April 1, 2010

VIA HAND DELIVERY AND E-MAIL

Honorable Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 07-M-0906 – Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for the Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.

Dear Secretary Brilling:

Pursuant to Appendix 1 of the Joint Proposal on the Code of Conduct, which was adopted by the New York State Public Service Commission in its June 24, 2009 Order in the above-referenced case, New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation, hereby file their Code of Conduct Annual Reports.

If you have any questions regarding this filing, please contact me.

Respectfully submitted,

James A. Lahtinen

James A. Lahtinen

Enclosures

Iberdrola Code of Conduct
Annual Reporting Requirements

For the Year ended December 31, 2009

Reporting Requirements per Appendix 1 Reports section of Case 07-M-0906 Joint Proposal on the Code of Conduct , dated December 8, 2008

I. Asset Transfers

No assets transferred above the market value of $1m. as referenced in Appendix 1 Affiliate Relations, #3.

II. Employee Transfers

No employee transferred as referenced in Appendix 1 Affiliate Relations, # 4 iii).

III. Employee Loans

Detailed information on employee loans associated with storm restoration work will be provided in a supplemental filing. The costs associated with these employees are included in the Affiliate Charges information incorporated in this filing.

IV. Cost allocations

Cost Manual – NYSEG
Cost Manual – RG&E
Cost Manual – Iberdrola USA (IUMC)
Summary of Allocation Percentages to Allocate Charges to RGE and associated allocation factors
Summary of Allocation Percentages to Allocate Charges to NYSEG and associated allocation factors

V. Affiliate Transactions

Affiliate Charges

VI. Competitor/Customer Complaints

Competitor Issues

Rochester Gas & Electric Company

Cost Manual

2009

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I. INTRODUCTION

Rochester Gas & Electric Company (RGE) provides various business services to affiliates of Iberdrola USA. This manual will explain how the costs for these services are allocated to the affiliated companies which details the cost methodologies formally required under PUHCA. These guidelines will avoid ratepayer subsidization of non-core de minimis and affiliate activities.

II. DEFINITIONS

- **Affiliates** - companies that are related to each other due to common ownership or control.
- **Attributable Costs -** costs which are assigned to affiliates or non-core activities that bear a causal relationship and are allocated based on a causal measurement.
- **Cost Allocators** - a measurable method that accurately allocates costs. Cost allocators are based on the origin of costs or cost-causation.
- **Cost Driver -** a meaningful and measurable determinant by which to allocate costs.
- **Direct Costs -** costs that are specifically incurred on behalf of one or more affiliates or non-core activities.
- **Fully Distributed Costs -** the apportionment of all costs, directly or indirectly, to the benefiting affiliates, or non-core activities, for the services provided.
- **Global Costs** - costs which do not have a specific identifiable causal relationship with a particular affiliate but apply to all affiliates.
- **Massachusetts Formula Allocator** – the methodology by which certain shared services costs are allocated. The Massachusetts Formula allocation factor is based upon three components – average gross plant (original plant in service), gross revenues (excluding intercompany revenues), and gross payroll expense – for each of the affiliates. The allocation is derived by giving each component a 1/3 weight and developing a ratio of each affiliates factors to the total. This methodology was adopted beginning January 1, 2001.

III. COST ALLOCATION PRINCIPLES & APPROACH

RGE uses a cost allocation methodology designed to achieve two goals:

1. Fully distributing costs to the affiliates and non-core activities; and

2. Ensuring that non-core activities performed by RGE that are de minimis are accounted for as a charge to non-operating results. Non-core activities that are not de minimis are provided through a non-regulated affiliate unless expressively permitted by any regulatory commission to be provided by RGE. Currently, certain non-de minimis non-core activities are provided through separate unregulated affiliates.

RGE's overall cost allocation methodology is comprised of the following three steps:

1. To directly charge all labor, materials and other expenses to affiliates whenever feasible.

2. To allocate directly attributable costs to affiliates based upon a measurable cost causing relationship, i.e., occupancy costs are allocated on square footage.

3. To allocate indirectly attributable costs which are common to all affiliates using the global allocation factor taking into consideration the relative size of each affiliate with regards to average gross plant (original plant in service), gross revenues (excluding intercompany revenues), and gross payroll expense, commonly referred to as the Massachusetts Formula.

III A. Direct Assignment of Costs

Whenever possible, direct costs of providing services to the affiliates and non-core activities are processed through the time reporting system. The business rule at RGE is to directly charge costs (in 1/4 hour increments) to affiliates or non-core activities.

