2003-04 ANNUAL REPORT

New York State
Department of Public Service
Public Service Commission

George E. Pataki, Governor
William M. Flynn, Esq., Chairman

From Chairman Bill Flynn

The 2003-2004 fiscal year posed a number of challenges to the Commission and the staff of the Department of Public Service, most notably the blackout of August 14, 2003.

The Commission's Initial Report on the August 14th blackout concluded that New York did not contribute to either the cause of the blackout or to its extensive consequences, and that, overall, New York's power grid performed as designed in handling the massive power surge that originated in the Midwest and ultimately affected 50 million customers in the northeast and Canada. However, the blackout highlighted the critical need for national, mandatory electric system reliability standards. Other key findings and recommendations are explained in more detail in this report, and Department staff is continuing its work on additional analysis and a final report.

While the blackout certainly emphasized the importance of issues related to electric system reliability, there were several other high-profile issues and cases that went to the core of the Commission's mission: safe, secure and reliable utility service. These included the proceeding to examine electric transmission and distribution safety that was initiated after the tragic death of Manhattan resident Jodie Lane, the telecommunications network reliability proceeding, and the Verizon service quality audit. In each case, the critical importance of safety, security and reliability were front and center.

Since day one of my tenure as Chairman at the Commission, I have made the reliability, safety and security of the state's energy and telecommunication infrastructures my highest priorities. As part of that commitment, the Commission approved the creation and staffing of the Office of Utility Security. This Office is responsible for the Department's security program, which includes monitoring utility security planning, implementation and performance; evaluating the effectiveness of both physical and cyber security systems; analyzing security-related incidents; monitoring technical developments related to infrastructure security; coordinating the Department of Public Service's response and preparedness strategies; and, serving as the Department security liaison to related state and federal agencies and will represent the Department on security-related boards and committees.

The provision of safe, secure and reliable service has been the core the Commission's mission since it was established in 1907. While our networks are strong, the Commission has a responsibility to stay ahead of the curve on these critical issues. Through many of its actions highlighted in this report, I think the Commission continues to demonstrate its commitment to that tremendous responsibility.

William M. Flynn

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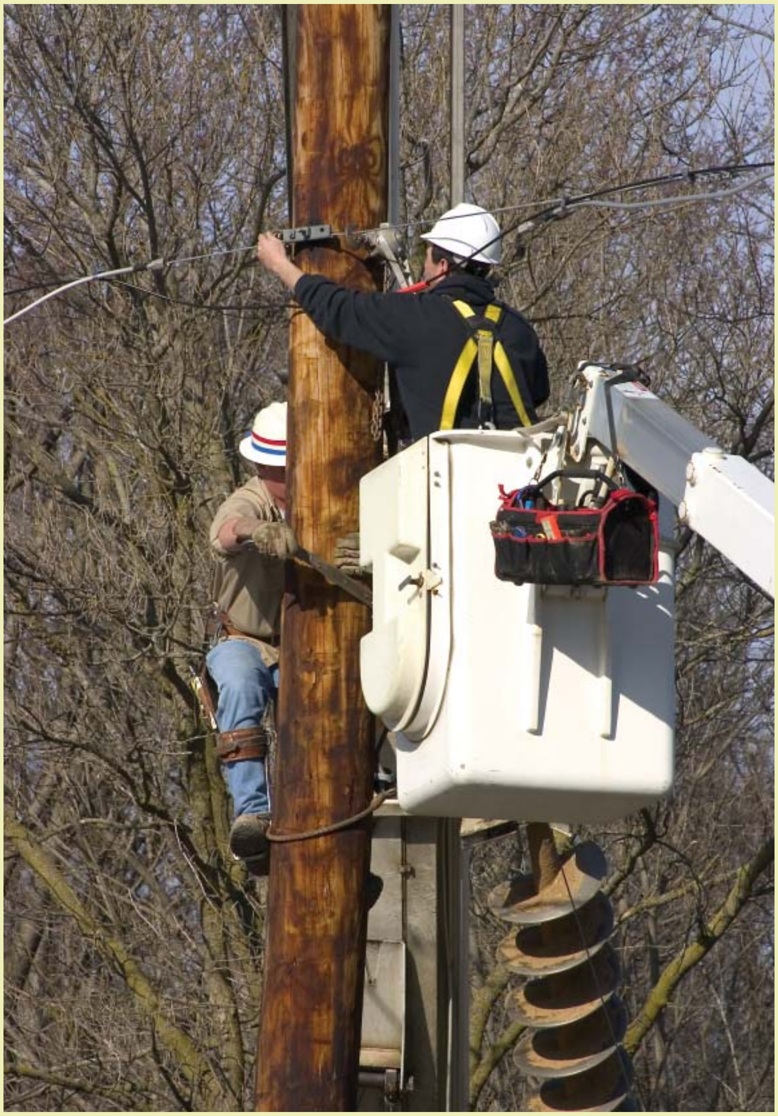


"In less than 30 hours, service was effectively restored to the entire state. This achievement is a testimony to the commitment and hard work of the men and women engaged in the restoration given the unprecedented nature of this event, the complexity of the systems involved, and the magnitude of the effort required." - Chairman William M. Flynn, 9/3/03 testimony before the House Energy & Commerce Committee.

"New Yorkers – upstate and down, young and old, rural and urban – responded to the situation with a sense of courage and community that is, unfortunately, learned only from hard experience. New Yorkers rose to this occasion as they have in the past – together." - Governor George E. Pataki, 9/3/03 Testimony before the House Energy & Commerce Committee.

The Blackout of August 14, 2003

The blackout of August 14, 2003, affected tens of millions of people in the United States and Canada. The New York State Public Service Commission (Commission) conducted an extensive inquiry into the events leading up to the blackout and its impacts, and concluded that New York did not contribute to either the cause of the blackout or to its extensive consequences. The Commission's inquiry determined that, overall, New York's power grid performed as designed in handling the massive power surge that originated in the Midwest and ultimately affected the northeastern states and Canada.

