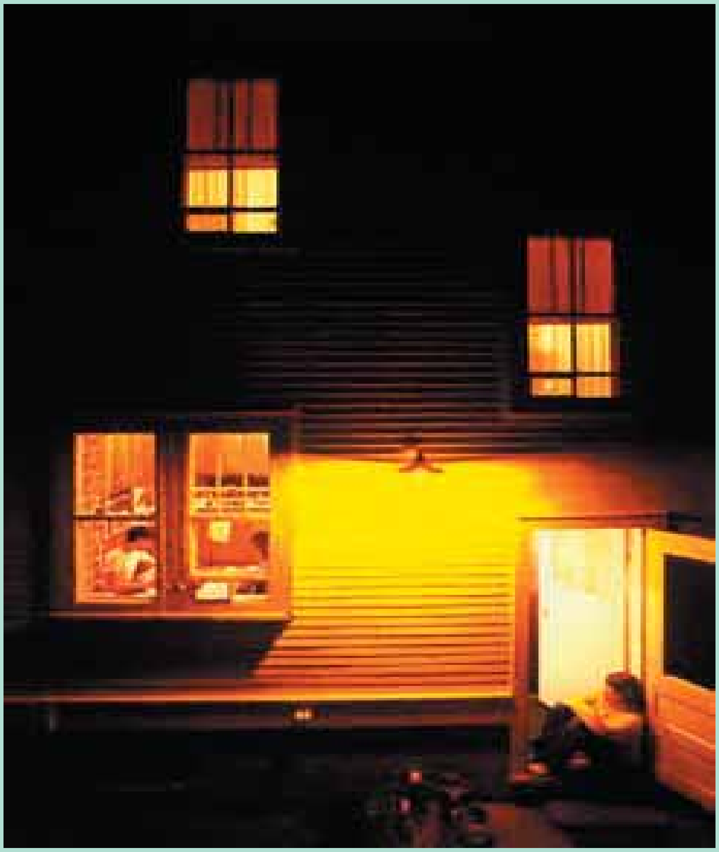
New York State
Department of Public Service
Public Service Commission



ANNUAL REPORT
2001-2002

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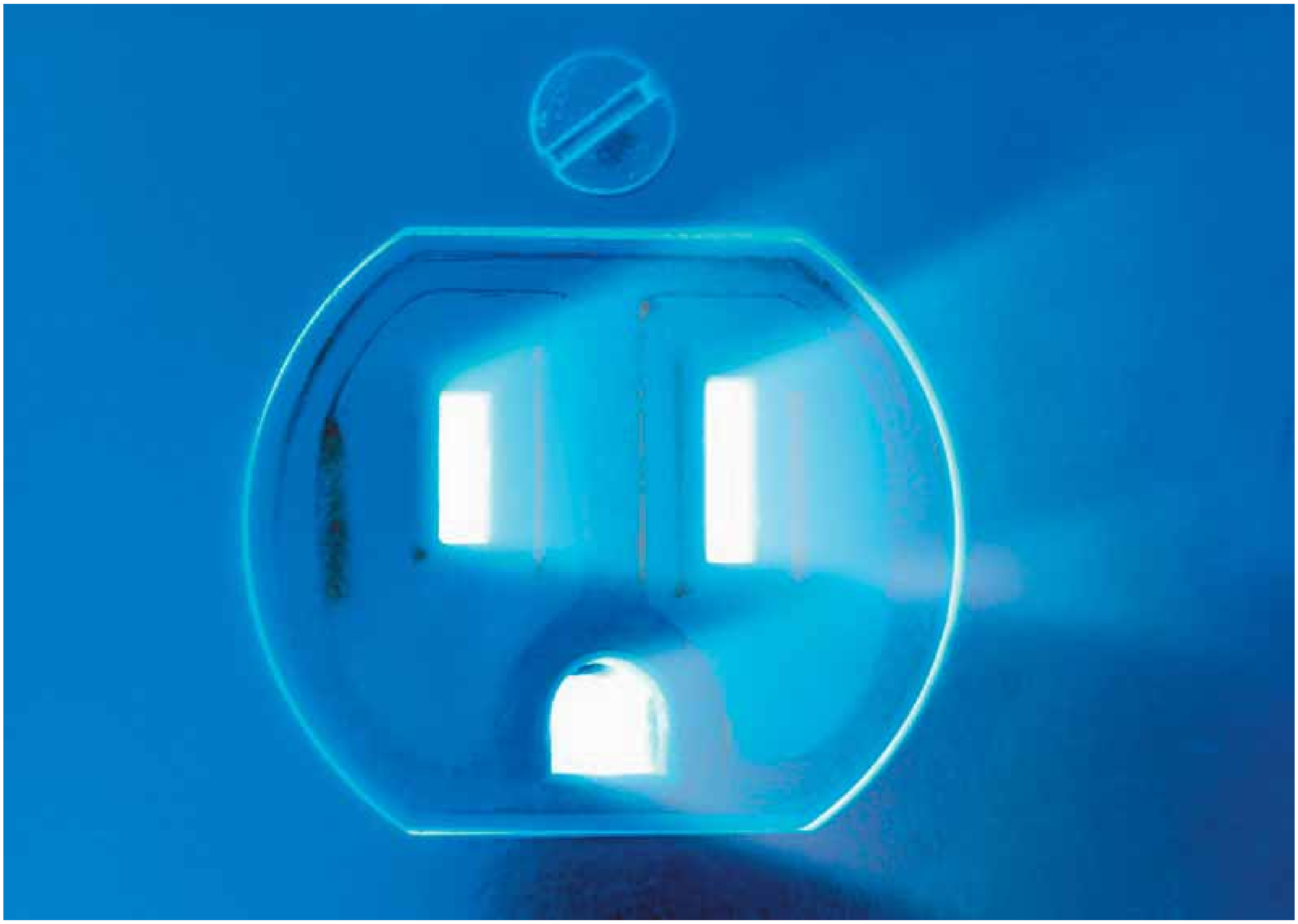


Electricity Competition Expands: Customer Choices Increase

All New York residents, in every utility service territory, can choose their supplier of electricity, while the delivery of electricity to homes and businesses remains a regulated function of the local utility.

