ANNUAL REPORT 2000-2001

New York State Public Service Commission

George E. Pataki, Governor
Maureen O. Helmer, Chairman

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Overview of the Commission and Department of Public Service

OVERVIEW

About the Commission and the Department of Public Service

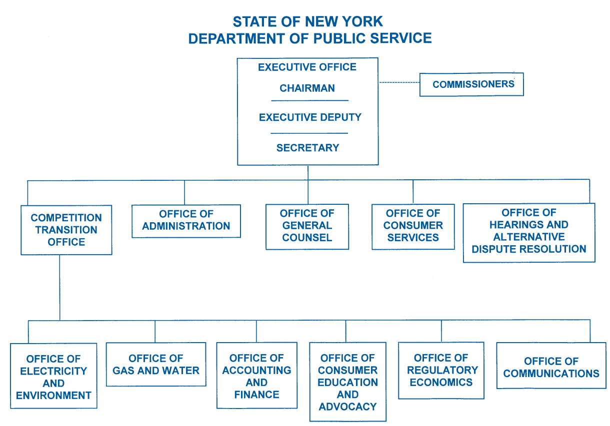
The Department of Public Service (DPS), the staff arm of the Public Service Commission (PSC), has a broad mandate to ensure that all New Yorkers have access to competitively priced, high quality utility services provided safely, cleanly, and with maximum customer choice.

The PSC, a five-member decision making body, is charged by Article I of the Public Service Law (PSL) with the regulation of the rates and services of the state's public utilities--including electric, gas, steam, telephone and water companies. Furthermore, Article 11 of the PSL provides regulatory oversight of the cable television industry consistent with state communications policy. In this capacity, it establishes and enforces standards for cable television systems to protect the public interest and foster the advancement of broadband technologies throughout the state. The Commission also oversees the siting of major electric and gas transmission lines, and ensures the safety of natural gas and liquid petroleum pipelines.

The move toward competition in the electric, telecommunications and gas industries remained the Department's highest priority in the 2000-2001 fiscal year. The transition must be structured effectively and well managed to ensure that competition benefits both the state's broad economic interests and utility ratepayers. During this transition, staff continues to work with all interested parties to develop the necessary infrastructure for competition. These efforts include educating customers on how to best take advantage of competitive alternatives, maintaining the high standards of reliability and service quality that New Yorkers expect, ensuring fair competition in the respective industries, and providing necessary ratepayer protections. As part of the transition, the Commission continues to eliminate regulatory requirements that impede the move toward competition. Department staff also continues to regulate monopoly functions through the use of performance-based incentives that encourage efficiency.

Mission Statement

We believe customers are best served by competitive markets. Therefore, we will promote their development and will increasingly use output-oriented, performance-based approaches to regulate areas that are not competitive. Once markets become sufficiently competitive, we will eliminate regulatory involvement to the extent permitted by law.



Electricity

Regional Markets

The PSC continued to emphasize the need for greater regional cooperation among states to ensure that electricity can flow reliably and efficiently among the New York, New England and Pennsylvania-New Jersey-Maryland markets. In various filings with the Federal Energy Regulatory Commission, the PSC highlighted the importance of the states working together to develop a proposal for a phased transition to a larger, regional market.

This regional effort would focus on the development of a more seamless market throughout the Northeast with uniform business rules, coordinated electric system and transmission planning, and cooperative daily operation of the systems.

Chairman Helmer supported the continued cooperation between staff and the NYISO on examining the potential for expanding the state's transmission system and adopting a more regional approach to transmission planning. The study, which will incorporate efforts already underway to identify areas where New York's existing transmission system can be upgraded, will identify areas where new transmission lines may be desirable, for both inter- and intra-state purposes.

Consumer Protections in the Wholesale Electricity Market

In December of 2000, the Commission issued a report recommending that the New York Independent System Operator (NYISO) pursue a wide range of operational reforms and other consumer safeguards to ensure a more efficient and stable electric market that will better protect consumers from dramatic price increases. The NYISO is the independent entity authorized by the Federal Energy Regulatory Commission (FERC) to manage the state's wholesale electricity market and transmission system.

The report concluded that potential price volatility exists due to a combination of factors, including: a market that is constrained by insufficient generating capacity or an inadequate number of electric generating facilities; systems that do not yet work as intended; and market participants taking advantage of problems that have been identified but not yet fixed.

The findings and recommendations in the report focused on changes to the ISO's rules and procedures, strengthening enforcement and mitigation measures and expanding the ISO's market monitoring functions.

Electric Price and Reliability Task Force

In the last several years, New York State's expanding economy has outstripped even the most optimistic predictions of growth in electric consumption, turning a generating capacity surplus into a tight supply market. While some critics have blamed deregulation for the resulting price increases, the fact is that the transition to competitive markets has coincided with increasing economic activity and increased fuel prices. The resulting bill increases also would have occurred under traditional regulation. The PSC's job is to ensure that current price changes are the result of competitive forces and not due to inadequate market design or market manipulation.

To ensure New York will have reliable supplies of electricity at reasonable prices, Chairman Helmer established the Electric Price and Reliability Task Force (P&R Task Force) within the Department of Public Service. The P&R Task Force consists of three specialized teams – the Independent System Operator (ISO) Pricing Team, the Demand/Supply Team, and the Article X Team. The teams, staffed by economists, rate and electric systems engineers, accountants, auditors, attorneys, environmentalists and consumer specialists, report directly to the Department's Executive Office.

The ISO Pricing Team will take appropriate steps to ensure that New York consumers pay reasonable electric prices. Specifically, the team will assess New York Independent System Operator (NYISO) electric pricing systems and procedures, the viability of the electric markets, and NYISO tools for monitoring and mitigating market power in the marketplace.

The Demand/Supply Team will take appropriate steps to ensure that adequate electric supplies are available for the state as a whole, and New York City in particular, until significant new base-load generation can be built. This will be done by identifying all feasible, reasonable, cost-effective methods for making additional generation available and reducing consumer demand, beginning in the summer of 2001.

The Article X Team will work to ensure that applications for proposed generating facilities are reviewed expeditiously, but thoroughly, leading to the timely siting of clean, efficient, environmentally sound plants proscribed by law. Staff will work closely with the State Department of Environmental Conservation and other state agencies to identify and implement ways in which the Article X process can be streamlined.

These three initiatives, taken together, provide the basis for maintaining the reliability of New York's electricity supply and putting downward pressure on prices.

"While adding new generation will be a key to lowering electric prices in the long run, strong market safeguards in the interim will strengthen consumer confidence in this evolving market."