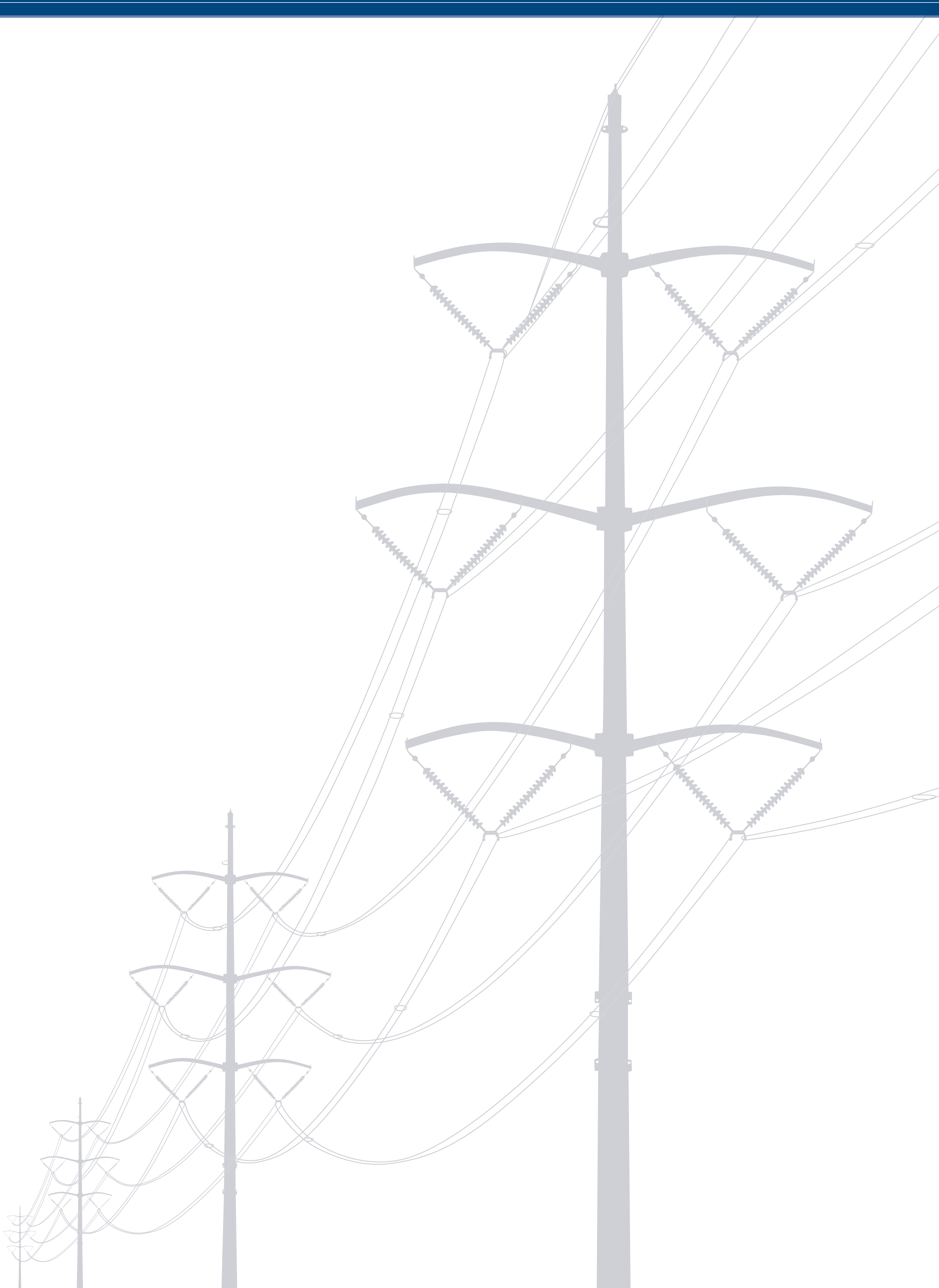
Department of Public Service staff conducted extensive research and analysis, including very careful reviews of reports from both the United States-Canada Task Force and the New York Independent System Operator (NYISO). Staff's analysis revealed that in the hours before the blackout, New York's electric system was operating normally, within existing reliability policies and standards established by the North American Electric Reliability Council (NERC), the Northeast Power Coordinating Council (NPCC) and the New York State Reliability Council (NYSRC).

The Commission's staff examined the pre-blackout condition of New York's electric system, including the extensive actions taken by the state's utilities after the 1965 and 1977 blackouts, the effects of the power surges from the Midwest on transmission and generation, and the timing of the restoration effort by each of the electric utilities. Further, staff's examination included analyses of the return to service of nuclear generators, the nature and extent of physical and cyber-security measures, efforts to communicate with customers, and the impacts on telecommunications, steam, gas and water service.

In conducting its inquiry, staff compiled relevant information through site visits, over 900 requests for information from key parties, interviews with New York utility officials and a review of thousands of documents obtained from the utilities. Further, staff held numerous discussions with regional and national groups examining the causes, effects, and prevention of blackouts. Despite the impacts of the blackout on New York State, the staff report determined that, under the circumstances, electric, telecommunications, gas and water systems generally performed well.