During fiscal year 2001 – 2002, the number of customers participating in retail access increased by 48.5% and load increased by 16.2%. As of March 31, 2002, the number of customers who had switched to an alternate provider of electricity reached 365,300 or 4.9% of total customers and about 18.5% of the overall load of the six investor-owned utilities.

Based on customer awareness surveys conducted annually by the Department of Public Service (DPS), approximately 60% of the state's electric consumers are now aware of competition in the electric industry.

Statewide Electric Migration Summary
March 2002

	Total		Non-Residential		Residential	
	Customer Accounts	Load (MWh)	Customer Accounts	Load (MWh)	Customer Accounts	Load (MWh)
Customer & Load Migration	365,300	1,653,353	55,934	1,472,837	309,366	180,430
Total Eligible	7,513,812	8,927,202	1,091,061	5,613,975	6,422,751	3,313,227
% Migration	4.9%	18.5%	5.1%	26.2%	4.8%	5.4%
% Change from 2/2002	0.8%	-0.5%	2.0%	-0.3%	0.6%	-2.2%
February 2002 Customer & Load Migration	362,230	1,662,201	54,849	1,477,647	307,381	184,555
% Change from March 2001	48.5%	16.2%	44.6%	54.4%	49.3%	12.5%
March 2001 Customer Load Migration	245,952	1,422,993	38,693	954,164	207,262	160,355

Incentives Designed to Stimulate Retail Competition

Five years ago, the Commission opened retail markets to competition through individual rate and restructuring proceedings involving each of the six investor-owned utilities. During the last fiscal year, many of these initial rate and restructuring plans ended and Department staff participated in a new round of rate proceedings with the objective of improving retail access programs in the respective utility service territories.

When the Commission approved the sale of Central Hudson Gas and Electric Corporation's interests in the Danskammer and Roseton power plants to Dynegy, it also established a transition credit to ensure that the benefits of the lower cost power from these plants would continue to be available to all customers on a competitively neutral basis – that is, the credit is equally available to customers who have switched to Energy Services Companies (ESCOs) and those who remain with the incumbent utility.

In the Consolidated Edison Company of New York (Con Ed) case, the Commission instituted incentive payments of $65 to ESCOs for each new, first time non-demand-metered customer who is signed up. A minimum of $25 is rebated to the customer. While it was in effect through December 2001, the incentive helped to increase participation by over 100%.

On February 27, 2002, the Commission approved a five-year electric rate plan for New York State Electric and Gas Corporation (NYSEG), that immediately reduced rates 13% and established new rate options to go into effect January 1, 2003. These new rate options will unbundle the delivery portion of the bill, making it easier for customers to shop for electricity supply from competing ESCOs. Since the rate options will be new to NYSEG customers, an extensive education and outreach program will precede the enrollment period, which begins October 1, 2002.

On November 28, 2001, the Commission approved the merger of Niagara Mohawk Power Corporation (NMPC) and the National Grid Company. Included in the merger approval was a new rate plan for Niagara Mohawk that changed the retail access backout credit. To promote more robust retail access, the cap on funds available for retail backout credits was eliminated. Under the Power Choice restructuring plan, backout credits were not always available to new customers because funding had been exhausted.

Retail access incentives in Orange & Rockland Utilities, Inc.'s (O&R) territory included a $65 cash incentive - $25 to the migrating customer, $30 to the "receiving" ESCO, and $10 to any involved aggregator. Also, under the company's Switch n' Save program, largely targeted to customers with high bill complaints, customers switching to an ESCO are guaranteed a 7% minimum electric bill reduction relative to their previous O&R electric bills for at least their first two months of ESCO service.

Steps Taken to Attract Marketer Participation

To facilitate the ability of larger commercial and industrial customers to obtain electricity from ESCOs, staff has introduced the concept of a "market match" program in several utility rate cases. For those customers who agree to participate, the utility will post load data to a secure Web site. After the proper steps are taken to assure confidentiality of the data, ESCOs are able to access consenting customer load data to develop bids to forward to the customer. Another effort to match customers and ESCOs is the Market Expo. At one or more sites in its territory, the utilities sponsor what might be considered a trade show. Space is available for ESCOs to set up booths and customers are invited to attend the Market Expo giving them the opportunity to visit the various ESCO booths and explore price and value added service availability.

Competitive Billing Addresses Consumer Preferences

Consumers purchasing natural gas or electricity from an ESCO have expressed a strong preference for the convenience of a single or consolidated bill for their utility services rather than having to pay separate bills for delivery and commodity service. This preference, coupled with the Commission's commitment to push for competition wherever practicable, led the Commission to order the major electric and gas utilities to accommodate the provision of a single bill from either the utility company or an ESCO. On April 25, 2001, the Commission adopted a set of uniform billing and payment procedures, and billing service agreements for the large electric and gas distribution utilities in the state. The practices were based on recommendations of a national working group, as well as practices developed individually by the utilities and feedback from interested parties. The Commission also adopted individual billing backout credits and billing service charges representing prices that utilities could charge ESCOs if they were asked by ESCOs to issue the consolidated bills.

Electronic Data Interchange Facilitates Competition

For retail competition to proceed and flourish, the accurate and timely interchange of information between the utilities and competing ESCOs is absolutely critical. To facilitate the standardized exchange of retail access data, the Commission had required that Electronic Data Interchange (EDI) systems be implemented statewide between ESCOs and utilities. EDI is a standard format for exchanging business data developed by the Data Interchange Standards Association (DISA).

On April 25, 2001, the Commission approved plans, with initial standards, and an implementation schedule to ensure that EDI between local utilities and ESCOs is achieved on a uniform basis throughout the state. The first set of standards apply to transactions involving requests to switch customers from a utility to an ESCO and requests to transfer a customer's history, usage and billing data. Standards for other transactions, including those to support consolidated billing scenarios, are being developed for approval as the process continues. Phased testing, which began in December 2001, continued throughout the first quarter of 2002. The utilities and ESCOs were expected to complete the implementation of the first set of standards during the second and third quarters of 2002, after which efforts to implement the EDI billing transaction were to commence.

