Plans

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December 15, 2004

ORIG-FILES
C00-M-0504
15 COPIES DIST
PER 8/25/2004 LTR

Hon. Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, N.Y. 12223-1350

Dear Secretary Brilling:

Re: Case 00-M-0504: Statement of Policy on Further Steps Toward Competition in Retail Energy Markets

Enclosed is an original and fifteen (15) copies of Central Hudson's Plan to Foster the Development of Retail Energy Markets ("Plan") being filed in response to the Order issued in the above referenced proceeding on August 25, 2004.

The Plan was prepared in collaboration with Staff and other interested parties over a period of several months.

Copies are being served on all parties who were active in the collaborative process and all those on the service list for case 00-M-0504.

Questions related to this filing should be directed to Michael F. Voltz at (845) 486-5317.

Yours very truly,

Arthur R Upright

cc: Service List with enclosure (via e-mail)

The CH Energy Group Companies
Central Hudson Gas & Electric Corporation
Central Hudson Enterprises Corporation

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, The Role of Utilities in Competitive Energy Markets and Fostering Development of Retail Competitive Opportunities - Statement of Policy on Further Steps Toward Competition in Retail Energy Markets

Case 00-M-0504

PLAN TO FOSTER THE DEVELOPMENT OF RETAIL ENERGY MARKETS

Dated: December 15, 2004

CENTRAL HUDSON GAS & ELECTRIC CORPORATION
284 South Avenue
Poughkeepsie, N.Y. 12601

December 15, 2004

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

Case 00-M-0504 - Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Roles of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities.

PLAN TO FOSTER THE DEVELOPMENT OF RETAIL ENERGY MARKETS

On August 25, 2004, the Commission issued its Statement of Policy on Further Steps toward Competition in Retail Energy Markets in Case 00-M-0504 (Statement of Policy). Ordering clause number 1 states that "the utilities shall prepare plans to foster the development of retail energy markets in collaboration with Staff and other interested parties, as discussed herein".

Central Hudson Gas and Electric Corporation (Central Hudson or the Company) began a collaborative process with Department of Public Service staff (Staff) and interested parties, including many energy service companies (ESCOs), in June 2004 as part of its Joint Proposal for Rate Plan Modification[1] approved by the Commission at that time. Based on discussions with Staff and other parties, the Company agreed to continue the collaborative process to fulfill the Commission's Statement of Policy.

Background

To date, the Company has not experienced significant levels of customer migration. Those customers who have migrated tend to be large users, resulting in a significant portion of overall annual sales being provided by competitive suppliers. As of December 1, 2004, the following numbers of customers are buying from ESCOs, along with the associated percentage of annual sales:

[1] Cases 0-E-1273 and 00-G-1274 Order Modifying Rate Plan Issued and Effective June 14, 2004.

	Customers	Percent of Annual Sales
Electricity:	1,829	17.9%
Gas:	1,242	13.1% [2]

This low customer penetration can be attributed, at least partially to relatively low commodity prices and a small franchise area. Customer satisfaction tends to be high and satisfied customers may be less likely to seek alternatives. Further, only one competitive supplier has been actively marketing to residential customers in the franchise area. Other ESCOs have contacted the Company and the PSC to inquire about entry into the market, and several are expected to become active in 2005.

One of the main components of this plan is an attempt to encourage new ESCOs to serve residential customers in Central Hudson's territory. During November 2004, the Company contacted twelve ESCOs by telephone, letter, or e-mail and encouraged them to consider participating in the Company's Retail Access Program, with particular emphasis on serving the residential market. These contacts were timed to coincide with an offer to purchase ESCO's accounts receivable without recourse as described below. To date, three additional ESCOs have submitted applications to become approved suppliers in the Central Hudson franchise, and all three have expressed a desire to serve the residential market.

Listed below are some actions that the Company has taken to date, along with plans for future initiatives to foster the development of retail markets for electricity and natural gas.

Purchase accounts receivable at a discount without recourse – The highest priority of the ESCOs participating in the collaborative process was to have the Company purchase accounts receivable without recourse. The parties negotiated an agreement and tariffs were filed with a proposed effective date of November 1, 2004. The Commission

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[2] Percent of firm sales volume

approved the new tariffs, and the Company is now purchasing accounts receivable at an initial discount of 0.90% for all ESCOs who choose consolidated billing.

Move Charges for Pipeline Capacity, Storage, and Peaking Service off the Customer Bill
Another impediment to retail access, according to participating ESCOs, was the customer confusion that occurred when they switched to a competitive supplier and then received delivery bills with charges for pipeline capacity, storage, and peaking service. In the past, such charges had never been itemized on their bills. The parties negotiated an agreement whereby these charges will now be billed to the ESCO who, in turn, include these charges as part of the commodity price. Tariffs were filed on November 1, 2004 with a requested effective date of April 1, 2005. ESCOs stated that they need time to prepare for this change because it affects the commodity price they charge their customers. Once this change is implemented, direct comparisons can be made between the Company's Gas Supply Charge (GSC) and offers from competing ESCOs (net of the back out credit).

Hourly Pricing for SC3 and SC 13 Customers – Tariffs requiring all SC 3 and SC 13 customers to take hourly electric pricing or choose a competitive supplier were filed on November 1, 2004 with a requested effective date of April 1, 2005. In response to concerns from Staff and SCMC[3], the Company has agreed to include changes to the method used to calculate unforced capacity (UCAP) charges and add an energy-balancing factor. Once these tariffs go into effect, large electric customers will be subject to market price volatility unless they elect to purchase a fixed-price product or other less volatile pricing mechanism from an ESCO. The Company anticipates that this change will cause increased migration to ESCOs. In order to facilitate the transition, outreach and education training sessions will be conducted by the Company targeting all affected customers in January 2005. In addition, a Central Hudson Customer Services Group representative will personally visit those customers unable to attend a training session.

[3] Small Customer Marketer Coalition, a participant in the collaborative process.

Metering Initiative - the Company is working with Staff to offer web-based access to hourly electric consumption and pricing information for all customers on SC 3 and SC 13. If funding is available, this initiative may be expanded to offer the service to some smaller commercial customers on SC2. The goal is to have this software in place by April 1, 2005 to coincide with the effective date for the hourly electric pricing tariffs.