Key Findings and Recommendations

- New York operates under mandatory, and more stringent, reliability rules and standards than those required by the NERC or the NPCC. New York continues to support mandatory, national reliability standards.
- Following the initial findings of the United States-Canada Power Outage Task Force, information submitted by New York to NERC demonstrated how NPCC and New York already are in compliance with NERC and regional reliability standards for the handling of voltage control, communications, system monitoring and control, emergency action plans, training, and transmission right-of-way vegetation management.
- The total restoration of electric service in New York was accomplished in 30 hours. However, the NYISO, the transmission owners, and the generation owners must review, update, and possibly modify restoration plans based on lessons learned from the blackout.
- Each electric utility, the NYISO, and Verizon New York Inc. should consider the need for back-up power for electronic devices used in protecting physical security, improved communications capabilities for security personnel, enhanced computer-based identification systems, and the need for prompt patch management (prompt action to secure cyber assets against loopholes) on its cyber systems.
- Consolidated Edison Company of New York, Inc. should conduct studies and develop procedures to avoid a steam system shutdown or implement measures to facilitate a more rapid return to normal steam system operations following an electric blackout.
- New York utilities and regulators have aggressively applied lessons learned from previous blackouts. Nearly 100 recommendations stemming from the 1977 blackout were implemented at the direction of the Commission.



ELECTRIC

$137.5 Million in Rate Relief for Customers in Indian Point 2 Prudence Case — Case 00-E-0612

In February 2004, the Commission adopted the terms of a Joint Proposal providing $137.5 million in rate relief to Consolidated Edison Company of New York, Inc. (Con Edison) electric service customers. The rate relief stems from a settlement of a Prudence Proceeding ordered by the Commission to examine forced outages at the Indian Point 2 nuclear electric generating facility between 1997 and 2000, including the outage caused by a ruptured steam generator tube in February 2000.

The signatories to the Joint Proposal included the staff of the New York State Department of Public Service; the Office of the Attorney General; the New York State Consumer Protection Board; the City of New York; the County of Westchester; the Public Utility Law Project; members of the State Assembly; the Utility Workers Union of America, AFL-CIO, Local 1-2; the Owners Committee on Electric Rates; and, Con Edison.

Under the terms of the Joint Proposal, Con Edison provided $45,456,337 in direct customer refunds through credits on electric bills during three monthly billing cycles, beginning with bills issued in mid-March. Electric bills contained a statement explaining that the customer had received a credit related to the Indian Point 2 Prudence Proceeding. All Con Edison electric customers received the refund, with the amount based on each customer's usage.

Con Edison also did not collect $89,543,663 in replacement power costs that were incurred and would otherwise have been recovered from ratepayers following the February 15, 2000 outage and the subsequent replacement of the plant's steam generators. Con Edison contributed an additional $2,500,000 to the New York State Energy Research and Development Authority for low-income energy efficiency programs in Con Edison's service territory.

The Commission instituted the Prudence Proceeding on March 30, 2000. With respect to the February 2000 outage caused by a ruptured steam generator tube, the Commission directed Department of Public Service staff to examine the causes of the outage, Con Edison's steam generator inspection and maintenance practices, the company's decision to postpone replacement of the steam generators, and to determine whether, and to what extent, the replacement power costs associated with the outage should be recovered from ratepayers. The Commission's approval of the parties' Joint Proposal resolved all issues in this case.

"The public, and certainly the utility's ratepayers, are well served when local elected officials, representatives of state and local government, consumer groups, unionized workers and the company can avoid costly and time-consuming litigation and reach agreement that will provide over $137 million in benefits to Con Edison customers," said William M. Flynn, Commission Chairman.

Commission Moves to Address System Safety

On January 16, 2004, a pedestrian was electrocuted after coming into contact with a service box owned by Con Edison. Both the company's and the Department of Public Service's independent investigations of the incident revealed that a temporary cable in the service box was not properly capped and insulated after work was performed one year earlier. The exposed cable came into contact with the metal housing of the service box, thereby electrifying the box and its metal cover.

Subsequently, the Commission ordered Con Edison to show cause why the Commission should not commence a penalty action against the company in State Supreme Court for possible violations of the Public Service Law. Con Edison was ordered to respond within 30 days of the Order to Show Cause and present its case as to whether a violation or continuing violation of the Public Service Law caused, or constituted a contributing factor in bringing about, the death. The Commission also ordered Con Edison to file an action plan listing the corrective measures the company has completed and proposes to implement in order to fix and prevent voltage problems identified at various manholes, service boxes and street lighting poles in its service territory.

As part of its continuing investigation, Department of Public Service staff reviewed Con Edison's practices and procedures for manhole work that could result in similar voltage conditions, explored additional testing and inspection protocols for manholes and service boxes, examined possible infrastructure improvements, and examined current reporting requirements.

Under the provisions of the Public Service Law, the Commission has the authority to commence a civil penalty action in cases where a utility knowingly fails to obey or neglects to comply with a provision of the Public Service Law or a Commission order or regulation adopted under the authority of the Public Service Law. In cases where a utility knowingly fails to obey or neglects to comply with the law, and where that violation caused, or constituted a contributing factor in bringing about, a death, the Commission can seek either a $250,000 penalty per offense or a penalty of $100,000 a day if it is determined that there has been a continuing offense.

"The tragic death of Jodie Lane underscores the critical importance of a safe and reliable electric network in New York City. Public safety is our paramount concern, and we must and will do everything we can to ensure utilities minimize potential risks associated with the operations of the state's electric system," said William M. Flynn, Commission Chairman.

New Rates for Standby Electric Service
Case 99-E-1470

In furthering its goal of developing alternative energy sources, the Commission, in July 2003, approved new rates for utilities' standby electric delivery service to customers that produce some of their own electricity through on-site generation (OSG, or distributed generation) and standby service to independent wholesale electric generating plants that import electricity as "station power" to support their operations.

The new standby rates approved for Consolidated Edison Company of New York, Inc., Orange and Rockland Utilities, Inc., New York State Electric and Gas Corporation, Inc., and Rochester Gas and Electric Corporation, Inc., were largely based on guidelines previously approved by the Commission and represent another step to facilitate efficient OSG projects. Such projects help meet the state's energy requirements and can improve the reliability of New York's electric system.