One example of direct assignment is if a person works one hour for an affiliate, he or she will direct charge that hour on his or her time sheet to that affiliate. If the employee's supervisor reviews the work performed or provides guidance to the employee performing the work, the supervisor will also charge his or her time to the affiliate.

Material and other non-labor costs incurred for the benefit of an affiliate or non-regulated business activity are also directly charged, where feasible.

III B. Attributable Costs

When costs are not directly assigned, RGE may then pool certain costs and assign them to the cost causing affiliates or non-core activities based on a causal measurement.

The cost pools include, but are not limited to, the space these areas occupy in RGE's facilities and the assets they use. Cost drivers are utilized to allocate costs to the benefiting affiliates or non-core activities.

In order to ensure that costs are being fully distributed, two overheads are applied to direct labor. These overheads are:

1) Payroll related overheads (fringe benefits, payroll taxes, etc.)
2) occupancy overhead (includes asset usage and building costs)

Direct Labor Overheads

1. Payroll Related Overheads:

Payroll Overheads are labor related costs such as OPEB, healthcare and similar benefits costs, and payroll taxes, etc., which is allocated monthly, based on labor charges.

2. Occupancy Overhead:

This overhead is applied to billable labor expenses.
The Occupancy Overhead is a combination of two overheads:

A) Common Asset and Consumables component – this component recovers the cost of supplies, furniture and desktop equipment (including PCs) used by RGE employees when doing work that benefits an affiliated company.
B) Occupancy Overhead component - this component recovers costs related to the workspace occupied in the building by RGE employees when doing work that benefits an affiliated company.

III C. Global Costs

Global costs do not bear a causal relationship with a particular affiliate, but apply to all affiliates. These costs are allocated based upon a "Mass Formula allocation factor" to all affiliates.

IV. ASSETS

IV. A. Use of Assets by Affiliates

In some instances, assets that were originally purchased by RGE could be used by other affiliates. The affiliate receiving the benefit of the asset must fully compensate RGE for the costs associated with that asset. The rental charge is determined using an economic carrying cost calculation for the assets being utilized. Examples:

1) affiliates occupy space in buildings owned or leased by RGE
2) affiliates use furniture and/or PCs owned by RGE

When RGE uses an asset owned by a non-regulated affiliate, RGE must pay the same price as charged to non-affiliates, if available. Otherwise, fully distributed costs will be used.

IV. B. Asset Transfers

When ownership of an asset originally purchased by RGE is transferred to an affiliate, the value of the asset will be determined by any regulatory commission ruling involving asset transfers.

When ownership of an asset is transferred from an affiliate to RGE, the value of the asset will be determined by any regulatory commission ruling involving asset transfers.

V. BILLING TO AFFILIATES

IUMC will prepare all RGE bills to the affiliates. The monthly bill will be itemized such that direct charges, overheads and shared services costs will be shown separately by work request.

To ensure that labor is cross-charged appropriately all managers are required to approve and sign timesheets for all of their employees. This is done either electronically within the ESS/MSS system or by signing paper copies of timesheets that are input into SAP by trained timekeepers. Additionally, IUMC reviews each cross-charge between operating companies to check for possible errors. If an error is suspected, the charges in question are confirmed with the employee's manager immediately and if needed, a correction is completed within ESS/MSS or within SAP. Each affiliate company is provided with a monthly invoice prepared by IUMC containing a detailed listing of all cross-charged labor by employee. The invoice is itemized such that direct charges, overheads and shared services costs are shown separately by work request. It is required that this invoice be reviewed and approved by the appropriate authority before any funds are transferred. Additionally, a review is completed by both IUMC and RGE of all cross-charges twice a year during the service agreement process.

VI. UPDATE OF PROCEDURES

The methodology described in this manual will be reviewed at least annually and updated as necessary. Specific allocators will be reviewed quarterly and updated as necessary, i.e. number of employees, etc. IUMC will coordinate this review with the affiliates and update this manual as necessary.

VII. USS Cost Accumulation and Allocation Process

Throughout the month USS charges all direct, indirect, and distributed costs to appropriate Internal Orders. Internal Orders established within the general ledger system track costs associated with services provided.

Internal orders are distributed to the appropriate affiliate based on the allocation factor associated with that internal order. All costs that can be specifically attributed to an affiliate are directly charged to that affiliate company. Services that are provided to or will result in benefits to multiple affiliate companies are considered distributed. Each of the benefiting affiliate companies will be charged proportionately for a distributed service based on a cost causation driver associated with the service.