-PSC Chairman Maureen O. Helmer

Five-Point Plan for Regional Energy Markets & Managing Demand for Electricity

To help ensure an adequate supply of generation capacity, Chairman Helmer put forward a five-point plan to boost energy competition. The initiatives were part of the PSC's ongoing Electric Price and Reliability Task Force that was assembled to address supply, demand and price issues in New York's evolving electricity market. Initiatives outlined in the plan included:

- calling on the Independent System Operators (ISOs) and energy officials in New York and neighboring states to work toward the creation of a more seamless energy market in the Northeast;
- asking the Federal Energy Regulatory Commission to examine whether the Northeast's existing $1,000 per megawatt (MW) hour bid cap adequately protects consumers;
- working with the New York ISO to examine the potential for expanding the state's transmission system and adopting a more regional approach to transmission planning;
- accelerating the use of more sophisticated pricing options and advanced metering technologies, known as Real-Time Metering, that will enable customers to respond effectively during peak-demand periods; and,
- implementing voluntary, pre-arranged load shedding programs that make it economically attractive for large electricity users to curtail their electricity demands at critical times and to participate in real-time pricing of electricity.

"New York's comprehensive energy plan is among the best in the nation, but we must continue to explore new ideas to protect consumers while ensuring we have the competitively priced power we need."

-PSC Chairman Maureen O. Helmer

"The latest independent review of electric industry restructuring in New York should leave **no doubt** that the course we have set under Governor George **Pataki** is **working** and that we are dealing with **complex issues** in a comprehensive manner."

-PSC Chairman Maureen O. Helmer

National Index Recognizes New York as a Leader in Deregulation

New York's comprehensive restructuring effort to bring more competition and customer choice into the electric market remained near the top of the 2001 Retail Energy Deregulation (RED) Index rankings compiled by the Center for the Advancement of Energy Markets (CAEM). CAEM is an independent, nonprofit organization in Washington, DC that promotes the effective transition to competitive markets and customer choice.

In February of 2001, for the third consecutive time, the RED Index showed New York is one of two states leading the entire country in establishing an effective framework for a competitive electric industry. The RED Index assessments reflect the Center's monitoring of efforts in the 50 states and the District of Columbia to establish a competitive electric industry. In all three of the Center's assessments to date, New York has maintained a strong second place ranking, closely behind Pennsylvania.

The February 2001 RED Index also recognized New York as one of two states leading the country in encouraging small-scale electricity generation near customers ("distributed generation"), such as fuel cells that can power office buildings. In addition, the Center noted that consumers in New York are insulated somewhat from fluctuations in the spot wholesale electricity markets because utilities have the ability to enter into long-term contracts for much of their electricity.

Consolidated Edison Company of New York $1.4 Billion Rate Reduction

In November, the Commission approved more than $1.4 billion in rate reductions for electric customers of Consolidated Edison Company of New York, Inc. (Con Edison). The comprehensive rate plan, which strengthens customer service and reliability, expands assistance to low-income customers, and promotes economic development and competition in the electric industry, will remain in effect through March 31, 2005.

Under the Commission's order, Con Edison reduced its rates for the distribution of electricity by $1.465 billion, or 17.3%, for residential and small and mid-sized commercial customers, and 13.7% for large commercial customers. The total bill reduction for an average use customer equaled approximately 9%. Savings in the rate plan come from a combination of increased operational productivity and proceeds from Con Edison's sale of its generating facilities.

> **"The SBC will continue to be designed to address ….market barriers, as well as to support the new peak load reduction and price sensitive load initiatives now being developed under the direction of the Commission's Price and Reliability Task Force….."**
>
> Public Service Commission Order in Case 94-E-0952

Commission Expands and Extends Public Benefits Funding

In January 2001, the Commission approved a proposal to expand and extend the System Benefits Charge (SBC). The SBC, paid by all electricity users, supports both utility-specific and statewide public benefit programs in the areas of energy efficiency, energy demand reduction, low-income energy affordability, and research and development. In its decision, the Commission increased the total statewide funding available for SBC programs to $150 million annually, a 92% increase, and extended the program for an additional five years, through June 30, 2006.

The Commission based its decision on several factors, including the status and pace of the developing competitive electricity market, the sound performance of existing SBC programs, and the need to provide an electric load-reduction component to the existing programs.

The SBC was originally established in 1998 to provide continued funding for public policy programs that might not immediately develop in a competitive energy marketplace. At that time, the Commission determined that the need and funding for such programs would be re-evaluated prior to the expiration of the initial three-year program on June 1, 2001.

Load Curtailment and Energy Management

The PSC, New York State Research and Development Authority (NYSERDA) and the New York Independent System Operator (NYISO) are working together to develop and promote voluntary load curtailment and energy management programs. A key goal of these programs is to improve a customer's ability to reduce demand on the state's electric system in return for significant bill savings.

In addition, programs will provide financial incentives through the state's System Benefits Charge (SBC) for larger users to make capital improvements that reduce electricity usage and replace aging and inefficient equipment with more efficient models. These programs also will provide technical assistance to help customers identify energy management opportunities and financial incentives to implement either permanent efficiency improvements or temporary load-curtailment measures.

A total of $82 million out of $150 million in SBC funds was available in 2001 to supplement the utility and NYISO programs and to support metering, load curtailment and energy management programs.

"Utilities should develop program proposals in support of or apart from those being undertaken by other entities, to ensure that all potential economic demand response programs are available to customers."

-Public Service Commission Order in Case 00-E-2054

Pricing and Real-Time Metering

The state's investor-owned utilities filed proposals for voluntary real-time pricing programs that will apply market prices for electricity to actual customer usage on an hourly basis. The PSC's goal is to accelerate the use of more sophisticated pricing options and the advanced metering technologies customers will need to take advantage of them, beginning with large industrial and commercial users.

These pricing plans will enable customers to respond to market conditions and save money by increasing usage during periods when prices are low and cutting back during peak-demand periods when prices may be high. Customers who elect to modify their usage in response to price changes not only benefit themselves, by reducing their costs, but they will also help stabilize and reduce prices for consumers in the broader market.

The PSC and the New York State Energy Research and Development Authority will develop a program to use funding available through the System Benefits Charge to help defray the cost of purchasing and installing real-time metering equipment.

Indian Point Outage

In February 2000, Consolidated Edison's 951 MW Indian Point 2 nuclear facility was removed from service for 270 days and, ultimately, the facility's original steam generators were replaced. Immediately following the outage, Department staff led a multi-agency team established by Governor George Pataki to review the circumstances surrounding the outage. The report issued by the multi-agency team contained 13 recommendations on plant operations and emergency procedures. To date, 10 of those recommendations have been addressed, and Department staff continues to monitor progress on the implementation of the outstanding recommendations and other work conducted during the outage.