A standby rate allows a customer with OSG to receive electricity through the local utility's delivery system, which "stands by" in the event the OSG customer needs additional electricity supplies. The new standby rates apply to both OSG customers and wholesale generators to the extent they rely on the electric utility to deliver power to replace or supplement what they generate themselves.

Under the guidelines previously adopted by the Commission, standby rates reflected a more cost-based rate design that generally avoided relying on the amount of energy consumed (per-kilowatt-hour or kWh) to determine the charges for delivery service. Instead, the new rates recognize that the costs of providing delivery service to standby customers should more accurately reflect the size of

"In the long run, I believe the new rates will send much clearer price signals so that customers will know when it is in their best interest to build and operate on-site generation facilities, and when it makes sense to continue to purchase electricity service over the system."
William M. Flynn, Commission Chairman.

the facilities needed to meet a customer's maximum demand for delivery service at any given time. This varies not with the volume of electricity delivered, but primarily with the peak load (per-kilowatt) that must be delivered at any particular moment.

Recognizing the environmental benefits of certain energy sources, customers that start distributed generation operations between August 1, 2003 and May 31, 2006, using certain environmentally beneficial technologies – or small, efficient combined heat and power applications of less than one megawatt – can choose among the following options: elect to remain on the current standard rate indefinitely, shift immediately to the new standby rate, or opt for a five-year phase-in period beginning on the effective date of the new standby rates. Under the standby rate decision, environmentally beneficial technology would include wind, solar, biomass, fuel cell technology, tidal, geothermal, and methane waste.

Con Edison Pilot Program to Help Reduce Energy Usage and Improve System Reliability
Case 00-E-2054

In December 2003, the Commission approved a pilot program proposed by Con Edison that helps small business customers in Brooklyn and Queens install programmable thermostats to reduce central air conditioning system energy use during times of peak demand for electricity. The "demand response" pilot program is designed to gauge small business interest in participating in efforts to address the state's energy supply concerns, help maintain reasonable energy prices, and strengthen the reliability of the utility's electric system.

Con Edison's pilot program will involve direct load control (DLC) technology thermostats that will allow the utility, from a remote location, to control air conditioning equipment and reduce energy usage during peak demand periods if necessary. The company will target installation of 2,500 DLC thermostats in participating businesses in Brooklyn and Queens because of the high concentration of businesses that an earlier Con Edison study found to be prime candidates for DLC applications for central air conditioning.

"While most demand response programs target large business and industrial customers, Con Edison's pilot program provides a good opportunity for participation by small businesses, a largely untapped source of demand response customers."
William M. Flynn, Commission Chairman.

PSC, NYSERDA Encourage Utility Customer Load Reduction Programs

Sound energy management is crucial during times of rising electricity demand. The Commission, in coordination with the New York State Energy Research and Development Authority (NYSERDA) has been instrumental in facilitating utility programs designed to promote customer energy load-reduction efforts. Con Edison and other utilities have initiated programs that help manage energy usage during times of excessive demand throughout the year.

ENERGY MANAGEMENT PROGRAMS

Emergency Demand Response – During power shortages or other emergencies declared by the New York Independent System Operator (NYISO), utilities contact program participants with a request to voluntarily curtail their power use.

Distribution Load Relief – Program participants in a particular local network are requested to voluntarily curtail power during times of heavy demand.

Voluntary Real-Time Pricing – This is typically a rate category that is available to any full-service customers who can benefit from hourly changes in wholesale energy rates.

Installed Capacity Program – Incentives are available for customers who reduce electric load by using generators or other means of curtailment under certain circumstances.

Day-Ahead Demand Reduction – Customers may request market-based monetary compensation for their agreement to curtail energy use.

Steam Air-Conditioning – To help reduce peak summer electric load, Con Edison is offering reduced steam rates to help offset the costs of installing new steam air-conditioning systems.

New Electric Rates for Orange and Rockland Customers
Case 03-E-0797

In October 2003, the Commission approved the terms of joint proposals governing both electric and natural gas delivery services provided by Orange and Rockland Utilities, Inc. (O&R). With respect to electric delivery rates, the Commission approved a plan that would maintain stable electric delivery rates for the period of July 1, 2003, through October 31, 2006. The price of O&R's electric delivery service has not increased since 1993.

In addition to maintaining existing electric delivery rates, the Joint Proposal continued the programs that have been used to develop a competitive retail energy market in O&R's service territory and to promote customer service and service reliability. The rate plan includes revenue adjustments if the company fails to meet established targets for customer service and reliability. The company also will implement new programs to provide customer outreach and education services, and to assist low-income residential customers who receive Home Energy Assistance Program (HEAP) grants.

The joint proposal included an earnings sharing mechanism under which earnings in excess of 12.75% from July 2003 to June 2006 will be shared equally with customers. Further, O&R is expected to invest $108 million in electric transmission and distribution facilities. If that amount is not spent, the revenue requirement associated with the shortfall will be deferred for the benefit of customers. If the company spends in excess of five percent (5%) above the target, those amounts may be recovered from ratepayers if certain requirements are met.

SITING DECISIONS

Commission Approves 600 MW Cross Hudson Transmission Line
Case 01-T-1474

In order to help meet the growing demand for electricity in New York City, the Commission, in the spring of 2003, approved PSEG Power Cross Hudson Corporation's application for a certificate to construct and operate a new substation and a new transmission line with the capacity to carry 600 megawatts (MW) of electricity from a power plant in New Jersey to New York City. The approval of the Certificate of Environmental Compatibility and Public Need followed a thorough environmental and technical public review under Article VII of the New York State Public Service Law.