Consumer Protections in Competitive Energy Markets

On January 23, 2002, the Commission voted to approve new financial requirements for ESCOs that offer prepayment plans or require deposits from their customers. Department staff proposed the new requirements in response to an ESCO bankruptcy filing in the fall of 2000. The ESCO, which had been providing natural gas service in Western New York, filed for federal bankruptcy protection from its creditors in October 2000. As a result, some of the company's customers who had prepaid their winter bills were unable to get their prepayments back in the subsequent bankruptcy proceeding.

In addition to existing creditworthiness checks, ESCOs must now meet minimum bond ratings from an independent rating agency before they can offer New Yorkers prepayment arrangements for natural gas or electricity supplies. ESCOs that cannot meet the bond-rating requirements may require customer security deposits by posting an appropriate security in the form of an escrow account, or a standby irrevocable letter of credit in the amounts of the deposits collected, but they will not be able to offer prepayment arrangements.

Prepayment plans allow customers to secure a better electric or natural gas price or other service benefits. ESCOs may use funds obtained through prepayments for business purposes, such as working capital or the opportunity to secure a better commodity price in the wholesale market. ESCOs may be able to offer a more stable market price through investment of some or all of the prepayment funds in purchases of energy commodity, future contracts, and/or other hedges against future price fluctuations on behalf of prepaid customers.

These additional consumer protections balance the interests of consumer protection with offering innovative competitive energy services.

Enhancement of Wholesale Market Protections

Since the move to competition in wholesale electric markets, the Department's staff has worked hard to pursue ways of protecting the wholesale market from the exercise of market power. Market power can occur when a competitive market has a weakness during certain times, such as peak periods, or in certain transmission-constrained locations, such as New York City. The wholesale market is regulated by the Federal Energy Regulatory Commission (FERC).

In July 2001, FERC approved important enhancements to the protections that govern the New York City wholesale market. Department staff worked closely with Con Edison to develop these protections and support their approval by FERC. These measures ensure that the market is well protected during times in which transmission constraints isolate the New York City market from the rest of the region, leaving it with an insufficient number of generators to ensure a proper competitive price.

In July 2001, FERC approved a statewide protection measure that the Department staff and other parties had argued was essential. This measure, called the Automated Mitigation Procedure (AMP), allows the market's monitoring organization, the Independent System Operator (ISO),

to automatically lower the bids of generators when certain conditions arise. Specifically, whenever it is determined that the bids of one or more generators are too high, and that those bids have had a material impact on the New York State wholesale market's price, then the AMP automatically intervenes, lowers the bids on the relevant generators, and resets the market price to a lower level that is consistent with competitive bids. The FERC's approval of this protection measure represented the culmination of a nine-month effort on the part of the Department's staff, the New York Independent Service Operator, and other market participants.

Protecting Customer Interests

In March of 2001, staff began receiving complaints from customers of Energetix, an ESCO affiliate of Rochester Gas and Electric Corporation (RG&E) that provided natural gas supplies to approximately 4,500 customers in the Greater Rochester region. Energetix customers complained about a March 19th letter indicating that the company was increasing the price of natural gas that had been fixed under the terms of a two-year contract. The letter advised customers that they had until March 23rd to accept the amendment to their contracts and avoid canceling their service by signing a new natural gas sales agreement. Further, if the customer failed to respond, the account would be automatically renewed at the new terms and conditions. Citing the limited time frame allowed for consumers to make a decision and the "negative check-off" approach, which meant that customers who did not respond were considered to have accepted the new contract terms, staff conducted an investigation into the business practices of Energetix.

As a result of staff's investigation, Energetix acknowledged that the notifications sent to customers were confusing, did not provide adequate time in which to make a decision, and did not fully describe the customer's options. In light of the customer confusion, Energetix agreed to abide by the original contract terms and rescind price increases for the approximately 4,500 affected customers. Commission Chairman Maureen O. Helmer recognized Energetix for cooperating with staff's investigation, for its decision to abide by the original contracts, and for helping restore customer confidence in the competitive marketplace.

FERC and a Northeast RTO

In its Order 2000 on Transmission Organizations, FERC sought to encourage utilities to join ISO-type organizations with the characteristics necessary to further the development of a competitive wholesale electric market. The Department is engaged with Public Utility Commission commissioners and their staffs, ISOs, market participants, utilities across the Northeast, and others to ensure FERC's implementation of Order 2000 reflects the needs and interests of New York. As part of this effort, staff was an active participant in discussions FERC conducted during the summer of 2001 regarding the feasibility and impediments to developing a single regional transmission organization (RTO) for the Northeast.

ELECTRIC RATE DECISIONS

NYSEG Electric Rate Plan and Merger Bring Customer Benefits

On February 27, 2002, the Commission approved a five-year rate plan for New York State Electric and Gas (NYSEG) designed to reduce electric rates by $205 million annually. Under the plan, which took effect March 1, 2002, the monthly bill for an average residential customer decreased by approximately 13%, with similar reductions for other customers, including small businesses. In an effort to encourage more competition in NYSEG's service territory, the reductions will be applied to the delivery portion of customer bills starting in January 2003. As a result, customers who shop for additional electricity supply savings from NYSEG's competitors will not lose the savings afforded by the rate reduction.

Under the terms of the plan, NYSEG would provide customers the opportunity to decide among three rate options for their electricity supply beginning January 2003: an ESCO-rate option, a fixed-rate option, or a variable-rate option. Under an ESCO-rate option, a customer who shops for electricity supply and contracts with an energy services company will pay the ESCO for that supply. The customer will continue to pay NYSEG for costs related to delivering the supply.

Customers who choose NYSEG to provide their electricity supplies will have two billing rate options: a fixed-rate option, or a variable-rate option that fluctuates with the market price of electricity. In offering a fixed-rate supply option, NYSEG was permitted to include costs associated with securing contracts for, and assuming the risks of, a two-year term of electricity supplies for its customers. Under the variable-rate supply option, a portion of the customer's electricity supply – approximately 30% for residential customers, more for nonresidential customers – will fluctuate with the market price.