Web Site Enhancements – the Company is continuing to upgrade its web site to include more information for ESCOs. A few examples that will be in place early in 2005 include:

- A fully functioning Market Match feature that will enhance the ability of non-residential customers and ESCOs to exchange information, and ease the process of making and receiving energy price offers.
- Availability of billing determinants for natural gas pipeline capacity, storage and peaking service.

Natural Gas Balancing and Cash Out Issues – A desirable feature of the Company's gas retail access program is that it allows ESCOs to use Company storage. However, due to the levelized nature of daily deliveries, the Company only performs cash out once per year using average annual gas prices. Staff and the ESCOs have expressed a desire that cash outs be done more frequently. The Company continues to look for a solution that provides for more frequent cash outs while preserving the ESCOs use of Company storage capability.

"Energy CHoice" Program – Several ESCOs have participated in the O&R Power Switch Program whereby customers are guaranteed savings for the first two months of service. The Company has agreed to implement changes necessary to allow for enrollment of customers in a similar program, tentatively to be called "Energy CHoice", no later than December 1, 2005. After an initial public information campaign developed collaboratively by the parties and training of Central Hudson's customer service representatives, Company personnel will receive telephone calls, enroll customers in the program and calculate the initial discount price to be charged for at least the first 60 days.

After 60 days, the ESCO and the customer will make mutually agreeable pricing arrangements. The Company will perform consolidated billing services with purchase of accounts receivable for all customers in the program. Customers will also be able to self-enroll in the program through the Company's website.

The Company would consider accelerating the schedule for Energy CHoice, but must balance the necessary programming changes with competing demands for internal resources. Hiring outside contractors to make these changes is not practical because the Customer Information System is a proprietary mainframe software system.

The Company proposes to file an updated schedule for implementation of the Energy CHoice program on March 1, 2005, making every effort to accelerate implementation. To the extent that the Company is successful in implementing this program by September 30, 2005, a carryover provision for the migration incentive is recommended as described below.

Migration Incentive – the Joint Proposal for Rate Plan Modification provides for an incentive of up to 30 basis points on electric and gas earnings in each rate year, tied to the number of customers that migrate to competitive suppliers. The maximum incentive is achieved if 5% of total customers migrate in each rate year. Thus far, the biggest challenge in meeting this incentive is to attract ESCOs to serve residential markets. The Company has made substantial changes to its retail access program that are expected to increase migration:

11-1-04	Consolidated billing with purchase of accounts receivable, no recourse
4-1-05	Move pipeline capacity, storage, and peaking off customer bills
4-1-05	Hourly electric prices for SC3 and SC13 customers
12-1-05	Energy CHoice Program[4]

Although the Central Hudson Retail Access Collaborative began in June 2004, most of the changes that are expected to cause increased migration will occur in 2005. As a

[4] If possible, accelerate implementation to September 30, 2005

result, the Company is unlikely to earn the maximum incentive of 30 basis points for customer migration during the rate year ending June 30, 2005 for either electric or gas. The Energy CHoice program described above is expected to be one of the largest contributors to achieving the goal. The Company is hereby requesting a carryover provision allowing any migration incentive not earned as of June 30, 2005 to carry over into the next rate year. For example, if the Company earned an incentive of 20 basis points on electric earnings in the first rate year, the remaining 10 basis points would be carried over and added to the available incentive in the second rate year. In this way, the Company would maintain an incentive to reach towards an overall migration rate of 10% for both electric and gas customers by June 30, 2006.

Customer Education Program – the Joint Proposal for Rate Plan Modification provides $250,000 of customer benefit funds in each of the next two rate years for customer education concerning retail access. With the exception of a small amount of funding used for a market expo, all of these funds remain available. At the present time, only one ESCO in Central Hudson's service area is serving residential customers. As discussed above, the Company is actively recruiting new ESCOs and will launch an education campaign, to be developed in collaboration with interested parties, when we are confident that a sufficient number of ESCOs will respond to customer inquiries from residential customers and offer to sell electric and gas supply to this customer class. The Company has plans for a bill insert in the January- February 2005 time period, which will be used to collect names of customers who are interested in seeking alternative suppliers. The bill insert will be supplemented by selective newspaper advertising. The list of names and contact information will then be provided to all active ESCOs.

The Company will periodically evaluate the customer education needs that may result from this Plan, and work collaboratively with interested parties to develop appropriate consumer education vehicles (community forums, informational meetings, media plans, customer mailings, and phone and web-based customer information tools) to anticipate and or/respond to customers' needs regarding education and awareness of competitive issues in the service territory.

State Agencies Light the Way Campaign – the Company provided a list of state facilities to Staff so that they can be targeted for retail access as part of the proposed campaign entitled State Agencies Light the Way. The campaign, currently being developed collaboratively with the utilities, the Commission, the New York State Energy Research and Development Authority, the Office of General Services, and individual state agencies, will educate and inform state agency procurement managers about energy choice, green power (to meet recently enacted state standards), and the procurement process to acquire an alternate supplier of energy.

Auctioning Blocks of Customer Load – some utilities are in the process of developing a plan to auction blocks of customers to competitive suppliers. Specifically, at the request of Centrica, Con Edison is beginning a collaborative process to determine the rules and procedures for implementing such an auction. In addition, Niagara Mohawk is considering whether or not to offer an auction for its remaining SC3 customers who have not already migrated. The Company will monitor the activities of other utilities in the State to determine if an auction may be an effective means to cause customer migration.

Summary – the Company, working collaboratively with interested stakeholders, is making every effort to encourage customer migration to competitive suppliers. Early signs are encouraging, as three new ESCOs have recently applied to do business in the Central Hudson franchise area. Tariff changes have been made or are currently being considered by the Commission to provide for the purchase of accounts receivable without recourse, move gas charges for pipeline capacity, storage and peaking service off customer bills, and require large interval-metered electric customers to purchase electricity at hourly prices. Prior to the end of 2005, the Company will, in cooperation with ESCOs, offer a guarantee of savings for the first 60 days for any customer who chooses to migrate to a participating ESCO. These changes are expected to foster the development of retail energy markets in Central Hudson's franchise area and increase the number of customers who choose an alternate supplier.

NYSEG

Public Service Commission
RECEIVED
MAY 2 9 2002
FILES
ALBANY, N.Y.