In voting to approve the project, the Commission noted that the new transmission line is needed to satisfy growing demand for electricity, *"While much attention has been focused on the need for generation, new transmission facilities, such as the Cross Hudson line, play a critical role in meeting our future energy needs," said William M. Flynn, Commission Chairman.*

to transmit power that will replace older generation facilities, and especially to satisfy the electricity reliability requirement that New York City have installed generation capacity equal to 80% of in-city peak customer demand. The Joint Proposal contained a number of safeguards that will minimize potential environmental impacts resulting from the construction of the facility.

The line will be approximately eight miles in length, rated at approximately 600 MW, and designed to operate at 345 kilovolts (kV) alternating current. Approximately one-half of the line will be embedded in the Hudson River. The Submarine Cable System will be buried in the bed of the Hudson River using jet plow embedment methods.

Commission Approves Construction of Neptune Transmission Line Case 02-T-0036

In January 2004, the Commission issued, with conditions, a Certificate of Environmental Compatibility and Public Need to Neptune Regional Transmission System, LLC to construct a 37-mile long, 600-megawatt (MW) direct current (DC) electric transmission line that will serve as a new source of electricity for Long Island. The line will deliver electricity from a substation owned by Jersey Central Power and Light in New Jersey, to a converter station and then to a Long Island Power Authority (LIPA) substation in Nassau County.

The Commission approved a Joint Proposal governing the construction of the line that was developed by the New York State Office of Parks, Recreation and Historic Preservation, the staffs of the State Departments of Environmental Conservation and Public Service, and the applicant. No comments in opposition to the proposal were filed during the public comment period.

The Commission determined that the transmission facility will serve the Long Island electricity market by providing an additional source of supply and by increasing the Island's ties with regional markets. Moreover, the Commission noted that construction of the transmission line along the proposed route is consistent with the most recent New York State Energy Plan, LIPA's Draft Energy Plan 2002-2011, and the New York State Independent System Operator's transmission planning for the New York State Bulk Power System.

The line will improve bulk power reliability, increase the region's ability to respond to energy market changes, and help minimize retail electric rates. A DC transmission line offers operational features that are not available from existing alternating current (AC) lines. Specifically, a DC facility provides more control of the power flow than can be achieved on AC interconnections.

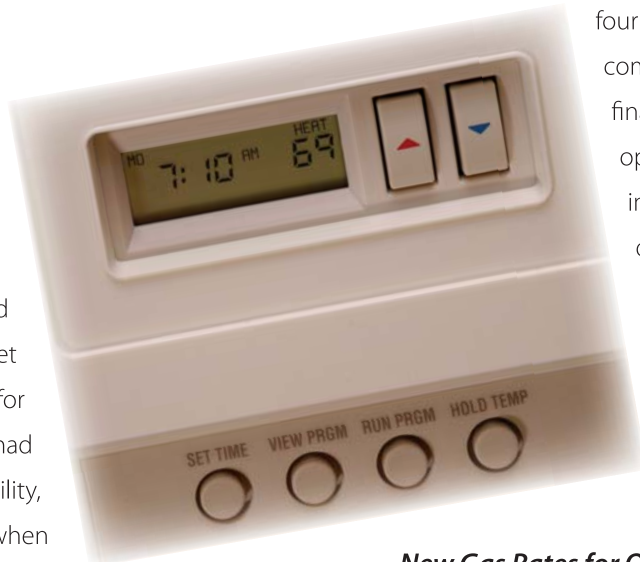
The Commission carefully considered both the environmental and visual impacts of the facility, and approved Certificate conditions designed to mitigate these impacts during construction and operation of the transmission line.

"As witnessed over the past few summers, the cushion between supply and demand on Long Island has been small due to rising electric use. With minimal environmental impact, the Neptune line will provide needed transmission capability to Long Island and improve electric system reliability, thereby enhancing LIPA's capability to serve business and residential customers," said William M. Flynn, Commission Chairman.

NATURAL GAS

Local Natural Gas Utilities "Winter Ready" For Heating Season
Case 03-G-1636

Following its annual review of utilities' winter preparedness, the Commission determined that local utilities providing natural gas in the state had adequate supplies to meet forecasted customer demands for the winter of 2003-2004, and had taken steps to reduce price volatility, as much as possible, at a time when the price of natural gas had remained higher than the previous year.



The Commission's assessment of natural gas supplies and prices was based on 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. The commodity price of natural gas was deregulated by Congress beginning in 1978 and is determined by national and international markets, not the Commission or New York utilities.

While staff determined in its 2003 analysis that interstate pipeline capacity was adequate, it remained tight, especially into the downstate region. Demand for natural gas was growing at approximately 2% in volume annually in the New York City region and additional pipeline capacity into that region will be needed to meet future demand.

Department of Public Service staff implemented an extensive consumer awareness outreach campaign to alert New Yorkers to the 2003-2004 natural gas outlook for the state and the actions they can take to control winter heating bills. The campaign focused on four major topics: energy conservation, energy competition and the choices it provides, financial assistance programs, and payment options. Staff's consumer education campaign included: grass roots presentations; statewide distribution of printed information; public service announcements; information made available on the Commission's Web site and through a toll-free consumer number; and, partnerships with state and local agencies.

New Gas Rates for Orange & Rockland
Case 02-G-1553

A Joint Proposal governing gas delivery rates for Orange and Rockland Utilities, Inc. (O&R) was submitted in June 2003, by the Small Customer Marketer Coalition, Select Energy New York, Inc., Multiple Intervenors, Total Gas & Electric, Inc., the New York State Department of Public Service staff, and O&R.

The proposal approved by the Commission provided for a smaller gas delivery rate increase than O&R had originally requested. New rates will be phased in over a three-year period with increases of $9.25 million (5%) on November 1, 2003; up to $9.275 million (5%) on November 1, 2004; and, $5 million (2.7%) on November 1, 2005. The factors contributing to the first gas rate increase since 1992 included pension costs and other post-retirement benefits, capital additions, inflation, payroll and accounting changes.