The rate plan requires NYSEG to continue its commitments to economic development programs. Further, NYSEG agreed to implement an intensive educational campaign to inform its customers of their opportunities to shop for electricity. The company will also designate a liaison to work both with ESCOs on competitive matters and with interested parties to create opportunities for customers with similar supply interests to aggregate by forming energy purchasing groups. Finally, the rate plan includes service quality mechanisms covering customer service and the reliability of electric delivery service. Each of the measurement mechanisms carries a potential maximum penalty of $3.5 million should NYSEG fail to meet the service targets.

On February 27, 2002, the Commission also approved the merger between Energy East Corporation and RGS Energy Group, Inc. Energy East is the parent company of the New York State Electric and Gas, Inc. (NYSEG) and RGS Energy Group is the parent of Rochester Gas and Electric Corporation, Inc. (RG&E). The merger is expected to generate approximately $164 million in net cost savings that will accrue to both electric and gas customers of NYSEG and RG&E through 2006. For NYSEG electric customers, the merger savings are reflected in the rate reductions of the NYSEG Electric Rate Plan approved on the same date. The savings designated for NYSEG gas and RG&E electric and gas customers will be reflected in future rate cases. The merger is expected to enhance the reliability and supply of energy in upstate New York, provide long-term rate stability, and provide opportunities for growth in retail energy service competition.

Central Hudson Rate Plans: $164 Million in Customer Benefits

On October 25, 2001, the Commission approved a comprehensive rate plan for electric and natural gas customers of Central Hudson Gas & Electric Corporation that, among other features, contained approximately $164 million in customer benefits.

As a result of Central Hudson's operations pursuant to the Rate and

Restructuring Plan instituted in February 1998, the company accumulated a "benefit fund" totaling approximately $164 million. Included in the benefit fund were proceeds from the company's sale of its Danskammer and Roseton generating plants and its interest in the Nine Mile Point 2 generating plant.

By making use of the $164 million benefit fund, the Commission approved a new rate plan that reduced electric delivery rates by $2 million (1.2%) retroactive to July 1, 2001 and froze rates at the new, lower level for at least three years from that date. In addition, the plan provided $72 million in refunds to electric customers. The refunds were applied to electricity usage beginning November 1, 2001. Gas delivery rates were frozen at 2001 levels for the three years ending July 1, 2004.

In addition to lower rates, refunds, and rate freezes, the $164 million benefit fund was used for measures to attract and retain jobs in Central Hudson's service territory, initiatives to advance competition in the energy markets, improvements to low-income residential customer programs, infrastructure improvements to strengthen service reliability for all customers, and new performance measures and incentive mechanisms to enhance safety and overall service quality.

Niagara Mohawk/National Grid Merger: $152 Million In Delivery Rate Decreases

In November 2001, the Commission approved the merger of Niagara Mohawk Holdings, Inc., Niagara Mohawk Power Corporation, National Grid Group PLC and National Grid USA. Under terms of the merger agreement, National Grid acquired 100% of Niagara Mohawk's common stock to form the ninth largest electric utility in the United States.

The merger plan includes provisions for long-term rate stability, rate reductions, promoting the Commission's competitive agenda, and fostering of economic development in upstate New York. The plan provides cumulative electricity delivery rate decreases of $152 million (approximately 8%) in the first year, followed by a freeze on those electric delivery rates through December 31, 2011. Niagara Mohawk's gas customers will have their gas delivery rates frozen through December 31, 2004. The plan imputes energy savings expected to be produced by the merger, establishes an earnings sharing mechanism, provides for the possibility of a rate reset (reduction only), and ensures that a portion of any savings from subsequent mergers inure to the ratepayers' benefit. In addition, the plan extends the service reliability performance standards, through a Service Quality Assurance Program, and enhances the customer service protections contained in the Power Choice Order.

Other aspects of the merger plan include Niagara Mohawk's expansion of its low-income customer services through creation of a low-income rate discount program for qualifying customers and implementation of a program to encourage marketing of renewable energy. Niagara Mohawk will design and implement an annual customer outreach and education program, and promote industrial development by adding $12.5 million per year to its various economic development programs. The plan also includes a customer service backout credit, Energy Service Company (ESCO) Satisfaction Survey, and the coordination of marketer registration and customer transfer requirements in Niagara Mohawk and National Grid service territories to facilitate the development of the competitive marketplace.

Niagara Mohawk provides electricity to approximately 1.5 million customers across 24,000 square miles in upstate New York, and delivers natural gas to approximately 540,000 customers in Eastern, Central and Northern New York. National Grid is the world's largest independent transmission company and builds, owns, and operates electric and telecommunications networks around the world.

The Developing Wholesale Market

Electric Generating Plant Sales

Niagara Mohawk Power Corporation

In October 2001, the Commission approved the sale of the 609 megawatt (MW) Nine Mile 1 and the sale of 82% of the 1,148 MW Nine Mile 2 nuclear generating plants and related assets to Constellation Nuclear, LLC and Nine-Mile Nuclear Station, LLC, respectively, for approximately $780 million. At the time of the sale, Nine Mile 1 was wholly owned by Niagara Mohawk Power Corporation, while Nine Mile 2 was jointly owned by Niagara Mohawk (41%), New York State Electric and Gas Corp. (18%), the Long Island Power Authority (LIPA) (18%), Rochester Gas and Electric Corp. (14%), and Central Hudson Gas and Electric Corp. (9%). LIPA did not sell its 18% ownership interest in Nine Mile 2. Constellation is an experienced nuclear power plant operator and an important addition to the New York competitive wholesale generation market.

Included in the terms of the sale are power purchase agreements that require Constellation to sell 90% of the plants' output to the utilities at fixed prices for the next 10 years. Upon the transfer of each company's decommissioning trust funds, Constellation will assume full responsibility for decommissioning the Nine-Mile Point units and restoring the site when the operating licenses for Nine Mile 1 and 2 expire in 2009 and 2026, respectively.

