County and Niagara Mohawk to develop a low-income gas aggregation program. Staff has been asked to join Monroe County in discussions with RG&E about aggregating low-income customers.

Residential Advocacy
Home Energy Fair Practices Act (HEFPA)

As part of a re-examination of HEFPA , staff worked with consumer groups, utilities, state government, marketers, ESCOs and other interested parties to try to reach a consensus on appropriate consumer protections. The meetings and the consumer complaint process raised questions about the extent to which utilities can assess and collect late payment charges on the unpaid balances of Deferred Payment Agreements (DPAs). On January 22, 1999, the Commission issued an Order directing the utilities to either stop assessing late payment charges on deferred payment plans or show cause why they should not be required to do so.

Payphone Activities

Federal legislation has resulted in significant changes in the pay telephone industry. Prior to the Telecommunications Act of 1996, there were approximately 57,000 private payphones in New York for which the Commission had full regulatory authority over service quality and various operating parameters. As a result of the 1996 Act, rates are no longer regulated and there is no longer a distinction between payphones provided by "independent" operators or local exchange companies (LECs).

With the addition of approximately 120,000 payphones formerly provided under LEC tariffs, staff is now responsible for compliance oversight of 177,000 payphones statewide. To facilitate inspections of the increased number of payphones under the Department's jurisdiction, an Interactive Voice Response (IVR) system was purchased and installed.

This system allows an inspector to call a toll-free number and directly input the inspection results from the keypad of the payphone being inspected. The IVR system significantly reduces the paperwork involved with each inspection, eliminates data input errors, improves the accuracy of payphone location information, and expedites the citation process for vendors who are in violation of Department regulations.

Cramming

Cramming, which is a situation where a company places a charge for a product or service on a customer's local phone bill without the customer's authorization, has become a significant consumer fraud issue. Examples of cramming include charges for pagers or paging service, voice mail, psychic hotline subscriptions, or chatline memberships.

At its June 30, 1998, session, the Commission ordered all LECs that provide billing and collection services on behalf of third parties, such as paging services, or psychic hotlines, to provide information regarding their plans to prevent the placement of unauthorized charges on customer bills on a prospective basis, and to identify the process currently used to resolve cramming complaints.

In November 1998, staff sponsored a collaborative workshop with the New York State Telecommunications Association and other industry representatives to consider issues related to cramming in order to establish minimum model industry guidelines for all LECs to follow in New York when dealing with cramming complaints and inquiries. As a result, the following "Cramming Core Guidelines" have been established by the industry:

1. To accept, as definition, that cramming is the submission or inclusion of unauthorized, misleading, or deceptive charges for products or services on end-user customers' local telephone bills.
2. To provide local telephone bills to residential customers that include charges in a clear and understandable form and language.
3. To fully adjust charges on local telephone bills that meet the definition of cramming in these guidelines.
4. To address cramming issues through third-party billing and collection agreements.
5. To provide outreach and customer education as it applies to cramming.

Both the industry and staff agree that their intent is for all LECs providing service in New York to adhere to these guidelines as a supplement to their existing cramming policies and procedures.

Slamming

The prevention of slamming – the practice of switching a consumer's phone service without the consumer's permission – continues to be a top priority for the Commission. In 1997, the Commission directed major long distance providers to stop slamming and to submit plans to reduce and eliminate slamming complaints.

The Commission's actions to protect consumers against slamming included imposing $12,000 in penalties under a new state law signed by Governor George Pataki. The law, which went into effect in January 1998, allows the Commission to penalize telephone companies up to $1,000 per slamming offense. By holding carriers financially liable for unauthorized changes, the Commission reiterated that all carriers must exercise due care and control over the conduct of their employees or representatives when seeking a customer's change in telephone service.

From March 31, 1998 to March 31, 1999,
Commission staff received 1,740 complaints related to slamming.

Between March 31, 1998 and March 31, 1999,
the Commission received 216 cramming complaints from consumers.

Consumer Complaints

Between March 31, 1998, and March 31, 1999, Commission staff assisted 141,736 consumers who called the Commission HELPLINE or HOTLINE numbers. Of these callers, 78,588 received direct assistance from a Consumer Representative and 63,149 received assistance through the automatic call distribution system.

In addition, consumer representatives opened 16,161 complaints. and closed 16,796 complaints. Of the 16,161 complaints opened, the top five categories of complaints were: poor customer service; slamming; deferred payment agreements; delayed repair; and service outages.

Storm Response and Y2K Preparations

Spring 1998

During the morning of May 31, 1998, a warm front moved quickly north across New York State. Rapid weather destabilization occurred during the afternoon as a cold front pressed south. Lines of severe thunderstorms and tornadic storms formed and moved rapidly east across New York and Western New England. These storms resulted in 68 injuries, tens of millions of dollars in damage to homes and businesses, and extensive forest damage. There were no fatalities. A total of 295,000 residents lost power as a result of the storms.

Following these storms, Governor Pataki declared a State Disaster Emergency for the counties of Broome, Otsego, Rensselaer, and Saratoga.

While restoration efforts were underway for the May 31, 1998 storms, an additional band of severe storms moved across the state on Tuesday night (June 2) spawning several unconfirmed reports of tornadoes touching down in Chautauqua, Wyoming, Tioga, Broome, Chenango, Otsego, and Delaware counties. These additional storms affected the western and southern parts of New York State and caused additional customer outages. Fortunately, the utilities were able to handle the additional damage with local (utility) crews or crews from nearby unaffected regions.