The Commission also initiated a proceeding to examine the causes of the outage, including events preceding the outage, whether Con Edison's steam generator inspection and maintenance practices were reasonable, whether the company's earlier decision to postpone the replacement of the steam generators was prudent, and the extent to which ratepayers should bear the costs of more expensive replacement power and repair and equipment replacement costs. That investigation is ongoing.

Siting Board Approves Two New, Gas-Fired Generators

Article X of the State Public Service Law provides for a comprehensive review of issues pertaining to the siting of major electric generating facilities, and invests in the New York State Board on Electric Generation Siting and the Environment (Siting Board) the authority to grant or deny applications for certificates of environmental compatibility and public need. Article X was signed into law in 1992 and amended in 1999.

After thorough environmental and technical reviews provided for under Article X of the State Public Service Law, the Siting Board unanimously approved certificates of environmental compatibility and public need for two new, state-of-the-art generating facilities totaling 1,880 megawatts (MWs) of new capacity. Both the Athens plant in Greene County and the Heritage plant in Oswego County will sell their power in the wholesale market in New York State.

Electronic Data Exchange Standards Enhance Energy Competition

In March 2001, the Commission approved an initial set of standards governing the electronic exchange of routine business information and data among electricity and natural gas service providers in New York State. The efforts to implement electronic data interchange (EDI) are designed to facilitate retail energy competition in the state. The Commission's decision is an integral part of the framework that the Commission continues to develop as the electricity and natural gas supply industries in New York make the transition from regulation to competitive markets.

ELECTRIC AND GAS CUSTOMER MIGRATION

Electric Statewide ESCO Migration Summary* - March 2001

	Total		Non-Residential		Residential	
	# of Customer Accounts	Load MWh	# of Customer Accounts	Load MWh	# of Customer Accounts	Load MWh
Customers and Load	242,779	1,465,224	40,481	1,337,325	202,298	127,899
% Change from February 2001	1.8%	-1.3%	-0.3%	-1.5%	2.3%	1.6%
Feb. 2001 Total Customers; Load Migration	238,377	1,483,804	40,609	1,357,941	197,768	125,863
% Change 12 Month Period	82.4%	7.1%	9.9%	2.4%	110.1%	105.3%
March 2000 Total Customers; Load Migration	133,116	1,367,892	36,849	1,305,583	96,267	62,309
STATEWIDE TOTAL*	**6,267,147**		**763,144**		**5,504,003**	
STATEWIDE TOTAL MIGRATION	**3.9%**		**5.3%**		**3.7%**	

* Source: Financial Statistics of the Major Investor-Owned Utilities in New York State 1999
1999 data does not include LIPA, NYPA, municipals, cooperatives, and small regulated electric utilities.

Electric Utility Territory ESCO Migration Summary

	Total		Non-Residential		Residential	
Utility	# of Customer Accounts	Load MWh	# of Customer Accounts	Load MWh	# of Customer Accounts	Load MWh
CHG&E	232	461	104	378	128	83
CON ED	99,424	780,924	13,633	744,662	85,791	36,262
NYSEG	29,492	149,570	5,855	128,383	23,637	21,186
NMPC	50,256	356,437	8,487	319,090	41,769	37,347
O&R	23,546	46,920	4,369	35,005	19,177	11,916
RG&E	39,829	130,912	8,033	109,808	31,796	21,104
TOTALS	**242,779**	**1,465,224**	**40,481**	**1,337,325**	**202,298**	**127,899**

"Statewide" refers only to the six major regulated electric utilities. It does not include LIPA, NYPA, municipals, cooperatives, and small regulated electric utilities.
This page is available publicly on the PSC's website at www.dps.state.ny.us/Information on Competition in Utilities/Electric Retail Access Migration.

Gas Statewide Marketer Migration Summary

	Total		Non-Residential		Residential	
	# of Customer Accounts	Annualized Load MDT	# of Customer Accounts	Annualized Load MDT	# of Customer Accounts	Annualized Load MDT
Total Migration	294,776	93,633	52,917	51,585	241,859	42,048
Statewide Total Customers*	4,612,742	982,282	350,828	624,619	4,261,914	357,663
Percent Migration	6.4%	9.5%	15.1%	8.3%	5.7%	11.8%
% Change from February 2001	3.7%	7.3%	3.0%	6.6%	3.9%	8.2%
% Change Last 12 Months	54.2%	22.3%	13.3%	4.6%	67.4%	54.1%

* Source: Financial Statistics of the Major Investor-Owned Utilities in New York State 1999.

Gas Statewide Marketer Migration Summary - By Utility

	Total		Non-Residential		Residential	
Utility	# of Customer Accounts	Annualized Load MDT	# of Customer Accounts	Annualized Load MDT	# of Customer Accounts	Annualized Load MDT
CHGE	331	777	283	770	48	7
CON ED	22,791	16,265	7,011	9,230	15,780	7,035
CORNING	1,244	625	235	511	1,009	114
KEYSPAN Energy Delivery of Long Island	30,393	9,173	5,955	6,141	24,438	3,031
KEYSPAN Energy Delivery of New York	105,182	26,388	13,003	9,757	92,179	16,631
NFG	47,092	16,051	9,271	10,400	37,821	5,651
NYSEG	3,446	2,606	2,918	2,474	528	131
NMPC	25,331	8,685	5,945	6,147	19,386	2,538
O&R	15,734	4,579	1,771	1,982	13,963	2,597
RG&E	43,232	8,484	6,525	4,173	36,707	4,311
ST. LAWRENCE	0	0	0	0	0	0
TOTALS	**294,776**	**93,633**	**52,917**	**51,585**	**241,859**	**42,048**

Natural Gas

Competition

The Commission continued the implementation of its November 3, 1998, Policy Statement on the Future of the Gas Industry, to extend competition in gas supply. Listed below are some of the major milestones that were achieved during the reporting period.

Rochester Gas & Electric Corporation

An order adopting terms of a comprehensive joint proposal on gas restructuring (98-G-1589) was confirmed by the Commission at the March 28, 2001, session. The plan featured a $3 million reduction in gas distribution rates, imputation of certain capacity cost savings to benefit customers, a capacity cost incentive mechanism, customer service quality standards with penalty provisions, continuation of the cast iron and bare steel main replacement program, replacement and disposal of all mercury regulators in an environmentally safe manner, and cooperative efforts with local municipalities to facilitate retail choice for Department of Social Services clients.