The Global Allocation Factor is used to allocate costs for services provided by USS on behalf of all IUSA entities. The cost of performing these global services are pooled and allocated based on the global allocation factor, commonly referred to as the Massachusetts Formula.

At month end IUMC prepares and renders invoices and request for transfer of funds from all IUSA entities within 30 days.

Authorized personnel from the affiliate companies review, approve, and submit the invoice/request for transfer for payment. For companies not utilizing the SAP system, invoice amounts are recorded in the proper accounts on their general ledgers.

Appendix 1

Rochester Gas & Electric Co.
Calculation of Payroll Overhead Rate
(2009)

OPEB Expenses		$ 5,723,205
Payroll Taxes		$ 5,430,538
Insurance Expenses		$ 7,508,664
Other		$ 2,926,554
Total Benefit Expenses	A	**$ 21,588,961**
Total Labor	B	**$ 70,698,619**
Payroll Overhead Rate	A / B	**30.54%**

Appendix 2

Rochester Gas & Electric Co.
Calculation of Occupancy Overhead Rate
(2009)

Asset Usage Costs		$ 8,535,590
Occupancy Costs		$ 3,157,260
Total Costs	A	**$ 11,692,850**
Total Labor	B	**$ 73,077,796**
Combined Occupancy Overhead Rate	A / B	**16.00%**

New York State Electric & Gas Corporation

Cost Manual

2009

Table of Contents

I. INTRODUCTION

New York State Electric & Gas Corporation (NYSEG) provides various business services to affiliates of Iberdrola USA. This manual will explain how the costs for these services are allocated to the affiliated companies which details the cost methodologies formally required under PUHCA. These guidelines will avoid ratepayer subsidization of non-core de minimis and affiliate activities.

II. DEFINITIONS

- **Affiliates** - companies that are related to each other due to common ownership or control.
- **Attributable Costs -** costs which are assigned to affiliates or non-core activities that bear a causal relationship and are allocated based on a causal measurement.
- **Cost Allocators** - a measurable method that accurately allocates costs. Cost allocators are based on the origin of costs or cost-causation.
- **Cost Driver -** a meaningful and measurable determinant by which to allocate costs.
- **Direct Costs -** costs that are specifically incurred on behalf of one or more affiliates or non-core activities.
- **Fully Distributed Costs -** the apportionment of all costs, directly or indirectly, to the benefiting affiliates, or non-core activities, for the services provided.
- **Global Costs** - costs which do not have a specific identifiable causal relationship with a particular affiliate but apply to all affiliates.
- **Massachusetts Formula Allocator** – the methodology by which certain shared services costs are allocated. The Massachusetts Formula allocation factor is based upon three components – average gross plant (original plant in service), gross revenues (excluding intercompany revenues), and gross payroll expense – for each of the affiliates. The allocation is derived by giving each component a 1/3 weight and developing a ratio of each affiliates factors to the total. This methodology was adopted January 1, 2001.

III. COST ALLOCATION PRINCIPLES & APPROACH

NYSEG uses a cost allocation methodology designed to achieve two goals:

1. Fully distributing costs to the affiliates and non-core activities; and

2. Ensuring that non-core activities performed by NYSEG that are de minimis are accounted for as a charge to non-operating results. Non-core activities that are not de minimis are provided through a non-regulated affiliate unless expressively permitted by any regulatory commission to be provided by NYSEG. Currently, certain non-de minimis non-core activities are provided through separate unregulated affiliates.

NYSEG's overall cost allocation methodology is comprised of the following three steps:

1. To directly charge all labor, materials and other expenses to affiliates whenever feasible.

2. To allocate directly attributable costs to affiliates based upon a measurable cost causing relationship, i.e., occupancy costs are allocated on square footage.

3. To allocate indirectly attributable costs which are common to all affiliates using the global allocation factor taking into consideration the relative size of each affiliate with regards to average gross plant (original plant in service), gross revenues (excluding intercompany revenues), and gross payroll expense, commonly referred to as the Massachusetts Formula.

III A. Direct Assignment of Costs

Whenever possible, direct costs of providing services to the affiliates and non-core activities are processed through the time reporting system. The business rule at NYSEG is to directly charge costs (in 1/4 hour increments) to affiliates or non-core activities.

One example of direct assignment is if a person works one hour for an affiliate, he or she will direct charge that hour on his or her time sheet to that affiliate. If the employee's supervisor reviews the work performed or provides guidance to the employee performing the work, the supervisor will also charge his or her time to the affiliate.