Consolidated Edison Company of New York

In August 2001, the Commission approved the sale of Consolidated Edison Company of New York, Inc.'s Indian Point 1 and 2 nuclear generating facilities and related assets to Entergy Nuclear Indian Point 2, LLC. The sale included the retired Indian Point 1 unit, the Indian Point 2 generating facility, three gas turbines, real estate where the facilities are located, and the Toddville Training Center. Con Edison received $502 million for these assets, plus $107 million for the nuclear fuel and fuel oil.

Under the terms of the sale, Entergy assumed full responsibility for decommissioning the Indian Point units and restoring the site when the operating licenses expire. Con Edison transferred $430 million in decommissioning trust funds to Entergy. Entergy will also take title to, and be responsible for, the ultimate disposal of spent nuclear fuel used at the Indian Point facilities.

"The transaction is consistent with our efforts to establish a competitive wholesale market that will lead to lower prices over the long-run, while protecting consumer rates during the transition" Commission Chairman Maureen O. Helmer.

Included in the terms of the sale is a power purchase agreement requiring Entergy to sell to Con Edison all electricity generated by Indian Point 2 through April 2005, and options for additional capacity purchases through April 2011. The purchase agreements will serve as a hedge against any spikes in energy and capacity prices that might occur during this period.

Siting Electric Generation – Article X Cases

Article X of the New York State Public Service Law (PSL) is a permitting process for the siting, construction and operation of major electric generating facilities with over 80 megawatts (MW) of capacity. Under Article X, the New York State Board on Electric Generation Siting and the Environment is required to balance public interest and environmental impacts of proposed facilities when considering whether to grant a Certificate of Environmental Compatibility and Public Need for constructing and operating such generating facilities.

In 2001, Article X was amended to require the Siting Board to complete its review in six months for any generating facility that would replace, or be adjacent to, an existing facility. Further, to qualify for the expedited review, the proposed facility must achieve a 75% reduction in air emissions, and utilize a cooling system that withdraws no more than 15 gallons per minute per MW from a water source. The amendment to Article X, proposed by Governor George Pataki, was designed to encourage and expedite the "re-Powering" of old coal and oil-fired power plants that have higher emission levels and more detrimental aquatic impacts when compared to modern natural gas plants that are equipped with cooling towers. Such projects can represent a net community benefit to air and water quality and should be given priority in the siting process.

An important element of the Article X review process is that applicants are required to actively seek public participation throughout the planning, pre-application, and certification process and to encourage stakeholders to participate at the earliest opportunity in their proposed projects so that public input can be considered in project planning. The Department of Public Service's responsibility is to ensure that a meaningful public involvement program (PIP) is included in each Article X application. The Department works closely with local government, other state agencies, citizens groups and the applicant to ensure that a full and fair review is carried out.

Between April 1, 2001 and March 31, 2002, eight Article X applications, representing approximately 3,600 megawatts of new capacity were filed. During that same time period, Article X reviews for five gas-fired, combined-cycle, generating facilities totaling 3,110 megawatts were completed and certificates were granted.

Article X Approvals in Fiscal Year 01-02	
Astoria Energy Generating Plant, Queens County	*1,000 MWs*
Bethlehem Energy Center, Albany County	*750 MWs*
Mirant Bowline, Rockland County	*750 MWs*
East River Expansion, Manhattan County	*360 MWs*
Ravenswood Expansion, Queens County	*1,060 MWs*

Siting New Transmission Facilities - Article VII

Article VII of the New York Public Service Law establishes a permitting process for the siting, construction and operation of major gas and electric energy transmission facilities. Under Article VII, the Commission is required to balance public interest and environmental impacts of proposed facilities in the decision to issue a Certificate of Environmental Compatibility and Public Need.

Between April 2001 and the end of March 2002, 28 Article VII applications were filed, and 25 were certified. The largest transmission facility, and one that is very important to the New York City Metropolitan Area, is the Cross-Sound Cable Project. The Cross-Sound Cable Company proposed a 2002 installation of a submarine high-voltage DC cable between Brookhaven, New York across the Long Island Sound to New Haven, Connecticut. The project utilizes a vacant brown-field at the decommissioned Shoreham Nuclear Plant as a landfall and will provide 300 MW of new capacity to Long Island. A jet-plow installation technique, commonly used in Europe, will minimize impacts to Long Island Sound.

Customer Outreach and Education

During the 2001-2002 fiscal year, the Department worked to provide the public with plain language information on a variety of utility-related topics. Throughout the summer of 2001 and winter of 2002, the Commission's education programs focused on summer and winter energy conservation, and commercial and industrial demand reduction.

Complementary messages about New York's need for more generating capacity, competition and choice, and environmental disclosure were integrated into the conservation outreach programs and disseminated through a variety of media and venues.

Additionally, the PSC launched a new consumer-friendly Web site, www.AskPSC.com, designed to provide New Yorkers with easy access to information and materials. The site contains information on electric, natural gas, and telecommunications services; demand reduction and other PSC programs; conservation tips; and a calendar of events. The page is updated frequently to highlight important and time-critical information campaigns.

Summer Energy Conservation: Meeting New York's Electricity Demands

In anticipation of a tight electric supply during the hot summer months, the Commission focused its 2001 summer energy awareness and education campaign on reducing demand for electricity and promoting energy conservation practices. The outreach program was designed to increase public awareness and understanding of the potential energy shortage situation, and to help change consumer behavior to reduce the overall demand for electricity.

During the summer of 2001, the Commission's "Conserve a Little. Save a Watt." residential conservation campaign, and its "Lighten Your Load." conservation campaign for commercial and large industrial customers ran simultaneously.

The "Conserve a Little. Save a Watt." campaign included a variety of conservation tips that were disseminated through paid radio commercials, public service announcements, and metro traffic spots throughout the state. Other media included billboards with simple conservation tips, similarly designed bus displays, kiosks, trade show and New York State Fair exhibits, and various print ads. Collateral materials included bill stuffers, magnets, school handouts, coloring books, and tip strips. Other vehicles to get the word out included ads in weekly community newspapers; mass mailings of Commission educational materials to community organizations; partnerships with state agencies (i.e., Department of Motor Vehicles, Department of Health, Thruway Authority) and local government; and a special mailing to more than 125,000 fourth and fifth graders in New York City with a conservation flyer to share with their families. Staff set up exhibits or made presentations at more than 180 events during the reporting period.