Niagara Mohawk Power Corporation

On October 25, 2000, the Commission approved a multi-year natural gas rate and restructuring plan for Niagara Mohawk Power Corporation (Niagara Mohawk). The three-year plan either freezes, or decreases the "delivery" charge on almost all gas bills for Niagara Mohawk customers through August 31, 2003. The plan also provides for changes to the company's gas operations to encourage more competition in its service region, thus making it easier for its customers to shop for natural gas suppliers. Under the terms of the plan, Niagara Mohawk is also required to more clearly delineate the actual cost of its various gas services on bills to assist customers in comparison shopping for competitive gas suppliers, to provide grants to counties in its service territory for developing low-income gas "aggregation" programs for low-income customers, and to undertake a consumer education program to inform consumers about competitive options for gas supplies.

"Facilitating competitive entry into the market will give consumers more choices to shop for the best prices and the services they seek."

-PSC Chairman Maureen O. Helmer

Orange and Rockland Utilities, Inc.

On November 9, 2000, the Commission approved the terms of a three-year plan governing natural gas service provided by Orange and Rockland Utilities, Inc. (O&R). The plan was designed to accomplish a number of goals, including minimizing bill impacts caused by an increase in the company's operational costs; restructuring the company's gas operations to encourage more competition in its service region, making it easier for its customers to shop for natural gas suppliers; and, providing assistance to low-income customers. Further, the plan also established financial penalties should O&R fail to meet specified gas safety performance standards, and helped defray higher winter bills during the January through April 2001 period by accelerating certain credits to ratepayers. To assist the development of a more competitive market, the plan also provides marketers with a $25 incentive payment for each gas customer, up to a total of 10,000 customers, who switches supply service from O&R and who remains with the marketer for at least two months.

KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island

On December 13, 2000, the Commission approved an "Interim Gas Restructuring Settlement Agreement" that established a rate and regulatory plan for the two KeySpan companies that provide gas service to Brooklyn, Staten Island, parts of Queens and all of Long Island. The interim plan, in effect from January 2001 through June 2001, was designed to implement steps to enhance gas restructuring in KeySpan's service territories while the parties continued discussions on a multi-year plan and other unresolved issues. Under the interim plan, permanent, base delivery rates in effect remained unchanged and, in anticipation of abnormally high gas costs, the companies issued a one-time bill credit against the delivery charges paid by heating customers. To encourage independent marketers to compete with the KeySpan companies in selling gas to KeySpan customers, the companies provided marketers an incentive payment equal to 8% of the delivery charges incurred by the marketer's firm customers each month.

Status of Competition

In response to the Commission's Order Concerning Compliance Filings, issued on March 28, 1996, all of the state's gas utilities provide unbundled services, including supply, capacity and storage services. At the end of the reporting period, there were over 100 marketers certified to serve aggregated loads, with over 60 marketers actually transporting gas supplies for aggregated groups of small customers throughout the state. The local distribution companies (LDCs) were experiencing slow, steady growth in small customer transportation. Several LDCs, most notably National Fuel Gas and O&R, have experienced substantial numbers of customers returning, or being returned, to utility service. The high gas commodity and capacity costs as well as loss of sales tax savings have been cited as contributing factors.

"The goal is to develop a simple process that will provide all of the information that the local distribution company needs to verify compliance."

Public Service Commission Order in Case 97-G-1380.

Reliability and Availability of Pipeline Capacity

In its Policy Statement on the Future of the Gas Industry, the Commission made it clear that reliability of gas supply was one of its primary concerns. In its order, issued on August 19, 1999, the Commission addressed issues related to the working relationships among local distribution companies (LDCs), marketers and pipelines. Marketers serving firm loads were required to have firm primary point capacity for the months of November through March to ensure that pipeline capacity was available to serve New York customers during the heating season, particularly on peak days.

After reviewing the experiences of the winter of 1999/2000 the Commission, on August 28, 2000, issued an order revising pipeline capacity requirements for marketers. Further, the Commission retained the requirement that marketers, serving firm customers, hold primary firm capacity for the five winter months. The Commission did allow a limited exception to the marketers serving the KeySpan companies as a test of marketer ability to serve firm load with secondary capacity. In addition the Commission developed protocols regarding the documentation marketers must submit showing that they have adequate capacity to serve their load on a LDC's system.

Interruptible Gas Service

Interruptible gas service is designed to provide a means for local distribution companies (LDCs) to meet peak gas demands in a least-cost manner. Interruptible gas customers elect service under the stipulation that, during times of peak gas demand, they cease using gas, generally by switching to an alternate fuel. After experiencing a period of mild winters, the 1999/2000-winter season also started out warmer than normal. However, during a two-week period at the end of January 2000, New York experienced weather that averaged between 20% to 34% colder than normal. This weather pattern forced New York LDCs to call upon their interruptible customers to revert to their alternate fuels as required by tariff. However, during the interruptions, many interruptible customers were unprepared and either remained on the system or attempted to purchase alternate fuel on the spot market, further straining the distillate fuel market, which was already in crisis due to low inventories.

In order to insure that this did not happen again, the Commission, on August 24, 2000, issued an order requiring interruptible customers to have alternate fuel on hand to withstand interruptions of service for at least seven days for Temperature Control customers and ten days for other distillate users. If the interruptible customer lacked sufficient storage to hold the required amount of inventory, those customers were required to enter the heating season with filled tanks and arrangements, suitable to the utility but not dependent on spot market purchases, for replenishment of storage tanks such that the initial storage plus replenishment equaled storage inventory for its type of service.

"This order is designed to insure that utilities and interruptible customers work cooperatively towards maintaining a safe and reliable system for all customers."