May 24, 2002

Plans

VIA OVERNIGHT COURIER

FILES
C00-M-0504

Honorable Janet H. Deixler, Secretary
New York State Public
Service Commission
3 Empire State Plaza
Albany, NY 12223-1350

RECEIVED
MAY 30 2002
PUBLIC SERVICE COMMISSION
OFFICE OF COUNSEL

Re: **NYSEG's Economic Development Incentives Plan**
Case 01-E-0359 and Case 01-M-0404

Dear Secretary Deixler:

Pursuant to the Order Adopting Provisions of the Joint Proposal with Modifications, issued February 27, 2002 in the above-entitled proceedings (the "Order"), New York State Electric & Gas Corporation ("NYSEG" or the "Company") respectfully files its proposed Economic Development Incentive Plan (the "Plan") in compliance with that Order.

Section XI (E) of the Joint Proposal, entitled "Economic Development Plan", governs the Plan. Under this section, within 90 days of the Order, NYSEG must file an economic development plan for 2003 and 2004. To facilitate the development of the Plan, NYSEG met with Staff of the Department of Public Service ("Staff") and the Empire State Development Corporation ("ESD"). The Plan submitted herein considered those discussions.

In addition to this filing letter, this submission includes the following three attachments:

Attachment A: Summary Matrix of Electric Incentive Rates:
Joint Proposal Review, Evaluation, Remedial Filing and Final Plan

Attachment B: Summary of Actual and Forecast Economic Incentive Discounts and kWh 2001 - 2004

Attachment C: Draft tariff provisions
Economic Revitalization Incentive; Incubator Development Incentive

The Joint Proposal, at Section XI (E) (4), states "The Economic Development Plan will be developed with a goal of minimizing the need for the use of regulatory assets. NYSEG will establish a budget for programs included in the Economic Development Plan up to $8 million per year for the term of the Plan. A maximum of $4 million will be permitted for additional spending, with the additional program costs funded by the Asset Sale Gain Account (ASGA). Additional funding beyond $12 million shall require Commission approval."

Pending Tariff Amendments Filing – May 7, 2002

The Joint Proposal provides that NYSEG would "complete a review of its economic development programs" and share the results of that review with Staff and ESD. As part of that review process, NYSEG met informally with Staff on April 10, 2002, prior to submitting its review to Staff and ESD on April 12, 2002. Subsequently, NYSEG held a meeting with ESD on May 8, 2002.

Based in part on the April 10 informal discussions with Staff, NYSEG filed "Proposed Tariff Amendments Regarding Economic Development Incentives" on May 7, 2002 ("May Filing"). At that informal meeting, it was determined that certain issues could be considered prior to the schedule of the Plan's implementation. The May Filing included modifications to NYSEG's Economic Development Zone Incentive ("EDZI") – now the Empire Zone program, Economic Development Incentive ("EDI"), and the phase-out of the Small Business Growth Incentive ("SBGI") during the remainder of 2002. NYSEG requested an effective date for those tariff leaves of July 1, 2002.

Economic Development Plan Filing – May 24, 2002 (the "Instant Filing")

NYSEG also met with Staff and ESD on May 22, 2002 and reviewed prospectively the key points of this Plan. NYSEG's Economic Development Plan builds on the anticipated approval of the May Filing. Additionally, the Plan includes modifications to the Economic Revitalization Incentive ("ERI") incorporating additional qualifying contribution components from the discontinued Business Retention Incentive ("BRI"). The Plan also includes modifications to the Industrial Incubator Incentive ("III"), renamed the Incubator Development Incentive ("IDI"), which will provide for additional business incubator participation as well as participation by university sponsored incubators or technology parks.

Formal Tariff Amendments Filing – for 2003 and 2004

NYSEG anticipates that the May Filing will be approved and the Instant Filing will be accepted so that the Company can file actual tariff leaves for ERI, IDI and BRI, on or about October 15, 2002. Those tariff revisions, which are described below, will reflect the Plan as summarized on Attachment A.

Economic Development Zone Incentive ("EDZI") - Empire Zones

In the anticipated October 2002 filing, NYSEG also will file to rename its EDZI to Empire Zone Incentive ("EZI") to conform to updated legislation while maintaining the pending May Filing incentive levels that do not distinguish between zones based on their geographical boundaries or the dates on which they were established. In its May Filing, NYSEG proposed an incentive of approximately seven to nineteen percent of the standard tariff rate or $0.015 per kWh for prospective or existing qualified load taking service from its Primary or Secondary Distribution System and approximately nine to twenty-one percent of the standard tariff rate or $0.0075 per kWh for prospective or existing qualified load taking service from NYSEG's Transmission or Sub-Transmission System. However, in no case shall the rate, less the incentive, fall below the Company's marginal cost of service, as required under PSC No. 115's Economic Incentives Special Provision in Service Classification Nos. 2, 3 and 7. Since Section 966(h) of the General Municipal Law allows incentives for up to ten years, the term of the incentives for qualified load of prospective Empire Zone customers or qualified additional load of existing Empire Zone customers will, in the October 2002 filing, be not less than three years nor more than ten years.

Economic Development Incentive ("EDI")

NYSEG's incentive, included in its May Filing, of approximately five to thirteen percent of the standard tariff rate or $0.010 per kWh for prospective or existing load taking service from NYSEG's Primary or Secondary Distribution system and approximately six to fourteen percent of the standard tariff rate or $0.005 per kWh for prospective or existing load qualifying under EDI, taking service from NYSEG's Transmission or Sub-Transmission system, would also continue at that level. Again, in no case shall the rate, less the incentive, fall below the Company's marginal cost of service, plus a contribution, as required under PSC No. 115's Economic Incentives Special Provisions in Service Classification Nos. 2, 3 and 7. The term of EDI will be set at 60 months for qualified load of prospective customers or qualified additional load of existing customers. Finally, the Company reserves the right to file a phase-out proposal, as permitted by PSL 66 (12-b) (a), and presently in effect for its Economic Revitalization Incentive.