Material and other non-labor costs incurred for the benefit of an affiliate or non-regulated business activity are also directly charged, where feasible.

III B. Attributable Costs

When costs are not directly assigned, NYSEG may then pool certain costs and assign them to the cost causing affiliates or non-core activities based on a causal measurement.

The cost pools include, but are not limited to, the space these areas occupy in NYSEG's facilities and the assets they use. Cost drivers are utilized to allocate costs to the benefiting affiliates or non-core activities.

In order to ensure that costs are being fully distributed, two overheads are applied to direct labor. These overheads are:

1) Payroll related overheads (fringe benefits, payroll taxes, etc.)
2) Occupancy overhead (includes asset usage and building costs)

NYSEG also has an inventory overhead (Storage, Freight and Handling rate), which is applied to the cost of materials.

Direct Labor Overheads

1. Payroll Related Overheads:

Payroll Overheads are labor related costs such as pension, healthcare and similar benefits costs, and payroll taxes, etc., which is allocated monthly, based on labor charges.

2. Occupancy Overhead:

This overhead is applied to billable labor expenses.
The Occupancy Overhead is a combination of two overheads:

A) Common Asset and Consumables component – this component recovers the cost of supplies, furniture and desktop equipment (including PCs) used by NYSEG employees when doing work that benefits an affiliated company.
B) Occupancy Overhead component - this component recovers costs related to the workspace occupied in the building by NYSEG employees when doing work that benefits an affiliated company.

Other Non-Labor Overheads

Inventory Overhead (Storage, Freight and Handling rate):

This overhead includes warehousing, lobby stock materials, and building costs related to warehouse facilities. This rate is applied to the cost of material issued from NYSEG warehouses.

III C. Global Costs

Global costs do not bear a causal relationship with a particular affiliate, but apply to all affiliates. These costs are allocated based upon the "Mass Formula allocation factor" to all affiliates.

IV. ASSETS

IV. A. Use of Assets by Affiliates

In some instances, assets that were originally purchased by NYSEG could be used by other affiliates. The affiliate receiving the benefit of the asset must fully compensate NYSEG for the costs associated with that asset. The rental charge is determined using an economic carrying cost calculation for the assets being utilized. Examples:

1) affiliates occupy space in buildings owned or leased by NYSEG
2) affiliates use furniture and/or PCs owned by NYSEG

When NYSEG uses an asset owned by a non-regulated affiliate, NYSEG must pay the same price as charged to non-affiliates, if available. Otherwise, fully distributed costs will be used.

IV. B. Asset Transfers

When ownership of an asset originally purchased by NYSEG is transferred to an affiliate, the value of the asset will be determined by any regulatory commission ruling involving asset transfers.

When ownership of an asset is transferred from an affiliate to NYSEG, the value of the asset will be determined by any regulatory commission ruling involving asset transfers.

V. BILLING TO AFFILIATES

IUMC will prepare all NYSEG bills to the affiliates. The monthly bill will be itemized such that direct charges, overheads and shared services costs will be shown separately by work request.

To ensure that labor is cross-charged appropriately all managers are required to approve and sign timesheets for all of their employees. This is done either electronically within the ESS/MSS system or by signing paper copies of timesheets that are input into SAP by trained timekeepers. Additionally, IUMC reviews each cross-charge between operating companies to check for possible errors. If an error is suspected, the charges in question are confirmed with the employee's manager immediately and if needed, a correction is completed within ESS/MSS or within SAP. Each affiliate company is provided with a monthly invoice prepared by IUMC containing a detailed listing of all cross-charged labor by employee. The invoice is itemized such that direct charges, overheads and shared services costs are shown separately by work request. It is required that this invoice be reviewed and approved by the appropriate authority before any funds are transferred. Additionally, a review is completed by both IUMC and NYSEG of all cross-charges twice a year during the service agreement process.

VI. UPDATE OF PROCEDURES

The methodology described in this manual will be reviewed at least annually and updated as necessary. Specific allocators will be reviewed quarterly and updated as necessary, i.e. number of employees, etc. IUMC will coordinate this review with the affiliates and update this manual as necessary.

VII. IUMC Cost Accumulation and Allocation Process

Throughout the month IUMC charges all direct, indirect, and distributed costs to appropriate Internal Orders. Internal Orders established within the general ledger system track costs associated with services provided.

Internal orders are distributed to the appropriate affiliate based on the allocation factor associated with that internal order. All costs that can be specifically attributed to an affiliate are directly charged to that affiliate company. Services that are provided to or will result in benefits to multiple affiliate companies are considered distributed. Each of the benefiting affiliate companies will be charged proportionately for a distributed service based on a cost causation driver associated with the service.