Public Service Commission Order in Case 00-G-0996

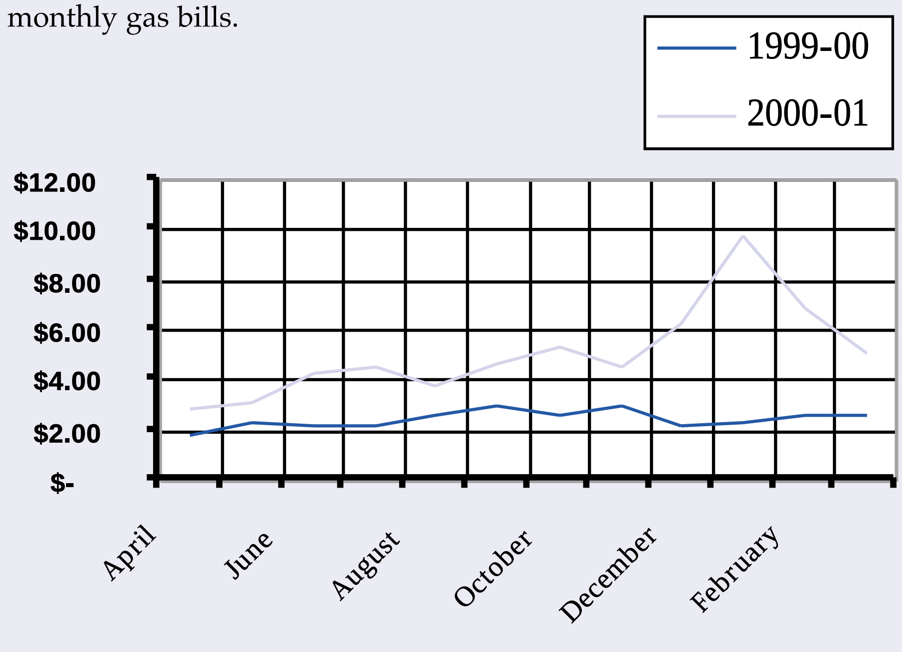
Natural Gas Prices

Beginning in April of 2000, the commodity price for natural gas started to increase dramatically. This trend continued through January of 2001, reaching an all time high of $9.79 per decatherm on the New York Mercantile Exchange (NYMEX) for a 30-day contract. Daily spot prices even exceeded $10 per decatherm for a very short period. The chart below shows how dramatic the price increase was as compared to the previous year.

The reasons for the increase were numerous: high demand during summer months from electric generation load throughout the rest of the country due to a hot summer; late season demand from gas companies looking for gas to inject into storage (these local distribution companies and marketers waited, in many cases in vain, for prices to go down before filling storage, thus creating a rush at the last minute); an abnormally protracted cold spell during the early part of the winter; and, a perceived shortage of natural gas.

While the Commission does not control the price of natural gas, it did take steps to mitigate some of the effects of the radical increase in commodity costs. The Commission approved mitigation measures that would assist the state's natural gas customers in meeting the anticipated higher gas bills, including accelerating refunds and bill credits owed to customers, delaying any surcharges until after the winter heating season, providing bill credits to eligible low-income customers, and distributing refunds from overcollections during the winter heating season rather than over a 12-month period.

Finally, the Commission launched a statewide consumer education effort that provided information about rising gas prices and energy conservation steps that customers could take to help control their monthly gas bills.



FERC Activities

During the reporting period, the staff of the Office of Gas and Water continued to be an active participant in a number of rate, certification, and policymaking dockets before the Federal Energy Regulatory Commission (FERC).

FERC Order 637 was issued in rulemaking dockets RM98-10 and RM98-12 requiring interstate pipelines to file "pro forma" tariff sheets to comply with the provisions of the order and to effect standardization of its open access regulations. All companies filed pro forma tariffs during the 2000 summer period and issues were discussed at technical conferences. Issues of concern to Department Staff included parity of receipt and delivery points for released capacity, the institution of new services to allow customers to manage their imbalances, and sufficient penalties to discourage behavior that threatens reliability of service.

Gas Pipeline Cases

In an Iroquois Gas Transmission case, CP00-232 (the Eastchester Project) before the Federal Energy Regulatory Commision (FERC), the Department filed comments on the issue of need for additional pipeline capacity to serve New York City.

A second pipeline project proposal before FERC is also designed to serve the New York City area. The Millennium Pipeline project, proposed by Columbia Gas in CP98-150, is intended to bring gas from the mid-west Chicago area into the City. Department of Public Service staff filed comments in this case on alternative routing as well as the need for additional pipeline capacity to serve New York City.

A third project, Transco's Marketlink project, was approved by the FERC. Transco received FERC authorization to build the project in two phases, as customers are ready to utilize the additional capacity. Department staff filed comments in support of the project.

Department staff participated in two forums at FERC focusing on natural gas transportation policies needed to facilitate development of competitive natural gas markets. At the first forum, New York expressed support for FERC's efforts to remove regulatory impediments to the development of a liquid natural gas market and competitive market centers at or near New York's LDC city-gates. Staff also suggested revisions to FERC transportation policies.

In a second forum on affiliate guidelines, the Department advocated that standards for affiliate transactions be extended immediately to electricity generation affiliated with pipelines, and that FERC hold a proceeding to determine whether they should be extended further.

Gas Safety

Safety Performance Measures

The Commission has established a series of measures to evaluate the safety performance of the local natural gas distribution companies in the state. The measures cover key safety risks such as emergency response, leak management and reducing contractor damages to gas lines. The performance measures are being applied to each company on an individual basis and will be used to gauge each company's ability to deliver natural gas safely in New York State.

Transmission Line Integrity Verification

To further ensure public safety, the Commission has been investigating the best ways of ensuring the continued integrity of high pressure, natural gas transmission lines in New York State. The Commission's Gas Safety Section staff has been actively involved with the local distribution companies and the New York Gas Group in developing an assessment model to evaluate and rank the segments of gas transmission pipelines according to relative risk and to assess mitigation measures to reduce the risk. A performance measure to evaluate each company's approach to verifying the integrity of transmission pipeline facilities is also being developed.

Protection of Underground Facilities ("Call Before You Dig")

The Commission continued to give high priority to reducing third-party damages to buried utility lines – the leading cause of pipeline and utility failures and incidents. The Commission's regulations require excavators to provide notice of their intent to excavate by making a toll-free call to a "One-Call" Center, which transmits the notices from the excavators to its member utilities. The utilities or their contractors then mark the location of their lines with paint or flags so that the excavator can avoid damaging them.

The Commission inspects construction sites for compliance, investigates reported damages, and issues citations when violations are identified. Furthermore, if after providing an opportunity to dispute the alleged violation, the Commission determines that the regulations have been violated, it can assess penalties. The Commission assessed $93,250 in such penalties during this reporting period. The revenue goes to the state's general fund.

Water

Water Industry Consolidation

Staff continued to work with water companies to promote the consolidation of small water systems into larger, more viable systems. In January and December 2000, the Commission approved the transfers of Dykeer Water Company, Inc. and Waccabuc Water Works, Inc., respectively, to AquaSource Utility, Inc. (ASI). Dykeer and Waccabuc were the fourth and fifth New York water systems to be purchased by ASI in New York.

Ensuring Financial Viability

The federal Safe Drinking Water Act Amendments of 1996 require that all new systems be viable over the long term. The Department of Health administers the overall state program to ensure the technical, managerial and financial viability of new systems while relying on the Public Service Commission to determine financial viability of private systems. Failure of the state to adhere to the new requirements could result in a significant reduction in New York's allocation of federal funds for water system improvements.

To ensure long-term financial viability and compliance with more stringent regulations, new companies must have rates that will support their survival. Based on today's higher construction costs, some new water companies will have annual residential bills on the order of $1,500 or more per customer. The Department is currently employing tools to help strengthen the viability of water companies, including the establishment of company-managed escrow accounts to ensure that funds are available for unexpected large repairs and future replacement of plant, and the linking of profit levels with company performance. The Commission approved initial rate proposals for Woodbury Heights Estates Water Co., Inc. and Golf View Water Supply Co., which contain these financial viability provisions to ensure safe and adequate service for their customers.