Economic Revitalization Incentive ("ERI")

The Plan will expand the eligibility criteria of ERI to include those customers who are currently receiving the Business Retention Incentive, which is scheduled to end March 2, 2003. The ERI incentive of approximately five to thirteen percent of the standard tariff rate or the current ERI level of $0.010 per kWh will be continued. ERI currently requires an applicant to receive certifiable incentives from the governmental sector or from employees in an amount of at least one-eighth or twelve and one-half percent of its previous 12 month electric bills from the

Company. Additionally, this Plan will allow NYSEG's Power for Jobs ("PFJ") gross receipts tax ("GRT") credit to be applied towards the twelve and one-half percent requirement to help qualify a customer for ERI. NYSEG understands that ESD may assist customers in securing such matching contributions and the development of the requisite Labor Management Productivity Plan, to qualify for ERI.

Incubator Development Incentive ("IDI") (formerly III)

NYSEG's Plan includes an enhanced incubator program to support the Governor's recent initiatives for technology growth within New York State. The Plan will enhance and rename the former Industrial [only] Incubator Incentive ("III"), as a more inclusive Incubator Development Incentive ("IDI"). The IDI expands eligibility to other business incubators previously excluded, and to additional applicants such as "off-campus" university Research Development and Demonstration technology facilities. The incentive discount will be set at the pending EZI levels.

Business Retention Incentive ("BRI")

BRI was established under NYSEG's approved 1998 Restructuring Agreement. In accordance with that agreement, NYSEG will discontinue this incentive effective March 2, 2003. Absent the revision to ERI, customers unable to benefit from a full 5-year term of BRI would simply lose their incentive. Current BRI customers who have not completed 5 years of discounts will be permitted to finish their 5-year incentive term under the ERI program. BRI customers migrating to ERI will be moved into the phase-out schedule provided by ERI, based on the number of years of BRI participation already completed.

Self Generation Deferral Incentive ("SGDI")

NYSEG's Plan will maintain this incentive in its current form.

Small Business Growth Incentive ("SBGI")

The SBGI Program will end on December 31, 2002, after a 6-month phase-out period. The phase-out of this incentive program was included in the May Filing.

Applicability of the Bundled Rate Option ("BRO")

The Joint Proposal, at Section XI (A) (2), states that "customers with the above incentives must take service under the BRO for the portion of the load receiving the incentive." The BRO that will apply to any customer's incented load will be the BRO price available at the time the customer begins receiving the incentive and will remain that BRO price regardless of any growth in qualified incented load.

Applicability of Retail Access Credit to Incented Loads

The Joint Proposal, at Section XI (E) (2), requires that the review of the incentive programs include a determination as to "whether customers receiving economic development incentives will be permitted to choose an alternative supplier through the use of a market-based backout." This Plan provides that customers with incentives will be allowed to choose an alternative supplier for the incented load or take supply through NYSEG's BRO. If an alternative supplier is selected, the customer's bill will be credited for the market-based backout (Retail Access Credit or RAC) excluding the 3 or 5 mill adder otherwise applicable to non-incented load, which essentially prorates the backout to make it equivalent to the discounted rate.

Reservations

As discussed at page 1 of this letter, the Joint Proposal provides for funding of $8 million per year for Economic Development Programs. NYSEG is concerned about the proliferation in the number of Empire Zones which may be designated, and the potential increase in the square miles per zone. As such, NYSEG will monitor the amounts of discounts disbursed, reserving the rights set forth in the current EDZI provision: "[h]owever, the incentive rate will be subject to periodic (but not more than annually) review and possible modification, with Public Service Commission approval." Therefore, the Company may file with the Commission to reduce the levels of incentive discounts for customers currently participating at the 2, 2.5, 3.25 or 4.00 cent/kWh levels previously in place, in order to avoid exceeding the annual $8 million target set forth in the Joint Proposal. A similar proviso will be included for EDI in the anticipated October filing of the tariff leaves to implement this Plan.

Next Steps

The Joint Proposal requires that NYSEG provide a copy of the Plan to Parties in advance of this filing with the Commission. The required copies were sent overnight to the Parties to the Joint Proposal on May 23, 2002. Although the Plan has been filed within the time frame provided by the Joint Proposal, it allows for continued consideration of this Plan. At the joint meeting with Staff, the ESD and the Company, we anticipated additional informal communication and another meeting prior to the Commission addressing this Plan. The Company anticipates filing tariff leaves in October 2002, to be effective January 1, 2003.

Outreach

Upon the Commission's approval of this Plan, NYSEG will reflect the revisions to its current outreach materials as necessary. The Company will also send a letter to members of the economic development community, including zone administrators, summarizing the components of the Plan, as approved, and advise the recipients as to whom they may contact for further information.

Company Contact

Please direct any questions pertaining to this filing to Henry Host-Steen at (607) 762-7816 or me at (607) 762-7341.

Very truly yours,

Christine M Stratakos

Christine M. Stratakos
Manager - Rates & Tariffs

cc: R. Cerniglia - PSC Staff
D. Lutzy – PSC Staff
M. Santarcangelo – Empire State Development

New York State Electric & Gas Corporation
Electric Incentive Rates: Joint Proposal Review, Evaluation, Remedial Filing and Final Plan

Incentive Program	Description	Evaluation and Effectiveness (2001/2002)	Remedial Filing (May 2002) and Final Plan (2003/2004)	Rationale

SBGI – Small Business Growth Incentive
 	
Basis
PSC imposed in '97 Rate & Restructuring Agreement Order
	• 30 day notice requirement
	• Applies to commercial and industrial customers who are not eligible for I/HLF and who have at least 12 months NYSEG billing history
	• Discounts apply to kWh in excess of historic monthly profile plus 1%
	• Discounts for Full Svc/CA
	  • SC 2 - \$.030/\$.022
	  • SC 3 - \$.030/\$.022
	  • SC 7 - \$.030/\$.021
	• Term: Not defined in tariff
		Statistics:
		• 3,239 Customers
		• 70,281 MWH
		• Revenue Impact
		  • 2001 Actual \$2,177,935
		  • 2002 Forecast \$1,581,326
		Effectiveness:
		• High number of "free riders"
		• Questionable if there are any advantages to job or load growth above what would have otherwise occurred
			Discontinue Program
			Remedial Action – May
			• No longer promoted 02/27/02
			• Phase out program
			  • Reduce discount to \$.015/kWh (\$.011/kWh C/A) effective 7/1/02
			