Special emphasis was placed on informing large commercial and industrial customers about the state's demand-response programs, since they provide the greatest short-term opportunity for significant peak load reductions. The PSC's plain-language brochure—Lighten Your Load—explains the state's electric load and capacity situation, and the availability of New York Independent System Operator (NYISO), New York State Energy Research Development Authority (NYSERDA), New York Power Authority (NYPA) and utility programs to reduce peak demand or promote conservation. The Commission's brochure was mailed statewide to over 450,000 commercial and industrial utility customers, as well as to the state's business and manufacturing organizations.

Staff expanded its traditional outreach and education efforts to the business community by co-sponsoring with NYSERDA a series of workshops in February through April 2002 to encourage more participation in NYISO demand-response programs. Over 350 representatives from hospitals, state facilities, commercial building managers, local government, hotels, colleges, universities, manufacturers, utilities and energy services companies attended the workshops.

Staff also worked closely with New York's utilities to ensure that they were taking an active role in promoting energy conservation and demand reduction. The utilities used radio, Web sites, bill stuffers, newsletters, staff training, press events and releases, mass mailings, participation in events, and a variety of other methods to inform and educate their customers about the need for conservation and the availability of demand reduction programs.

August Heat Wave

New York State experienced hot, muggy weather conditions during the week of August 6, 2001 and record setting loads topping out at a one-day peak of 30,980 megawatts. The state survived the heat wave due to the combined efforts of state agencies, utilities, and residential and commercial consumers. In late fall, the Commission produced a series of public service announcements and metro traffic messages thanking New Yorkers for pitching in during the summer conservation effort, and encouraging them to keep up the good work as the cold weather approaches. These spots also included a number of winter conservation tips and served as a transitional message between our summer and winter energy conservation campaigns.

Electric Demand Reduction Programs

In March 2001, the PSC directed the major electric utilities to implement the New York Independent Operator's (NYISO's) Emergency Demand Response Program (EDRP) and the Day-Ahead Demand Response Program (DADRP). These programs were developed to reduce demand for electricity, to improve overall reliability, and to moderate electricity prices throughout New York State with special emphasis on New York City. The PSC also directed all of the major electric utilities to submit plans to implement their own customer-incentive programs to reduce peak demand, expand the available supply of electricity, and moderate the price of wholesale electricity in the state. By the end of August of 2001, approximately 680 megawatts (MW) of demand reduction had registered in the NYISO's EDRP, which provided peak demand reductions of 456 MW. The NYISO's DADRP registered approximately 171 MW of potential demand reductions registered in the NYISO's DADRP, of which 25 MW of reduction was provided. In addition, the System Benefits Charge (SBC) programs implemented by NYSERDA reduced demand by about 90 MW (these SBC programs enabled a large number of New York energy users to participate in the NYISO and utility programs). Further savings resulted from public appeals, plans developed to reduce the use of electricity by state government facilities during peak periods, LIPA and NYPA initiatives, and other utility programs. Overall, statewide demand reductions during the summer of 2001 totaled approximately 1,665 MW.

The Commission also required utilities to prepare detailed public awareness plans describing each company's steps to raise awareness and educate customers regarding the load and capacity situation and outlining actions consumers can take to control their energy use. Particular emphasis was directed toward the business community because that is where the greatest results might be expected in the shortest amount of time.

Winter Energy Conservation Programs

The Commission focused its 2001-2002 winter energy awareness and education campaign on ways to promote wise energy conservation practices. The Commission's "Conserve a Little. Save a Watt." campaign was designed to inform the general public that reducing the amount of energy use in a typical household can make a difference and save consumers money. Like the summer campaign, the winter program promoted simple, affordable tips on saving energy and lowering cost.

In the winter of 2000-2001, high natural gas prices resulted in sharp bill increases for many customers. Based on the experience of the previous winter, the Commission continued to remind consumers about the importance and effectiveness of energy conservation efforts through a variety of mediums, including radio advertisements, metro traffic radio reports, billboards, bus cards and transit displays.

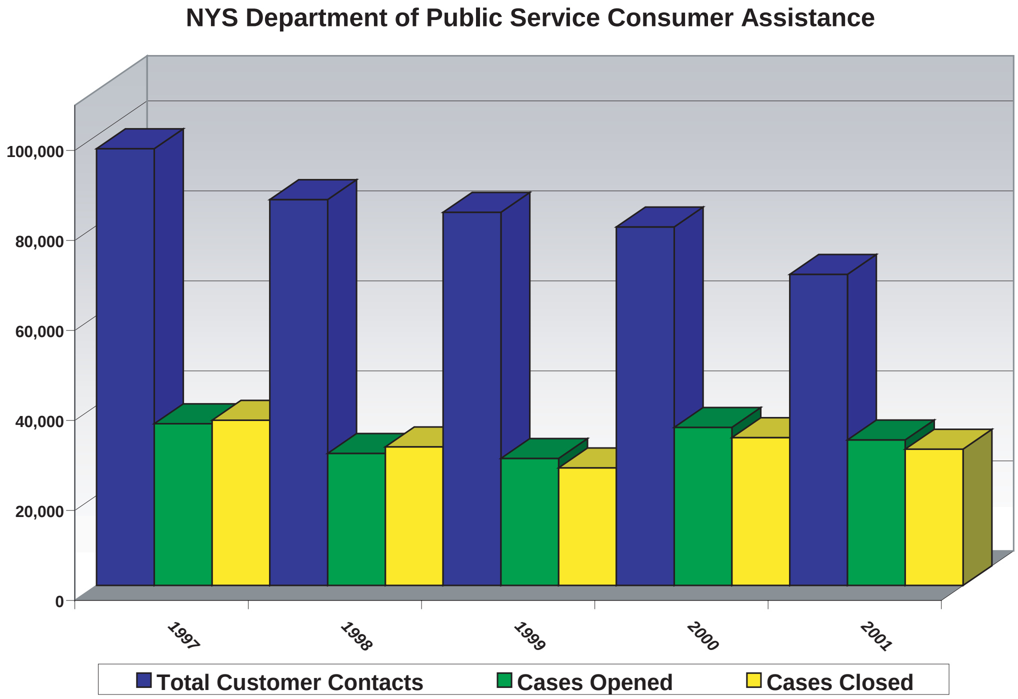
Environmental Labeling: Know Your Electricity Sources

In New York, ESCOs are able to differentiate the commodities or products they offer according to the sources of their generation, which should further enhance retail competition.