The Commission also approved a $5 monthly credit to low-income customers who receive Home Energy Assistance Program (HEAP) grants. Customer service satisfaction targets will be measured by customer surveys, and if O&R is unable to meet the targets, the company will be subject to a revenue adjustment. A sharing mechanism provided that earnings in excess of 11% for the three-year rate period would be shared equally with customers.

O&R was directed to continue to implement outreach and education programs to further increase awareness and knowledge of customer competitive choice and its retail access program. Approximately 30% of O&R's residential gas customers have already migrated to energy marketers in the company's service territory. O&R committed to take additional steps to further facilitate activity by gas marketers to provide choices to customers in its service region.

Commission Approves Gas Distribution Rates For St. Lawrence Gas Case 02-G-1275

The Commission voted in July 2003 to approve a three-year plan governing the gas distribution rates for customers of the St. Lawrence Gas Company. The plan reduced the company's original increase request of $1.7 million (8%) to $595,000 (2.7%), and froze delivery rates at that level until September 30, 2006.

The Commission determined that the plan provided the company with the revenue needed to address increases in uncontrollable operating expenses (e.g., pension costs, wages and taxes) related to distribution services for customers. The new multi-year plan also better aligned rates with actual cost of services. Further, St. Lawrence Gas customer bills were unbundled – that is, they were "itemized" so that residential customers can see the cost of the gas supplies they use separately from the cost of delivery service. The "supply charge" – or the cost of the natural gas itself – identifies what it actually costs St. Lawrence Gas to obtain gas supplies for its customers and fluctuates with the market price of natural gas supplies throughout the country.

In general, residential and small commercial customers received much smaller increases than under the company's original proposal, while bills for larger commercial and industrial customers decreased. For example, a typical residential heating customer's annual bill for 158 Dth of gas increased by about $51 (5.6%), or approximately half of the company's original request. This included an increase in the monthly customer charge of $2.28 to $7.20.

National Fuel Gas Corporation Rate Plan Extended Case 00-G-1858

In September 2003, the Public Service Commission extended National Fuel Gas Distribution Corporation's (NFG's) rate plan to preserve existing natural gas delivery rates for customers through September 30, 2004, providing a sixth straight year of delivery rate stability following a $7.2 million rate decrease in 1998. The extension maintained an existing annual credit on customers' bills of approximately $5 million. Moreover, the plan required NFG to absorb approximately $10 million in increased costs, $8 million of which was related to increased pension costs that would have been deferred for future recovery from customers.

> *"The vote was the latest in a series of Commission decisions over the last half-decade to benefit NFG customers. Not only have we approved over $45 million in combined rate reductions and bill savings for customers during this time, but we have created an environment in NFG's region to provide more opportunities for customers to shop for their natural gas supplies," said William M. Flynn, Commission Chairman.*

In addition to the customer delivery rate and bill credit benefits, the extension of the rate plan maintained service quality and safety performance measurements that subjected NFG to revenue adjustments for failing to meet specified standards. The plan also provided for a low-income residential assistance discount program and a program for assisting elderly, blind and disabled customers.

The 2003 plan also included a "competition backout credit" for competitive marketers. The credit was designed to reduce a customer's NFG bill when the customer decides to obtain gas supplies from a marketer. The amount of the credit would vary depending on services performed by the marketer. With regard to another element of the current rate plan – sharing of earnings between the company and ratepayers – the extension lowered the earnings threshold for such sharing.

In two prior rate decisions in 1998 and 2000, the Commission approved rate plans that reduced rates and provided other customer bill benefits totaling approximately $13.2 million and $32.1 million, respectively.

TELECOMMUNICATIONS

PSC Orders Independent Audit of Verizon Service Quality Efforts
Cases 02-C-0543; 00-C-1945

In response to concerns about the quality of telephone services provided by Verizon New York Inc. (Verizon), the Commission in June 2003 initiated a service quality proceeding that included an independent audit to focus on the adequacy of Verizon's long-term service quality improvement efforts. The Commission also directed Verizon to file tariffs suspending the company's pricing flexibility and to file a service improvement plan that envisioned attainment of all five service quality objectives in the second year of its regulatory plan, the Verizon Incentive Plan (VIP). The VIP, effective March 2002 through March 2005, was designed to maintain for customers the significant service quality improvements Verizon made between 1995 and 2002 under a previous incentive plan.

"We take service quality very seriously because poor service is not just an inconvenience for customers, but it also negatively impacts economic development and public safety," said William M. Flynn, Commission Chairman.

Data reviewed by Commission staff indicated that productivity in some areas of New York was below the productivity of other states in the Verizon footprint as measured by a number of trouble reports or service installations completed per employee per day. Staff's analysis of service results showed that Verizon's performance failures under the VIP involved productivity-related measurements associated with the timeliness of responding to consumer concerns about repairs and installations.

Due to Verizon's poor performance on two of three service thresholds in the VIP, the Commission ordered an independent audit to be conducted under the direction of, and managed by, Commission staff. The independent audit would assess Verizon's overall performance with respect to the Commission's Service Standards and Guidelines and, more specifically, its performance under Plan Year 2 of the VIP, as well as planned investments in the network, particularly with regard to service improvement investments. The audit also would examine, among other things, many of the company's management and operational areas, network investment and resources dedicated to improving service quality, the adequacy of company records to locate and correct deficient equipment in a quick and efficient manner, available work force, expected work load, and worker productivity. A final report by the independent auditor is due in September 2004.

Exploring Opportunities to Enhance Infrastructure and Network Reliability
Case 02-C-0963

In recognition of the importance of New York's telecommunications infrastructure to both the state and national economies, the Commission began a proceeding in May of 2003 to examine the reliability of the state's telecommunications network. The Commission solicited the views of telecommunications carriers, users and other stakeholders on necessary steps to ensure the continued reliability of the state's telephone network in a multi-carrier environment.