			Final Plan
			• End program on 12/31/02 – no discount
				Rationale to discontinue
				• Consistent with Joint Proposal
				• No indications of increased margins
				• Ends "free ridership"
				• Non-I/HLF customer got 13% decrease in JP
				• Not proven to increase customer satisfaction index
				• Note proliferation vs EDI
				• Future growth may qualify for EDI

EDI – Economic Development Incentive
 	
Basis
PSL 66 12-b (with ERI)
	• Application 60 days in advance
	• Term: 60 months
	• Applies to newly connected load that results in usage above historic profile
	  • >25kW for SC 2
	  • >100 kW for SC 3 or SC 7
	• Historic profile based on:
	  • Existing cust. – Historic 12 months
	  • Prospective cust. – 0 base
	• Maximum benefit – 730 hrs x nameplate
	• Discount of:
	  • \$.015/kWh Full Svc
	  • \$.013/kWh w/CA
		Statistics:
		• 264 Customers
		• 106,009 MWH
		• Revenue Impact
		  • 2001 Actual \$1,681,329
		  • 2002 Forecast \$1,436,812
		Effectiveness:
		• Allows amortization of equipment \$'s
			Retain but modify
			Remedial Action – May
			• Decrease discount to: \$0.01 (\$.009 C/A) for dist. \$.005 (\$.0045 C/A) for trans. on 7/1/02
			
			Final Plan
			• For 2003/2004, maintain discount rate at the basic levels proposed for 7/1/02
			• Term is up to 60 months
			• Company may propose phase-out
			• BRO mandatory for incented load
			• Allow Customer Advantage for incented load with the RAC, without the 3 or 5 mil adder
			• Allows for Company review and filing of revised incentives to meet \$8M
				Rationale to retain
				• Investment in equipment needed to qualify
				• Pre-decision application process (60 days)
				• Pre-commitment of investment and notification screens free ridership
				• Statutory permission
				
				Rationale to modify/final
				• Divestiture of Plants
				• Joint Proposal reduced rates 13%, on average
				• Maintains contribution to marginal costs

NOTE: The resulting rate in each instance shall, in the minimum, collect marginal cost (EDZI) plus a contribution to common costs (all other incentives)

New York State Electric & Gas Corporation

Electric Incentive Rates: Joint Proposal Review, Evaluation, Remedial Filing and Final Plan

Incentive Program	Description	Evaluation and Effectiveness (2001/2002)	Remedial Filing (May 2002) and Final Plan (2003/2004)	Rationale

<u>EDZI</u> – Economic Development Zone Incentive (Empire Zone Incentive)
 	
<u>Basis</u>
Municipal Law & PSL 66 12-c
	• Application 30 days in advance
	• Term: Up to 10 years
	• Applies to newly connected load ; the lesser of >25kW or 25% of Contract Demand
	• Needs Zone Administrator certification
	• Historic profile based on:
	  • Existing cust. – Historic 12 months
	  • Prospective cust. – 0 base
	• Maximum benefit – 730 hrs x nameplate
	• Discount of:
	  • $0.040/$0.0325/$0.025 Full Service
	  • $0.027/$0.024/$0.020 C/A
		Statistics:
		• 389 Customers
		• 124,124 MWH
		• Revenue Impact
		  • 2001 Actual $3,733,027
		  • 2002 Forecast $3,222,384
		Effectiveness:
		• Beneficial for Brownfield development
		• Questions as to alleged abuse
			Retain but modify
			Remedial Filing
			• Eliminate differences in discounts by zone
			• Lower discount 7/1/02 to:
			  • $.015 dist ($.012C/A)
			  • $.0075, trans ($.006)
			
			Final Plan
			• For 2003/2004, maintain discount rate at the basic levels proposed for 7/1/02
			• Reduce term for additional qualified load to not less than 3 years, nor more than 10 years
			• BRO mandatory for incented load
			• Allow Customer Advantage for incented load with the RAC, without the 3 or 5 mil adder
			• Allows for Company review and filing of revised incentives to meet $8M
				Rationale to retain
				• Presumed to grow margin w/ multiplier impacts
				• Statutory permission
				
				Rationale to modify/final
				• Two discount levels based on voltage are more appropriate
				• Expect Generic Economic Development proceeding to recommend price equalization across zones
				• 4 cent zones do not cover utilities marginal costs

NOTE: The resulting rate in each instance shall, in the minimum, collect marginal cost (EDZI) plus a contribution to common costs (all other incentives)

New York State Electric & Gas Corporation
Electric Incentive Rates: Joint Proposal Review, Evaluation, Remedial Filing and Final Plan

Incentive Program	Description	Evaluation and Effectiveness (2001/2002)	Remedial Filing (May 2002) and Final Plan (2003/2004)	Rationale

<u>ERI</u> – Economic Revitalization Incentive
 	
<u>Basis</u>
PSL 66 12-b (with EDI)
	• Application 30 days in advance
	• Term: 5 years; includes a 2 yr. phase out
	• Applies to industrial manufacturing customers with either ≥ 300 kW demand or largest full-time employer in municipality
	• A productivity plan is required, with low cost financing and/or tax reductions ≥ 12.5% of the previous years electric bill from NYSEG
	• Discount for all SCs: Full Svc (C/A)
	  • \$0.010 (\$0.009) 36 months
	  • \$0.0066 (\$0.0059) 12 months
	  • \$0.0033 (\$0.0030) 12 months
		Statistics:
		• 0 Customers; last customer left this program 97/98
		• 0 MWH
		• Revenue Impact
		  • 2001 Actual \$0
		  • 2002 Forecast \$0
		Effectiveness:
		• Had been effectively used for revitalization
		• Overrun by SC 13 availability
			Retain and modify
			Final Plan
			• Set equivalent to EDI
			• Retain phase-out
			• Expand eligibility to include back office/financial-type customers
			• Count PFJ/GRT as savings
			• Lower demand requirement to 250 kW
			• Encourage customer support/assistance from ESD
			• BRO mandatory for incented load
			• Allow Customer Advantage for incented load with the RAC, without the 3 or 5 mil adder
			• Allows for Company review and filing of revised incentives to meet \$8M
				Rationale to retain
				• Can revitalize and grow businesses to maintain margins (and jobs)
				• Statutory permission
				• Reduces SC 13 pressures (SC 13 "Light")
				• Requires contribution from others in the community
				• Term is satisfactory
				• Has phase out provision
				