Service Improvement Plan for United Water New Rochelle, Inc.

Like many water companies across the country, United Water New Rochelle, Inc. (UWNR) is faced with an aging distribution system. The company has been evaluating how to extend the life of many of its older mains, primarily by relining them, at a lower cost than replacing them.

In August 2000, the Commission authorized the company to spend up to $1 million on a pilot project for relining water mains in the first year and an additional $2 million in each of the following two years of a three-year rate agreement. UWNR will be allowed to recover a return on, and depreciation of, capital costs for projects by quarterly surcharges based on costs it reasonably incurred in the preceding quarter.

Customers should see immediate benefits in terms of increased delivery pressure and water quality.

Acquisition of United Water Resources by Suez Lyonnaise American Holding, Inc.

During the previous fiscal year, the Commission approved the acquisition of the Sea Cliff Water Company by the Kelda Group plc through acquisition of Sea Cliff's parent, the Aquarion Company. The Commission also approved the acquisition of the Long Island Water Corp. by American Water Works Company, Inc. Both acquisitions resulted in customer benefits in the form of more stable rates for the future.

Consolidation of large water systems by global water companies continued with the Commission approving the request of Lyonnaise American Holding, Inc. (LAH) to increase its 30% common equity stake in United Water Resources (UWR) to 100%. UWR operates four subsidiaries in New York located in Rockland, Westchester, Owego and Tioga Counties. The acquisition transforms UWR into a wholly owned subsidiary of LAH's parent, Suez Lyonnaise des Eaux SA.

The approval was based on an agreement between staff and the companies to ensure that the customers and public would incur no adverse impact as a result of the stock acquisition. The agreement prohibits any adverse effect on the four New York operating companies' customer service, operations, employees, or management. Customers will not bear the costs of any acquisition premium severance payments.

The acquisition was in the public interest because Suez Lyonnaise, one of the world's largest water distribution and treatment companies, can provide technological and financial assets to help the subsidiary meet the challenges it faces in the coming years.

Telecommunications

Verizon Rates Reduced $50 Million

In August 2000, the Commission directed Verizon New York, Inc. to reduce basic service rates by $50 million beginning September 1, 2000. In addition to the planned September 2000 rate reduction, the Commission ordered Verizon to cut rates by another $25 million, comprised of $22.7 million from Verizon's sale of Bell Communications Research, Inc. (Bellcore) along with $2.3 million of other ratepayer resources. Taken together, the Bellcore sale and other ratepayer resources effectively advance by one year the second $25 million rate reduction required under the prior Commission order. As a result, Verizon customers will enjoy the benefits of the Bellcore sale as a permanent reduction in rates, rather than a one-time credit on bills.

Fostering Wholesale Competition to Provide New Yorkers More Choices

On December 15, 2000, the Commission issued an order amending the terms of the Verizon-New York Performance Assurance Plan (PAP). The PAP, which became effective with Verizon's approved entry into the long-distance market on January 3, 2000, imposes substantial financial penalties if Verizon fails to provide adequate and non-discriminatory wholesale services to its local exchange competitors, the same competitors seeking to provide New Yorkers new choices in local services. The PAP provides for an annual review to determine whether any modifications or additions to the PAP should be made.

The modifications and additions made to the Plan in 2000 address developing market conditions. Broadly, the changes included adding a digital subscriber line or "DSL" Mode of Entry provision, eliminating "Collocation" as a Mode of Entry, reallocating $6 million from Special Provisions to Critical Measures and, reallocating the money in Mode of Entry and Critical Measures to fund the DSL metrics. The Plan also adopts a number of metrics changes that were proposed by the Carrier Working Group over the last year and targets dollars to changing circumstances in the other modes of entry. These revisions and additions to the PAP were made to ensure the continued development of competition in New York.

Making It Easier to Switch

In Case 00-C-0188, the Commission established a proceeding to develop rules and procedures to make it easier for customers to switch their local telephone service from one company to another. Phase I of this effort was completed in January 2001 for adoption by the industry. Phase I established guidelines for exchanging customer information and for processing certain kinds of customer changes. In January 2001, staff scheduled a series of meetings with the industry to address Phase II – the development of additional guidelines. Phase II should be completed by the third quarter of 2001.

Connecting New Yorkers to the Internet

In October 2000, the Commission issued Opinion 00-12, taking strides to further open to competition and make available to customers in New York services known as digital subscriber lines, or DSL. DSL is provided over the same line a customer uses for voice telephone service and is typically used for high-speed access to the Internet. The Commission's decision has become a footprint-wide blueprint in other states served by Verizon for the design of DSL services, which require joint efforts by the owner of the underlying network (Verizon) and the DSL provider, including many competitors and a Verizon affiliate. In addition, the Commission in other decisions established wholesale rates and service quality measurements for DSL.

Until this decision, customers could only obtain DSL services over their voice line if Verizon was their local telephone service provider; presaging a similar decision by the FCC on a national level, the Commission opened DSL service to customers of other carriers providing voice service over the Unbundled Network Elements Platform (UNE-P). For customers served by part-fiber optic cable, part-copper lines, the Commission required DSL services to be available to them where technically feasible.

Customers Experiencing Greater Choices for Local Telephone Services

In September 2000, the Commission issued a staff report on the status of competition in the telecommunications industry in New York State indicating a continuing surge in customer choices throughout the state. Based on data submitted by market participants for the calendar year 1999, competitive local exchange companies (CLECS) doubled their share of the local telephone services market in 1999, as they had in 1998. The trend to achieve even greater market share continued in 2000.

The Analysis of Local Exchange Service Companies in New York State provides both a statewide overview of the status of competition and a region-by-region overview of seven regions in the state.

Report Highlights

- The number of CLECs serving at least 1,000 local exchange lines increased from 13 at year-end 1997 to 38 at year-end 1998 to 54 at year-end 1999.
- The number of local exchange lines served by CLECs grew from 288,000 lines (2.3% of the market) at year-end 1997 to 649,000 lines (4.8% market share) at year-end 1998 to 1.469 million lines (9.8% market share) at year-end 1999.
- By year-end 1999, residential local exchange lines represented 32% of the CLECs' total share of local lines, a doubling from the 16% by year-end 1998. Business local exchange lines comprised 68% of the CLECs' total lines by year-end 1999, in contrast to 84% in 1998.
- Service quality, as measured by customer trouble reports, has generally improved as competition has increased.
- CLECs increased their investment in facilities-based operations in the state in 1999. By year-end, 70% of the CLECs' customers were served through CLEC-owned facilities, in contrast to 55% at the beginning of the year.
- By year-end 1999, the Incumbent Local Exchange Carriers' (ILECs') share of the market stood at 90.2%, down from 95.2% in 1998 and 97.7% in 1997. While Verizon, the largest ILEC operating in the state, saw an increase in access lines from about 11.6 million in 1998 to 12.3 million in 1999, its overall market share fell from 86% in 1998 to 82% in 1999.