"New York is frequently referred to as the telecommunications capital of the world, and our state is considered to be a leader in developing pro-competitive telecommunications policies. Our network is healthy and strong but, given its importance to so many sectors of our economy, we have a responsibility to stay ahead of the curve and to make sure we are doing all that we can to ensure and enhance the reliability of the modern, multi-carrier network," said William M. Flynn, Commission Chairman.

The terrorist attacks of September 11, 2001 redefined a "telecommunications disaster" and served to highlight the importance of New York's telecommunications infrastructure to the national and state economies. After restoration efforts were concluded, staff of the Department of Public Service conducted an analysis of the local exchange network to develop recommendations for the Commission on what steps might be taken to improve the overall reliability of the network. Staff's recommendations included, but were not limited to: compliance with industry "best practices" regarding reliability of specific network elements by all local exchange carriers; movement towards more distributed networks; participation by private and public telecommunications entities critical to the national interest in the National Communications Service's Telecommunication Service Priority (TSP) program; and, a review of critical communications arrangements to ensure that appropriate levels of redundancy and diversity are not jeopardized by subsequent network changes.

Major FCC Decision on Telephone Competition

In anticipation of the Federal Communications Commission's (FCC) written order revising rules on competition in the local phone market, the New York State Public Service Commission (PSC) in August 2003 invited interested parties to submit brief statements outlining their views on the process to be followed by the PSC in response to the FCC's order. After the submission of statements, interested parties participated in a forum designed to further refine the steps to be taken by New York State in response to the FCC's order.

The FCC's decision, known as the Triennial Review Order, addressed wholesale market rules governing competition in the local telecommunications market and standards concerning which elements of the local telephone networks incumbent local telephone companies must make available to new entrants at cost-based rates. Entrants use either their own facilities and/or elements of the incumbents' local networks to provide competitive local telephone services. The FCC's order was expected to establish the standards – including those involving considerations of customer class, geography, and service – the states must use to determine whether competitors would be impaired without access to the specific elements of the incumbents' networks.

"New York's action ensures that staff and all interested parties get out of the starting blocks quickly so that we can immediately get to work on issues that are critical to the state's telecommunications industry and to our economy as a whole," said William M. Flynn, Commission Chairman.

Once the FCC's order was issued, staff from the New York State Department of Public Service, as part of a team of state commission experts, developed a summary of the FCC's decision in conjunction with National Association of Regulatory Utility Commissioners' Triennial Review Implementation Process (TRIP) Task Force. The summary served as a resource for other state utility commissions.

New York was the first state in the country to open local markets to competition under the Telecommunications Act of 1996 through successful implementation of certain provisions of the Act. As a result, New York State leads the nation in the number of lines served by competitors.

Commendations to Telephone Companies for Excellent Service
Case 01-C-0491

The Commission issued annual letters of commendation to 36 local telephone companies or telephone company operating divisions throughout the state for providing excellent service to customers in 2003.

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 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 were also based on a requirement that any company operating under an incentive regulatory plan must have no incidence of service-related penalties for CTRR or complaints to PSC during the year.

"The Commission commended these telephone companies for meeting and exceeding their customers' service quality expectations in 2003. The high standards we set here in New York help ensure that our residents and businesses benefit from being at the world's crossroads of telecommunications technology," said William M. Flynn, Commission Chairman.

Year 2003 Commendations for Telephone Companies and/or Various Operating Divisions

Company	Threshold CTRR[1]	PSC Complaint Rate [2]	Incentive Plan[3]	Consecutive Year
Adelphia Business Solutions	100%	0.03	N/A	Second
Armstrong	100%	0.00	N/A	Eleventh
AT&T - ACC Corporation	100%	0.00	N/A	Second
AT&T- AT&T Local Services	97%	0.01	N/A	First
Berkshire	97%	0.00	N/A	Ninth
Cablevision Lightpath	100%	0.02	N/A	First
Cassadaga	100%	0.00	N/A	Eleventh
Champlain	100%	0.00	N/A	Fifth
Chatauqua & Erie	96%	0.00	N/A	Thirteenth
Chazy & Westport	100%	0.00	N/A	Seventh
Citizens of Hammond	100%	0.00	N/A	Eighth
Crown Point	100%	0.00	N/A	Eleventh
Deposit	98%	0.00	N/A	Twelfth
DFT Local Service	100%	0.00	N/A	First
Dunkirk & Fredonia	100%	0.00	N/A	Fifteenth
Edwards	100%	0.00	N/A	Third
Fishers' Island	100%	0.00	N/A	Fourteenth
Frontier Communications of America	100%	0.00	N/A	Second
Frontier of Rochester - Metro West	97%	0.04	Met	First
Frontier of Seneca-Gorham	96%	0.00	N/A	Sixth
Germantown	100%	0.00	N/A	Fifteenth
Global Crossing Local Services	100%	0.00	N/A	First
Hancock	100%	0.00	N/A	Fifteenth
Margaretville	100%	0.00	N/A	Fifteenth
Middleburgh	100%	0.00	N/A	Ninth
Newport	100%	0.00	N/A	Fifth
Nicholville	100%	0.00	N/A	Fifth
Ogden	100%	0.04	N/A	Thirteenth
Oneida County	100%	0.00	N/A	Fourteenth
Oriskany Falls	100%	0.00	N/A	Sixth
Pattersonville	100%	0.00	N/A	Sixteenth
Port Byron	100%	0.00	N/A	Fourth
RCN Telecom	100%	0.00	N/A	Fifth
State	100%	0.00	N/A	Fourteenth
Time Warner Communications	100%	0.03	N/A	Third
Verizon - Manhattan South	96%	0.07	Met	First

[1]Customer Trouble Report Rate (CTRR) is based on 95% or more of a company's monthly central offices performance results in a given year per central office being in the performance range of 0-3.3 reports per 100 lines (RPHL). This data has been adjusted where necessary, to remove the impact of the April 2003 ice storm.
[2]PSC Complaint Rate is the number of complaints per 1,000 access lines per year; the commendation level is 0.075 or less.
[3]Incentive plan requirements for CTRR and PSC complaints are either met or missed or are not applicable (N/A). Verizon and Frontier of Rochester operate with incentive plans.