				Rationale to modify
				• Provide softer landing due to BRI elimination
				• Captures benefits of BRI

NOTE: The resulting rate in each instance shall, in the minimum, collect marginal cost (EDZI) plus a contribution to common costs (all other incentives)

New York State Electric & Gas Corporation
Electric Incentive Rates: Joint Proposal Review, Evaluation, Remedial Filing and Final Plan

Incentive Program	Description	Evaluation and Effectiveness (2001/2002)	Final Plan (2003/2004)	Rationale

<u>III</u> – Industrial Incubator Incentive
 	
<u>Basis</u>
Chemung/Steuben NYSEG Initiative
	• Limited by NYSEG to customers targeted by members legislation; Alfred Technology Resources, Inc. and Ceramics Corridor Innovation Centers
	• Application 30 days in advance
	• Term: indefinite
	• Applies to multi-tenant facilities owned by a not-for-profit public corporation who leases space to start-ups; 75% of floor leased space must be for manufacturing; businesses must "graduate" from the facility in no more than 5 years
	• NYSEG has the option to discontinue this provision on one year's notice. The program will be phased out by providing then resident businesses with the discount for the remainder of their 5 year eligibility
	• Discount in $/kWh; Full Svc/CA
	  • SC 2 $.025/$.020
	  • SC 3 $.025/$.019
	  • SC 7 $.025/$.018
		Statistics:
		• 3 Customers
		• 2,395 MWH
		• Revenue Impact
		  • 2001 Actual $62,046
		  • 2002 Forecast $62,046
		Effectiveness:
		• Limited by NYSEG to customers targeted by members legislation; Alfred Technology Resources, Inc. and Ceramics Corridor Innovation Centers
		• Since 1999 – (1,775 new jobs), 20 new companies, 11 start-up graduations
			Final Plan
			Retain, expand and modify
			• Change name to Incubator Development Incentive (IDI)
			• Allow start-ups in backoffice services to also occupy the 25% of 75% reserved for manufacturing
			• Off campus university technology RD&D facilities
			• Establish discount at Empire Zone level
			• BRO mandatory for incented load
			• Allow Customer Advantage for incented load with the RAC, without the 3 or 5 mil adder
			• Allows for Company review and filing of revised incentives to meet $8 M
				Rationale to retain
				• Created margins
				• Successful graduates
				• Enables potential for load growth (and job creation)
				• Not all will get EDZI designation
				
				Rationale to expand & modify
				• Support Governor's technology initiatives
				• Provides support for other business incubators
				• Make university incubators and sponsored technology parks eligible

NOTE: The resulting rate in each instance shall, in the minimum, collect marginal cost (EDZI) plus a contribution to common costs (all other incentives)

New York State Electric & Gas Corporation
Electric Incentive Rates: Joint Proposal Review, Evaluation, Remedial Filing and Final Plan

Incentive Program	Description	Evaluation and Effectiveness (2001/2002)	Final Plan (2003/2004)	Rationale

BRI – Business Retention Incentive
 	
Basis
10/97 Rate & Restructuring Agreement and ESD
	• Program capped at 50 MW
	• Program scheduled to terminate on 3/2/03 (end of R&R Agreement)
	• Applies to industrial and non-retail commercial customers with demands ≥250kW
	• Quantifiable economic incentives must be received
	• Need for retention decided by ESD
	• Customer must submit a productivity plan
	• Discounts
	  • Full Service/(C/A)
	    • Years 1 and 2 - 20% /(16%)
	    • Years 3 and 4 – 15% /(13%)
	    • Year 5 – 10% /(9%)
		Statistics:
		• 4 Customers
		• 1,937MWH
		• Revenue Impact
		  • 2001 Actual $33,683
		  • 2002 Forecast $33,683
		Effectiveness:
		• Only 4 customers, one of whom has declared bankruptcy
		• PFJ/GRT was the only qualifying contribution
		• No matching funds created by ESD
			Final Plan
			Discontinue at expiration (3/2/03)
			• Enhance ERI to address BRI concerns
				Rationale to discontinue
				• Expansion of ERI will accommodate BRI-type customers
				• Minimal participation
				• ESD matching funds difficult to obtain
				• Enhanced ERI encourages ESD support

SGDI – Self-Generation Deferral Incentive
 	
Basis
Initiated by NYSEG to stem uneconomic self-generation
	• 30 days advance notice
	• Term: 3 years with option to renew
	• Proof of viable self-generation alternative required
	• Annual load factor between 5% and 35%; peak demands ≥100kW, limited to certain SIC
	• Discount is in the form of a price/kWh cap that varies by SC and load factor
		Statistics:
		• 89 Customers
		• 46,671 MWH
		• Revenue Impact
		  • 2001 Actual $1,663,749
		  • 2002 Forecast $1,663,749
		Effectiveness:
		• Load retained for NYSEG
		• Provides contribution towards system cost
		• Annual review to adjust discount & qualification
			Final Plan
			Retain
			• Review price cap table for 2003 rates
			• Reevaluation of program and price caps upon filing of Revised SC 11 rates
				• Proven program for retention of load and delivery margins
				• Discourage economically inefficient generation

NOTE: The resulting rate in each instance shall, in the minimum, collect marginal cost (EDZI) plus a contribution to common costs (all other incentives)

Attachment B

New York State Electric & Gas Corporation

Economic Development Plan Pursuant to Order Dated February 27, 2002 in Case Nos. 01-E-0359 and 01-M-0404 ("Joint Proposal")

Summary of Actual and Forecasted Economic Incentive Discounts and kWh
2001 through 2004

Economic Incentive	2001 Actuals Discount Amount	2001 Actuals Incented kWh	2002 Forecast Discount Amount	2002 Forecast Incented kWh	2002 vs. 2001 Change in Discount	%	2002 vs. 2001 Change in kWh	%
EDI	$1,681,329	106,008,724	$1,436,812	84,806,979	($244,517)	-17.0%	(21,201,745)	-25.0%
EDZI	$3,733,027	124,123,962	$3,222,384	100,159,497	($510,643)	-15.8%	(23,964,465)	-23.9%
SGDI	$1,663,749	46,670,501	$1,663,749	46,670,501	$0	0.0%	-	0.0%
BRI (ERI)	$33,683	1,936,718	$33,683	1,936,718	$0	0.0%	-	0.0%
III (IDI)	$62,046	2,394,550	$62,046	2,394,550	$0	0.0%	-	0.0%
SBGI	$2,177,935	70,281,174	$1,581,326	70,281,174	($596,609) *	-37.7%	-	0.0%
Totals	$9,351,769	351,415,629	$8,000,000	306,249,419	($1,351,769)	-16.9%	(45,166,210)	-14.7%