Ensuring High-Speed Data Services for Business in New York

The Commission, in November 2000, directed Verizon New York, Inc. to implement immediately its proposed "Special Services Provisioning Warranty Plan" to provide rebates to business customers when Verizon misses its commitments to provide high capacity, special telecommunications services. In addition, the Commission issued for comment several other proposals to improve and track the quality of Special Services provided by Verizon.

Special Services include high capacity circuits used by large businesses and competing telecommunications carriers. Much of the demand for Special Services stems from growth in new media, telecommunications, and software employment as well as Internet usage and e-commerce. Thus, reliable access to high-speed communications services is an important factor for the state's economic development. While Verizon's Special Services are generally reliable and well maintained once in service, demand for these services in the competitive market outstripped the company's ability to install them in a timely fashion.

Under the Special Services Provisioning Warranty, Verizon waives all installation charges and one month of service charges if it misses the confirmed due date for installation of high capacity service due to its own fault. The plan was implemented on a temporary basis, subject to change based on comments received from interested parties.

Complaint Tracking Triggers MCI Service Quality Plan

In June 1999, local service complaints to the Commission from MCI WorldCom, Inc. customers began to rise steadily, peaking at 228 in December. In response to the Commission's concerns during that time period, MCI made efforts to improve service to customers and thus lower local service complaints. A service quality plan was developed by the staff and the company to address the higher-than-normal number of complaints the Commission had been receiving. The Commission approved the plan that included financial penalties of up to $3 million initially, with the potential for further penalties, if the company fails to meet local telephone service quality measures established by the Commission. The plan would be suspended if MCI was able to maintain a complaint rate no higher than 50 per 100,000 lines for two consecutive three-month periods.

In a separate and unrelated matter, the Commission also issued an Order imposing a penalty of $50,000 on MCI WorldCom, Inc., for violations of the Commission's "slamming" regulations. Slamming is the practice of switching a customer's telephone service to a different carrier without authorization from the customer. MCI also undertook initiatives to eliminate slamming by enhancing and amplifying its quality control measures for switching a customer's services.

CONSUMER SERVICES

Consumer Services

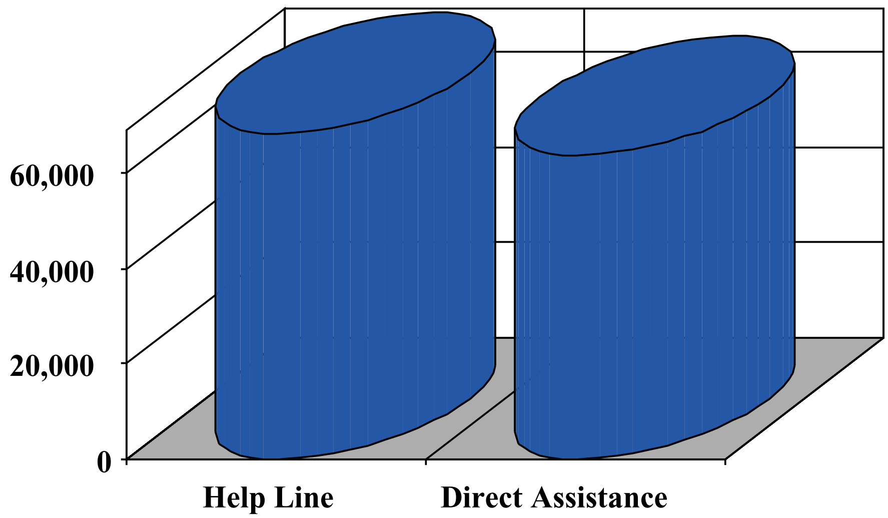
Consumer Complaints: Providing Assistance

Between April 1, 2000, and March 31, 2001, Commission staff assisted 131,967 consumers who called the Commission HELPLINE or HOT-LINE numbers. Of these callers, 63,522 received direct assistance from a Consumer Representative and 68,445 received assistance through the automated information system.

In addition, consumer representatives were able to close more than 90% of consumer complaints reflecting staff's historical high success rate in closing complaints and helping consumers. Of 24,808 complaints opened, 23,196 complaints were handled and closed. Of the 24,808 complaints opened, the top five categories of complaints were: poor customer service, slamming, deferred payment arrangements, delayed repair, and service outages.

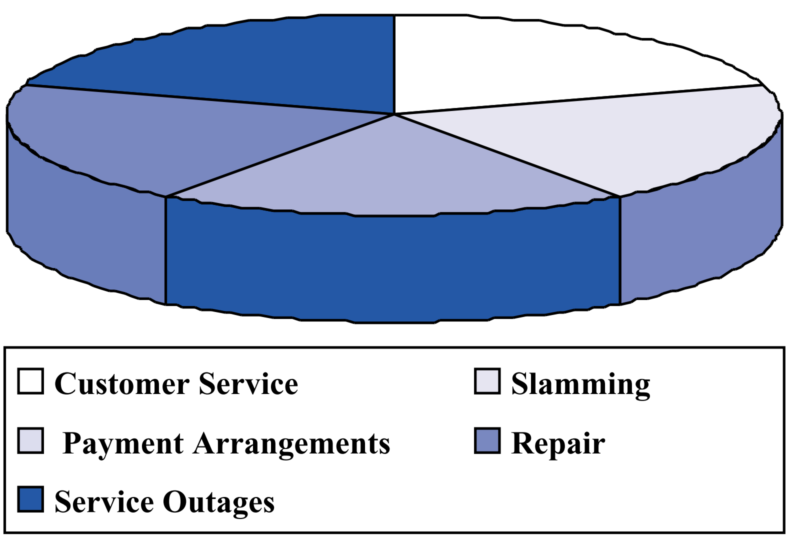
Staff successfully rolled out a new program in June 2000 that now makes monthly complaint information available on the PSC's website at www.dps.state.ny.us. The monthly report provides complaint rates for utility companies in the state as well as details on various complaint categories, including slamming, energy service company contacts, and hearing and appeal decisions.