Opinion 98-19, issued December 15, 1998, approved an environmental disclosure mechanism that will provide customers with verified data on the fuel mix sources and average emissions rates for the generation sources that their suppliers have used to meet their energy supply requirements. In the first quarter of 2002, customers started receiving from their electricity supplier "Environmental Disclosure Labels" that showed the mix of fuels used to generate their electricity and the resulting air emissions. This program helps consumers understand how producing electricity affects the environment. The information also allows consumers to consider the environmental impact of generating electricity when selecting electricity suppliers.

To increase awareness and understanding of the environmental disclosure program, more than 125,000 copies of a brochure—"Environmental Disclosure – A Consumer Guide"—were distributed to 5,000 consumer leaders and thousands of additional copies were supplied to New York's electric utility suppliers. An Environmental Disclosure exhibit was developed and displayed at numerous exhibit and speaking events. Each of the electric utilities also added environmental disclosure information to their Web site, and included the information in the Commission's brochure with their customer bills. A follow-up mailing of an environmental disclosure article and camera ready artwork was sent to more than 900 weekly newspapers in June.

Assisting Consumers Throughout New York



Department staff in the Commission's Office of Consumer Services continued to provide outstanding service to consumers needing assistance in disputes with utility service providers. These disputes involve an array of issues including billing, service, slamming, cramming and delayed installation or repair service. Between April 1, 2001 and March 30, 2002, Consumer Services staff assisted approximately 194,000 consumers throughout the state who called with questions regarding utility services or complaints involving utility service providers. Consumer contacts resulted in more than 30,000 staff investigations on behalf of utility consumers. In addition, during the period, staff handled more than 3,000 contacts involving service provided by energy service companies.


ABC
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REDIAL/PAUSE
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Competition in the Local Phone Services Market

In July 2001, the Commission issued a staff report on the status of the development of local exchange competition in New York State. The report entitled "Analysis of Local Exchange Competition in New York State," was the fourth annual report on this subject and was based on data for the calendar year 2000 submitted by market participants.

Key findings in the report included:

- Competitive Local Exchange Companies (CLECs) continued to gain revenues and market share during 2000. CLEC revenues from basic local service increased from $480 million (8% market share) to $795 million (13% market share).
- CLECs continued to gain access lines during 2000. The number of local exchange lines served by CLECs increased from 1,469,000 (9.8% market share) to 2,946,947 (20.9% market share).
- CLECs served more residential lines than business lines for the first time in 2000. The percentage of CLEC residential lines increased from 32% to 52%. Conversely, the percentage of CLEC business lines decreased from 68% to 48%.
- Service quality, as measured by customer trouble reports, has generally improved as competition has increased.
- The growth in competition during 2000 translated into decreased market share for the incumbent local telephone companies (ILECs), such as Verizon New York, during 2000. The ILECs' share of the market decreased from 89.3% to 79.1%. The number of access lines served by Verizon New York fell from 11.1 million (81% market share) to 9.9 million (71% market share).

Trends in the report indicate that a firm foundation for a competitive telephone market is being established in New York that will continue to provide benefits to New York consumers. Although fewer CLECs participate in the market than in previous years, the number of lines served by CLECs continues to grow. The staff report is available electronically at the Commission's Web site at www.dps.state.ny.us by accessing the telecommunications file.

Verizon New York: Regulatory Plan, Wholesale Rates, and Special Services Standards

Two-Year Regulatory Plan

In February 2002, the Commission approved a new, two-year regulatory plan for Verizon, known as the Verizon Incentive Plan or VIP. The VIP established a framework for the company's retail and wholesale rates through 2004 and built upon the considerable efforts made to date to develop and implement a competitive local exchange market for telephone service in New York State.

The Commission continued its commitment to ensuring high quality telephone service in New York by approving a three-year Service Quality Plan as part of the VIP and tying Verizon's pricing flexibility directly to maintaining top service quality. Verizon's service quality, once unacceptably poor, has improved significantly since 1995. If Verizon fails to maintain this improvement and meet the established objectives of the plan, it must provide annual aggregate customer rebates ranging from $15 million to $170 million annually. If the company fails to meet the annual performance objectives in any two of the five service quality measurement categories, its pricing flexibility will be suspended.

The VIP gave Verizon some pricing flexibility on most retail services subject to a 3% cap on annual revenue increases. However, increases in monthly basic service charges for a customer's first line were not to exceed $1.84 in the first year and $0.65 in the second year. These increases, if implemented, would count toward the 3% annual cap in revenue increases. The plan also established industry task forces to address the next generation of issues impeding permanent and vibrant competition in the local phone market. The industry task forces will work toward improving the processes and procedures used in wholesale transactions between Verizon and its competitors in a number of areas, such as billing and collection, building access, and provisioning of services where facilities are not immediately available. The plan, which received solid support from Verizon's competitors in the local phone market, also encompassed significant reductions in the wholesale prices that Verizon can charge its competitors for using certain elements of its network to serve customers.

Reduction in Wholesale Rates

In January 2002, the Commission significantly reduced the monthly wholesale prices that Verizon New York, Inc. charges its competitors for using elements of Verizon's network to provide local phone service. The wholesale price reductions make it more economical for new entrants to offer local phone service in competition with Verizon. The reductions were based on staff's examination of Verizon's costs of providing unbundled network elements (UNEs) to competitors pursuant to the federal Telecommunications Act of 1996. Based on evidence developed in a formal proceeding, the Commission made significant adjustments to the cost studies filed by Verizon. The reduced rates help set the stage for rapid and broad entry by competitors into local exchange telecommunications markets and bring New York State closer to a fully competitive telecommunications market.