Economic Incentive	2002 Forecast Discount Amount	2002 Forecast Incented kWh	2003 Forecast Discount Amount	2003 Forecast Incented kWh	2003 vs. 2002 Change in Discount	%	2003 vs. 2002 Change in kWh	%
EDI	$1,436,812	84,806,979	$1,505,215	93,287,677	$68,403	4.5%	8,480,698	9.1%
EDZI	$3,222,384	100,159,497	$4,599,741	209,329,070	$1,377,357	29.9%	109,169,573	52.2%
SGDI	$1,663,749	46,670,501	$1,663,749	46,670,501	$0	0.0%	-	0.0%
BRI (ERI)	$33,683	1,936,718	$67,366	3,873,436	$33,683	50.0%	1,936,718	50.0%
III (IDI)	$62,046	2,394,550	$124,092	4,789,100	$62,046	50.0%	2,394,550	50.0%
SBGI	$1,581,326	70,281,174	$0	0	($1,581,326)	-100.0%	(70,281,174)	-100.0%
Totals	$8,000,000	306,249,419	$7,960,163	357,949,784	($39,837)	-0.5%	51,700,365	14.4%

Economic Incentive	2003 Forecast Discount Amount	2003 Forecast Incented kWh	2004 Forecast Discount Amount	2004 Forecast Incented kWh	2004 vs. 2003 Change in Discount	%	2004 vs. 2003 Change in kWh	%
EDI	$1,505,215	93,287,677	$1,542,837	97,952,061	$37,622	2.4%	4,664,384	4.8%
EDZI	$4,599,741	209,329,070	$4,192,332	154,115,414	($407,409)	-9.7%	(55,213,656)	-35.8%
SGDI	$1,663,749	46,670,501	$1,663,749	46,670,501	$0	0.0%	-	0.0%
BRI (ERI)	$67,366	3,873,436	$101,049	5,810,154	$33,683	33.3%	1,936,718	33.3%
III (IDI)	$124,092	4,789,100	$186,138	7,183,650	$62,046	33.3%	2,394,550	33.3%
SBGI	$0	0	$0	0	$0	0.0%	-	0.0%
Totals	$7,960,163	357,949,784	$7,686,105	311,731,780	($274,058)	-3.6%	(46,218,004)	-14.8%

* Assumes Program phase-out begins July 1, 2002 and ends December 31, 2002.

GENERAL INFORMATION

7. Economic Revitalization Incentive:

The Economic Revitalization Incentive ("ERI") is intended to stimulate economic revitalization, leading to increased electrical load in areas suffering from reduced economic activity, unemployment and under-utilization of utility facilities and to prevent loss of such customers, where necessary to maintain economic use of utility facilities.

-Upon 30 days notice to and acceptance of an application by the Corporation, an existing industrial and non-retail Commercial customer, including customers with Power For Jobs ("PFJ") allocations from NYPA (excludes Public Authority customers, customers that receive other than PFJ allocations of power from NYPA and customers with business facilities that are primarily used in making retail sales of goods or services to customers who personally visit such facilities to obtain such goods or services). Industrial customers are engaged in manufacturing as defined in Division D encompassing Major Groups 20 through 39 of the Standard Industrial Classification Manual taking service under Service Classification No. 2, 3 or 7. An eligible customer may qualify for an Economic Revitalization Incentive in the form of a reduction, as stated in the individual service classification special provision for Economic Incentives, to the Energy Charge rates of the respective service classifications for electric use during an initial term of 36 months. For two subsequent 12-month phase-out terms, the incentive reduction will be multiplied by a factor of .66 and .33 for each term, respectively. Qualification is subject to the Corporation's acceptance of the applicant's certification to the Corporation of a feasible Management and Labor Productivity Program, on a prospective basis from the date of application, covering at least 36 months which, upon implementation, would allow the customer to again be competitive in its existing and/or alternative markets. ~~The Corporation will provide a copy of the applicant's productivity program to the Department of Commerce, State of New York, allowing them opportunity to comment on it.~~ The applicant is encouraged to work with Empire State Development Corporation, if assistance is required, to develop the Management and Labor Productivity Program and/or secure a contributing PFJ allocation. Applicants shall have demands in excess of 250 ~~300~~ kilowatts or shall certify to the Corporation that applicant employs a plurality of all the full-time employment in the village, city or town in which the applicant's plant or operation exists.

In order to qualify for the incentive, the applicant must demonstrate that it has taken substantial measures under its productivity plan to achieve a threshold level of quantifiable incentives from other sources within its province. This threshold shall amount to not less than one-eighth ~~or~~ (12.5%) of the applicant's previous 12 month electric bills from the Corporation. Such incentives may be received from governmental entities, ~~and/or~~ the employees at the applicant's plant, or, in the case of applicants with a PFJ allocation, the estimated GRT credit available to the Corporation (while such GRT credit remains available).

Certifiable incentives from the governmental sector may include one (1) or more of the total of any reduction in applicable county, town, city, village and/or school district property tax payments resulting from recognition by the appropriate governmental board that the economic value of the applicant's plant or facility has declined over a period of time without appropriate recognition in the assessed valuation, and/or (2) the savings in financing costs associated with the applicant's investments to implement the Productivity Program.

equivalent to the annual interest cost savings due to the difference between the annual interest rate of any subsidized public agency loan to implement the Productivity Program and the prime rate as ~~quoted byChase Manhattan Bank (New York City)~~ stated in The Wall Street Journal on the day such public agency loan is made. Certifiable employee incentives include the quantifiable

~~Issued under authority of Order of the Public Service Commission dated February 27, 2002, in Case 01-E-0359.~~

GENERAL INFORMATION

7. Economic Revitalization Incentive: (Cont'd)

net reduction, over the appropriate historical twelve-month base period, in the applicant's employee costs that is equitable to both management and labor, and acceptable to the majority of all such employees. Such certifiable employee incentives available for revitalization shall exclude savings from reductions in the total number of employees.