131, 967 Complaints Handled



24,808 Complaints Handled by Public Service Commission Staff 2000-2001

Consumer-Assisted Complaint Categories



Energet!x: Protecting Consumers

During the week of March 19, 2001, approximately 4,500 Energet!x customers in the greater Rochester region received letters indicating that the company was increasing the price of natural gas. The company required customers to accept the increase by March 23 to avoid cancellation of the existing contract altogether. Further, customers who did not provide a response were considered by the company to have agreed to an extension of their existing contract under the new price terms.

On April 2, 2001, staff conducted a Commission-ordered investigation of the business practices of Energetix. During discussions with staff, 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 reinstate the original contract price for the approximately 4,500 affected customers. The original contracts of the affected customers were restored for their full terms. Further, because the contracts in question were signed prior to November 2000, when the company first imposed a $35 cancellation fee, all of the affected customers were free to change gas suppliers without incurring termination or switching fees.

IBM Chip Fabrication Plant: Investment for the Future

Department staff worked with the Empire State Development Corporation, the Governor's Office and other local economic development organizations in helping IBM decide to invest $2.5 billion to locate the world's most technologically advanced chip-making plant in East Fishkill, Dutchess County. The new plant, part of IBM's $5 billion capital investment plan, will create 1,000 new jobs as the plant reaches full production in early 2003. Staff worked with IBM to help secure an attractive, long-term, competitively sourced energy rate. IBM's announcement was the largest capital investment in New York's history and was the largest capital investment in the United States in 2000.

"Conserve a Little. Save a Lot." Campaign

The Department launched its "Conserve a little. Save a lot." campaign in November 2000 to inform natural gas customers that natural gas bills were projected to increase about 30% during the winter and to provide simple affordable tips to reduce energy consumption and lower utility bills. Staff provided information explaining why natural gas prices were increasing and about the availability of energy assistance programs. Conservation messages with energy tips were delivered through radio spots, billboards, bus cards and shelters, railroad platform posters, newspaper ads and features. In addition, printed material was developed and distributed at outreach events, in response to calls to our toll free 1-888-Ask-PSC1 phone line and in mailings to state agencies, elected officials and community leaders. Materials were developed in both English and Spanish.

Consolidated Edison Company of New York, Inc.: Staff Preserves Walk-In Locations

On February 22, 2001, the Commission approved a plan developed by staff, Consolidated Edison Company of New York, Inc. (Con Edison) and other parties that requires the company to maintain walk-in customer service center locations in each borough of New York City and in Westchester County. The company had originally closed some centers and had sought to close others. However, in response, the Commission rejected a plan in April 2000 under which Con Edison would have closed the remaining offices.

Staff developed a plan approved by the Commission that provided for six centers altogether. The company had walk-in service center locations in Brooklyn, the Bronx, Manhattan and Queens. It will now be required to open new locations on Staten Island and in Westchester County, areas where Con Edison originally closed its centers and in which the company currently does not have a physical customer-service presence. The plan prohibits Con Edison from closing its current locations, unless suitable alternate locations are established prior to any planned closings.

Under the plan, Con Edison agreed to have available at each location sufficient staffing and resources to allow customers to transact any and all normal business with the company, including placing service orders, discussing billing disputes, negotiating payment arrangements and making bill payments. Customers will be able to speak with a Con Edison representative in person, the offices will maintain bilingual representatives as required by the community served and will continue to provide outreach and education materials traditionally made available at customer service offices.

In addition to maintaining the six service centers, Con Edison agreed to provide the following new and enhanced services for the benefit of customers: a company-matching Energy Fund to assist qualifying customers who have trouble paying their energy bills; an Immigrant Assistance Program to provide easy-to-read instructions on service startup, bill payment, emergency reporting, and energy safety; and, contact legal services organizations to provide information about handling utility service issues.

"We believe it is important for Con Edison to continue to have a physical presence in each of the boroughs and in Westchester in order to directly serve customers."

-PSC Chairman Maureen O. Helmer

Article X – Public Involvement Programs

Article X of the New York State Public Service Law establishes a review process for the construction and operation of major electric generating facilities.

The many active applications and pre-applications moving through the Article X review process are given a comprehensive public review and carefully evaluated to ensure that economic, environmental, esthetic, and health impacts are considered and alternatives and mitigation measures explored.

Staff works closely with local and state government agencies, including the Department of Environmental Conservation, the Department of State and the Department of Health, citizen groups and applicants to ensure a full and fair review of each proposal is carried out. Staff's role ensures that the process continues to move forward at a reasonable pace, which has become increasingly important in light of New York's growing energy demands.

During this reporting period, department staff held 13 Process Forums to explain the Article X review process and 27 consultation meetings with applicants and prospective applicants to discuss the legal requirements and the effective implementation of Public Involvement Programs (PIP) in Article X projects. Department staff held over 30 public information meetings and seven Public Statement Hearings.

Throughout the year, the Department received many calls, letters and e-mails commenting on the proposed facilities and New York's need for more generation, as well as requests for additional information about the application process. It published brochures to explain the Article X review process as well as the legal and practical aspects of the public involvement process. This information is available on the Department's Website or through a dedicated toll-free information line (1-877-PSC-ARTX or 1-877-772-2789).

> **"To facilitate the application process and enable citizens to participate in decisions that affect their health and safety and the environment, the department shall provide opportunities for citizen involvement."**
>
> Article X, New York State Public Service Law

Department Administration

Building Fire

In March 2000, while undergoing a renovation, the 19th floor of Agency Building 3 was destroyed by fire. The 19th floor houses administrative offices and the Commission Board Room. A complete rebuilding of the floor was necessary. In late September 2000, the administrative staff was able to reoccupy offices on the 19th floor. The Commission held its first Session in the new Board Room on October 11, 2000. The new Board Room, which also serves as a formal hearing room, is approximately 400 square feet larger than the former room and is directly accessible from the main corridor. It has a raised dais for easier viewing on the part of the Commission and/or Administrative Law Judges as well as participants and the audience. The room has been equipped with videoconference capabilities and an upgraded sound system.

Office Relocation

In late May 2000, the Office of Consumer Services and Office of Consumer Education and Advocacy moved from the Empire State Plaza to 161 Delaware Avenue. The move was due to the Governor's Office for Technology's need for space occupied by the DPS in the Swan Street Building. The new offices on Delaware Avenue are equipped with videoconference capabilities to Agency Building 3 as well as the DPS offices in New York City and Buffalo.

Department Budget

The Department's 2000-2001 operating budget of $65.2 million supported 619 employees. Approximately 97.5 percent of the budget was financed by public utility and cable assessments, with the balance coming from Federal grants and other fees. An additional $4.4 million in new local grant funding was provided to help support localities' and community groups' intervention in the state's electric generation siting process. This grant program is financed by applicants seeking to site electric generation facilities.