"Special Services" Standards

In April 2001, the Commission decided to expand and strengthen the service quality standards applicable to intrastate "Special Services" provided by Verizon. "Special Services" include high capacity data circuits used by large businesses as well as by telecommunications carriers that compete with Verizon. To encourage Verizon to improve "Special Services" to New Yorkers, the Commission increased rebate amounts to customers and expanded the applicability of rebates to wholesale providers.

More specifically, the Commission decided to:

- Increase rebate amounts to retail customers for missed installation appointments by Verizon.
- Require Verizon to provide the new rebates to any carrier ordering services on behalf of a customer.
- Add three new measurements designed to measure the quality of Verizon's service order processing.
- Modify existing guidelines to help ensure non-discriminatory treatment when one carrier uses another carrier's facilities to serve customers.
- Require Verizon to meet or exceed the standards specified in all eight measurement categories.
- Require Verizon to provide the Commission with monthly reports on delays in providing basic and "Special Services."

Acquisition of Frontier Telephone by Citizens Telecommunications

In April 2001, the Commission approved the acquisition of Frontier Telephone of Rochester and five affiliated local telephone companies in New York State by Citizens Communications Company. The approval was subject to conditions designed to ensure that customers would benefit from the acquisition.

In granting approval, the Commission required Citizens Telecommunications of New York, a subsidiary of Citizens Communications Company, to forgo a $4.9 million revenue increase under a previously approved four-year plan governing local service to 307,000 customers in 126 exchanges. Citizens Telecommunications was permitted, however, to implement a rate restructuring program that was also a part of that plan. The restructuring included the elimination of locality charges and was designed to provide more rate equity among Citizens' customers.

Citizens was required to maintain a major operations and administrative center in New York State and to undertake specific steps to facilitate competitive entry in its service territories.

Such steps included, among other things, providing competitors with a single interconnection agreement template, a centralized contact, and a single local service-provisioning guide. Additionally, Citizens agreed to abide by all provisions of Frontier's Open Market Plan as approved by the Commission in 1995 and modified in 2000. The Commission retained the right to examine Frontier of Rochester's financial condition under the Open Market Plan to ensure safe and adequate service at just and reasonable rates.

Area Codes: Meeting New Demands for Local Phone Numbers

From 1945 to 1985, there were seven area codes in New York State. In less than 20 years, that number has doubled due to increased demand for telephone lines. With the addition of the newest area code – 585 in Western New York – there are now 14 area codes in the state.

On May 17, 2000, the Commission determined that a geographic division along an easily recognized border was the most effective means of introducing the new 585 area code in order to provide additional local telephone numbers for the western region of New York State previously served by the 716 area code. A split into two Numbering Plan Areas kept the 716 area in Erie, Niagara, Cattaraugus and Chautauqua Counties and the Tonawanda and Oil Spring Indian Reservations. The new 585 area code was assigned to Orleans, Genesee, Wyoming, Monroe and portions of Yates, Steuben, Ontario, Livingston, Allegany, and Wayne counties.

The Commission determined that the evidence supporting a geographic split was substantial after conducting 13 public hearings throughout the region served by the 716 area code and receiving thousands of comments from those who spoke at the hearings, wrote or called the Commission, or sent comments via electronic mail.

The area code change was phased in beginning with a permissive dialing period starting on November 15, 2001, to be followed by a mandatory dialing period beginning on August 17, 2002. To acquaint consumers with the new area code split and its operation, the Commission directed each carrier providing local exchange service in the 716 area code to conduct an outreach and education program regarding the new 585 area code.

Responding to World Trade Center Disaster Needs

The damage caused by the tragic attack on the World Trade Center buildings and the subsequent preventive measures taken by affected utilities resulted in the loss of service to 13,365 electric customers, 350,000 telephone voice lines, 5,400,000 special service (equivalent voice) circuits, 5,880 gas customers, and 303 steam customers. Damage to the electric, gas and steam systems affected mostly large commercial buildings where thousands of workers were employed, including much of New York's financial district.

As part of our response to the event, the Department of Public Service initiated its emergency response in accordance with its established plan. Department staff was immediately dispatched to the State Emergency Management Office (SEMO) and to utility locations in Manhattan. Staff from the electric, telecommunications and gas and water offices staffed the SEMO desk to handle information requests and questions from SEMO officials and other state agencies as well as to provide regular briefings to SEMO on utility restoration efforts. In addition, relevant Geographic Information System (GIS) maps of the affected utility service areas were provided to SEMO as part of the state's coordinated recovery effort.

Customized GIS maps, concentrated at a block/street level, were developed to show outages of electric, telecommunications, gas and steam service.

Consolidated Edison, Verizon, AT&T, and other utilities' efforts to restore services to the public in the most efficient manner possible were impressive. The companies were faced with extraordinary circumstances and the loss of major equipment and facilities. In addition, the companies had to overcome issues such as lack of access to facilities, instability of damaged structures, and coordination with police, fire and military operations.

Enhancing Utility Infrastructure Security

Following the September 11 attacks, Governor George Pataki created the New York State Office of Public Security in October 2001. That office is charged with developing a comprehensive statewide anti-terrorism strategy, including an assessment of the vulnerability of critical infrastructures to terrorist attack. That vulnerability assessment will include nuclear and other power plants, telecommunication systems, gas pipelines, and water systems. Strategies designed to protect these facilities from attack are being developed, and the plans will be augmented to provide rapid restoration of utility service in the event of terrorist attack.

Concurrently, the Department of Public Service established the Security Assessment Team to assess regulated utility efforts to maintain system reliability and security. This team is coordinating its activities with the Office of Public Security and appropriate federal agencies. The Department's team has reviewed each utility's security plans, policies, and procedures relating to the vulnerability and protection of critical utility operational and administrative facilities. The team will continue to work with the utilities as security plans are developed and counter-measures are implemented. The team will also continue to review longer-term security plans and strategies, and the utilities' abilities to accomplish timely restoration, especially in the presence of biological and chemical agents.

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