CABLE TELEVISION

Proposed Revisions to Cable Television Service Rules Case 01-V-0381

Since the state's cable television rules were adopted in 1970, the federal rules have changed and the environment for cable companies has become more competitive. To address these matters, a collaborative process that included state agencies, municipal organizations, local governments, members of the Legislature, consumer representatives and the cable industry resulted in proposed revisions to the state's rules for cable television companies. After the proposed changes were first issued for comment in early 2003, Department of Public Service staff conducted seven public statement hearings around the state to elicit additional public input. In response to public input and comments received, staff and other interested parties spent several months developing a revised proposal.

The proposed revisions seek to maintain important consumer protections while streamlining and reducing some regulatory requirements for cable television companies in a more competitive environment. The proposal to revise that state's regulatory framework also incorporates federal requirements for regulation of rates for cable television service and renewal of cable franchise agreements, and provides for mediation services by staff in resolving renewal disputes. Based upon its review of the proposal and comments from the public, the Commission could accept, reject or modify the proposal to revise cable television service rules.

CONSUMER SERVICES

Tens of Thousands of Consumers Helped by Commission Staff

The Commission's Office of Consumer Services (OCS) is responsible for assisting consumers who experience difficulties with a service provider under the jurisdiction of the Commission. During 2003, OCS handled about 90,000 customer contacts, of which approximately 50,000 were forwarded to service providers for investigation and reply.

During 2003, OCS implemented a new program designed to improve the efficiency of the complaint process. The goal of the program was to reduce consumer difficulties and provide more timely resolution to those consumers who experience a problem with their service provider. The three major goals of the Quick Response System are to:

- Provide customers with a satisfactory resolution of their problem within 14 calendar days or less,
- Allow service providers an opportunity to satisfactorily and expeditiously resolve a customer's problem before it is recorded as a complaint.
- Provide OCS staff with the ability to allocate more time and resources to consumer matters that require staff intervention.

At any time within 60 days after the handling of a customer's case by the service provider, consumers can contact OCS and express dissatisfaction with the manner in which the service provider attempted to resolve their issue. Should that happen, the case is reclassified as a complaint and submitted back to the provider for an investigation and a full response to OCS. The service provider has 10 calendar days to respond to the complaint. OCS staff then reviews the matter and issues a determination in accordance with the complaint procedures.

In October 2003, OCS began tracking each service provider's performance under this program, resulting in the development of the Customer Service Response Index (CSRI). CSRI data is collected and analyzed, and performance metrics are compiled that are used to measure the level of customer service each provider delivers under this program. This information is published monthly as part of the OCS Monthly Complaint Statistics Report.

In the 12 months between April 1, 2003, and March 31, 2004, OCS staff assisted approximately 8,500 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 Quick Resolution System and through calls made to the Commission's toll-free HELPLINE and HOTLINE, and comments filed at the Commission's Web site.

Consumer Education Efforts – 2003 - 2004

Each year, the Commission's Consumer Education staff works to raise consumer awareness and understanding of utility issues and Commission policies, initiatives and programs through a variety of outreach activities. These activities include exhibits at shows, public presentations, producing plain language publications, mailing information packets to consumer organizations, and providing information through the Commission's AskPSC.com Web site and toll-free, 1-888-AskPSC1 information line. In 2003, staff exhibited at 55 events, including home shows, environmental and health shows, ethnic and cultural events, and consumer fairs, reaching an estimated 2.5 million consumers throughout New York.

When the Commission implements major new programs, staff mails information directly to consumer organizations and offers additional assistance to interested groups and individuals. In 2003, staff worked directly with over 4,500 consumer organizations, including state and local agencies, government officials and community groups throughout New York. A variety of additional communication tools are used, including public service announcements, paid advertising, press releases, and partnerships with service organizations.

During the spring and summer of 2003, staff continued the "Conserve a little. Save a lot." energy conservation campaign. The campaign informed consumers about the need to conserve energy during the summer – especially during peak energy use times – and provided energy conservation tips for consumers. As part of the campaign, staff created and distributed "New York's Electricity Outlook – Summer 2003" and "Conserve a little. Save a lot." brochures that explained the summer supply and demand outlook and energy conservation tips, respectively.

The summer program was followed by the 2003-2004 "Conserve a little. Save a lot." natural gas price-winter heating campaign. The campaign focused on expected natural gas prices, ways consumers could better manage their winter home energy costs, and financial assistance programs and payment options. A key component of the winter campaign was the "New York's Natural Gas Outlook" brochure that explained natural gas price forecasts and the factors that affect prices, and how to control home heating bills. The "Conserve a little. Save a lot." brochure that provided winter energy conservation tips was also used in the campaign.

Another major educational effort conducted by staff in 2003 concerned the implementation of new area code overlays in New York City that resulted from the Commission's 1997 Order. To inform the public, staff worked with the 35 carriers that provided local service in New York City to encourage them to educate customers about the change in dialing telephone numbers. Staff also developed and conducted its own education program that included a consumer alert to advise the public about the change in dialing patterns, and a bookmark with dialing change information that could be placed in telephone directories. The bookmarks were produced in English and Spanish, and were distributed at fairs, exhibits, presentations, and at public locations, including the Staten Island Ferry, and to members of the NYS Senate and Assembly who represent NYC. In addition, staff worked with the Office of General Services to ensure that they provided information to the telecommunications liaisons in all state agencies with offices in NYC.

New York State Department of Public Service
Public Service Commission