The nature and annual amount of any such net cost reductions must be detailed in writing, in form and content satisfactory to the Corporation, and certified to the Corporation by the appropriate representative of the government, and/or the applicant's management as well as any formal or informal employee organization, if applicable. The value of an incentive attributable to NYSEG estimated GRT credit from the PFJ program will be based on the net lost revenue from the delivery of power to the ERI applicant participating in the PFJ program; while such GRT credit exists. Such certification shall include a statement from applicant's management that such net cost reductions are a part of the required Productivity Program.

Upon qualification, the incentive rate reduction will apply to the customer's total monthly kilowatthour usage. Finally, the customer's independent, certified public accountant shall certify annually to the Corporation that all such qualifying net cost reductions were realized by the customer, and if such reductions were not realized or if any such annual certification is not provided for the period of the incentive, the customer will be rebilled to recover the excess incentive rate reduction received.

~~As an alternative, for 30 days after the effective date of this provision, eligible customers may qualify for the incentive by demonstrating that the average employment level for the 12 month period prior to application is 80 percent or less than the maximum average annual employment level in any 12 consecutive months during the previous 5 years and that the recent annual kilowatthour usage of electricity due to curtailment of production facilities is at 80 percent or less than the maximum annual electricity usage during the previous 5 years.~~

The incentive rate per Kwh in effect at the time of qualification as stated in the aforementioned special provision of the applicable service classification will be applied, without modification, to that customer's bill for a period of 36 months, plus the two year phase out described above, at which time the customer will no longer be qualified for this incentive rate.

All qualifying applicants may participate in appropriate conservation and demand side management programs offered by the Corporation. Customers taking service under this special provision may opt instead for the "Industrial/High Load Factor Rate" provision, as prescribed in their otherwise applicable tariff, provided that they have met or agree to continue to meet their commitments under this tariff, and provided that they meet the eligibility criteria for the "Industrial/High Load Factor Rate" provision.

GENERAL INFORMATION

12. RESERVED FOR FUTURE USE

13. **~~Industrial~~ Incubator Development Incentive (IDI):**

Business incubators contribute to economic development by facilitating the development, growth and success of fledging business enterprises, often associated with new technology initiatives, by providing appropriate start-up facilities, with support resources and services, including assistance in developing a viable business plan, with quantifiable objectives for successful graduation from the incubator.

Upon application, verification of eligibility, and 30 days' notice to the Corporation, a multi-tenant ~~industrial~~business incubator facility that is eligible for service under Service Classification Nos. 2, 3, or 7 may qualify for the ~~Industrial~~ Incubator Development Incentive in the form of a reduction, as stated in the applicable Special Provision of each service classification, to the energy rate (per kWh charge) in the respective service classification.

To be eligible, the customer must meet the following requirements:

- the applicant must be a multi-tenant ~~industrial~~business incubator facility, owned and operated by a not-for-profit corporation~~,~~, or a public benefit corporation, as defined in Section 201 of New York State Not-For-Profit Corporation Law, but not limited to customers previously qualified for the Industrial Incubator Incentive due to having received authorized financing under Section 26 of Chapter 839 of the Laws of the State of New York, 1987and the Urban Development Corporation Act 174/68, as amended, within the Corporation's service territory. -Additionally, incubator facilities which are owned, wholly or in part, by a university for the purposes of developing or demonstrating the business viability of new technological developments, may be eligible for service under this Incubator Development Incentive.

- at least ~~75~~50% of the leased floor space in the facility must be to tenants actively engaged in 1. developing or demonstrating the business viablity of new technological processes; and/or 2. manufacturing activity and/or 3. developing a manufacturing process as classified in Division D, encompassing Major Groups 20 through 39 or services as specified in Section I, Major Group 87, of the Standard Industrial Classification Manual (1987 edition or supplements thereto)

- the facility must have a graduation policy requiring tenants to relocate outside of the facility after a specified period of time, not to exceed five (5) years

- upon application the customer must present to the Corporation appropriate documentation confirming their corporate status and demonstrating their intended operation as a~~n~~ ~~industrial~~business incubator facility.

For customers who qualify:

- All use for incubator participants and administration, including support service and anchor tenants will be qualified to receive the incentive.

- The incentive rate will apply to the customer's total monthly kilowatt-hour~~kilowatthour~~ usage.

~~Issued under authority of Order of the Public Service Commission dated February 27, 2002, in Case 01-E-0359.~~

GENERAL INFORMATION

13. ~~Industrial~~ Incubator Development Incentive (IDI): (Cont'd)

For customers who qualify: (Cont'd)

The ~~industrial~~ Incubator Development Incentive per kWh in effect at the time of qualification, as stated in the Special Provision of the applicable service classification, will be applied to the customer's bill for the duration of the customer's qualification. However, the incentive rate will be subject to periodic (not to exceed annual) review and possible modification, with Public Service Commission approval.

NYSEG reserves the right to discontinue the availability of this incentive, on one year's notice, upon determination it is no longer economically or financially needed or feasible.

Upon discontinuation of the incentive, NYSEG will provide the incentive on a pro-rata basis to the remaining qualified tenants for 5 years after the notification of intent to discontinue the incentive provision.

A qualified customer may choose to take their entire service under Service Classification No. 7, for the duration of the incentive term. At the end of this term the customer may elect either to remain on the SC7 rate, or revert to the otherwise applicable service classification.

The customer agrees to undergo a NYSEG-supplied energy audit or similar site-specific technical information program and to assess in good faith the resulting recommendations for inclusion in the customer's facility.

14. Competitive Metering Option:

(a) This Section contains the rates, terms and conditions of the Corporation's Competitive Metering Option, consistent with the Commission's New York Practices and Procedures for The Provision of Electric Metering In A Competitive Environment, set forth within Addendum-MET of PSC 90 ("Manual"), or superseding issues thereof. Qualified Customers, defined as those who have a metered demand of at least 50 kW at each meter in any two consecutive months during the most recent twelve (12) month period, may select the Competitive Metering Option as set forth in this Schedule.