The National Weather Service subsequently confirmed a total of 12 tornadoes during the storms of May 31 and June 2, 1998.

The estimated 295,000 customers affected by the storms included 100,000 at Niagara Mohawk; 150,000 at NYSEG; 31,000 at RG&E; 13,000 at Central Hudson; and 1,000 at Orange and Rockland. Restoration proceeded quickly for most customers (with the exception of those affected by the June 2 storm and those in the most heavily damaged areas) with most restored by June 3. Restoration was complete for all customers late on June 7.

Most utilities were able to restore service with their own crews. However, in order to speed restoration in the Capital Region, NMPC requested 50 mutual aid crews from Ontario-Hydro and eight crews from an outside contractor. NYSEG utilized 25 crews in the Capital Region from Con Edison. RG&E utilized 20 contractor line crews to restore service in its territory.

The Department's Electric Division staffed the PSC desk at the State Emergency Management Office on an as-needed basis, typically the 8 a.m. to 12 midnight shifts. Staff also made field visits to NMPC and NYSEG storm centers and observed line crew restoration activities in the Capital District area. Staff found that NMPC and NYSEG responded quickly and managed crews effectively throughout the restoration. After conducting initial damage surveys, the NMPC and NYSEG reports supplied to staff were timely, thorough, and accurate. Staff had no recommendations to make regarding either NMPC's or NYSEG's restoration efforts.

Labor Day Storm

During the early morning hours of September 7, 1998, an intense cluster of thunderstorms moved across the New York State Thruway corridor from Rochester to Syracuse and into the Utica area. As a result, the Governor declared a Disaster Emergency in Cayuga, Fulton, Madison, Monroe, Montgomery, Oneida, Onondaga, Oswego, and Wayne counties. The hardest hit area was Onondaga County where two out of three residents were without electric service as a result of countless tree limbs falling onto utility lines.

The long-lived, intense convective storms that occurred are called "derechoes." According to the National Weather Service, a derecho can actually be worse than a tornado because it cuts a much larger swath. Damage sustained is attributed to high winds and fallen trees damaging utility poles, cables, and service drop wires – wires running from a home or business to a nearby pole.

At the peak of the storm, early on Labor Day, more than 300,000 customers were without power statewide. The storm affected all of Rochester Gas and Electric Corporation's (RG&E) operating regions and a majority of regions of both Niagara Mohawk Power Corporation (NMPC) and New York State Electric & Gas Corporation (NYSEG). Fortunately, the utilities were able to secure mutual aid crews to assist in restoration. Crews came from as far away as Canada and Pennsylvania. NYSEG restored service by Friday, September 11; RG&E and NMPC restored service by Sunday, September 13.

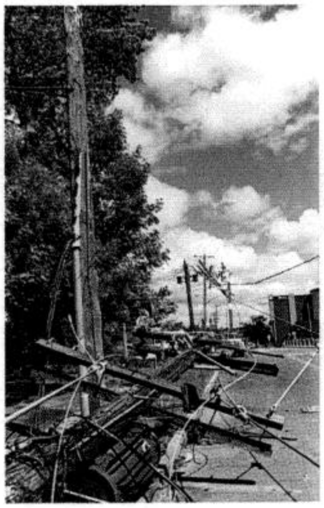
During this storm, telephone facilities were also significantly impacted, as approximately 30,000 customers lost service. By the time Bell Atlantic-NY, the hardest hit telephone company, completed its restoration activities, more than 26,000 service repair visits had been made and more than 15,000 service drop wires had been replaced. The company performed most of this work over a 16-day period, beginning on September 8 and continuing through September 23, 1998. Cable television facilities fared somewhat better. Approximately 20,000 customers were without cable service at the peak, with approximately 30 miles of damaged cable, 40 broken poles, and 3,000 services down.

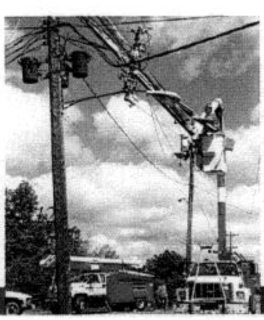
Department of Public Service (DPS) staff from all reporting divisions found that the various utilities restored service in a safe, timely, and effective manner given the extent of damage caused by the storm.

Y2K Preparation

On October 30, 1998, the Public Service Commission issued an order which established July 1, 1999, as the target completion date for Y2K readiness activities for all utility mission critical systems (those systems necessary to provide safe and reliable service). The order also established July 1 as the date by which utilities would be required to file contingency plans that would explain what the utilities would do if, despite mitigation efforts, Y2K-related service disruptions occurred.

Staff met with utilities to discuss their Y2K planning effort, observed utility Y2K testing, and reviewed documentation. In addition, the Department instituted a system for monthly reporting of utility Y2K progress. Finally, staff developed draft operating procedures to govern the Department's Operations at the State Emergency Management Office Operations Center over the New Year's period. Work continues with the goal of making the transition to the year 2000 uneventful for utilities and their customers.





In summary, Department of Public Service staff from all reporting divisions found that the various utilities restored service in a safe, timely, and effective manner given the extent of damage caused by the storm.