The Global Allocation Factor is used to allocate costs for services provided by IUMC on behalf of all IUSA entities. The cost of performing these global services are pooled and allocated based on the global allocation factor, commonly referred to as the Massachusetts Formula.

At month end IUMC prepares and renders invoices and request for transfer of funds from all IUSA entities within 30 days.

Authorized personnel from the affiliate companies review, approve, and submit the invoice/request for transfer for payment. For companies not utilizing the SAP system, invoice amounts are recorded in the proper accounts on their general ledgers.

Appendix 1

New York State Electric & Gas Corp.
Calculation of Payroll Overhead Rate
(2009)

Pension & OPEB Expenses		$ 2,341,249
Payroll Taxes		$ 14,118,562
Insurance Expenses		$ 23,769,517
Other		$ 3,658,716
Total Benefit Expenses	A	**$ 43,888,044**
Total Labor	B	**$ 185,750,104**
Payroll Overhead Rate	A / B	**23.63%**

Appendix 2

New York State Electric & Gas Corp.
Calculation of Occupancy Overhead Rate
(2009)

Asset Usage Costs		$ 10,572,306
Occupancy Costs		$ 9,078,875
Total Costs	A	**$ 19,651,181**
Total Labor	B	**$179,819,919**
Combined Occupancy Overhead Rate	A / B	**10.93%**

Appendix 3

New York State Electric & Gas Corp.
Calculation of Storage, Freight, & Handling Overhead Rate
(2009)

Total Stores Expenses	A	**$ 3,992,819**
Total Material Issues	B	**$ 20,093,006**
Storage, Freight, & Handling Overhead Rate	A / B	**19.87%**

General Description

The Cost Allocation Procedure is the process by which costs of services provided by Iberdrola USA Management Corporation (IUMC), the service company within the Iberdrola USA, Inc. Organization (IU), are fully and properly distributed to the Client Companies in the IU organization that are receiving the services or that benefit from the services.

To the maximum extent practical, all costs that can be specifically attributed to a Client Company are directly charged. Services that will be provided to or will result in benefits to two or more Client Companies are considered distributed. Each of the benefiting Client Companies will be charged proportionately for a distributed service based on a cost causation driver associated with the service. For example, the "Global Allocation" factor will be used to allocate costs for services provided by IUMC that benefit all entities within the IU organization whereas the "Regulated Global 5" factor will be used when only NYSEG, RGE, SCG, CNG and CMP benefit from the services. The costs of these services are collected within the appropriate internal orders and then are allocated based on the global allocation factor percentages. The percentages are calculated using what is commonly referred to as the Massachusetts Formula.

Procedural Steps

1. Accumulate costs into the appropriate cost collector which should be an Internal Order (IO);
2. Perform cost allocation and accounting; and
3. Bill Client companies

Key Work Products

Completed by IUMC

- Documentation of allocation methods for each Internal Order
- Review and correct accounting transactions as appropriate
- Monthly IUMC invoices

Cost Assignment

Service Company maintains an accounting system that enables costs to be identified by Internal Order (I/O) number. These I/O numbers will indicate whether the cost is a direct charge or the result of an allocated charge. The primary inputs to the accounting system are time reports, accounts payable invoices and journal entries. Charges for labor are calculated using the employees' hourly rate. All Service Company employees will maintain a record of their time. Employees will utilize separate internal orders to record their activities, including the services provided directly to Client Companies. All employees will charge their time on a daily basis using designated increments. The time sheets will be reviewed and approved by department supervisors. The wages of those employees, such as administrative assistants and secretaries, who generally assist employees who provide services directly to Client companies, will be allocated based on the allocation of the wages of the employees they assist. Time records will be maintained for three years. Indirect attributable costs are charged to the services performed in proportion to the directly assigned costs or other appropriate cost allocations.

Service Company accounting, billing and cost allocation methods utilize the "Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies" and are structured so as to comply with the FERC standards for service companies in registered holding-company systems.

Costs will be accumulated by internal order number and assigned as follows:

1. Costs accumulated in an internal order number for services specifically performed for a single Client Company will be directly assigned or billed to that Client Company.

2. Costs accumulated in an internal order number for services specifically performed for two or more Client Companies will be distributed among those Client Companies using methods determined on a case-by-case basis consistent with the nature of the work performed and on one of the allocation methods described below.

3. Costs accumulated in an internal order number for services of a general nature, which are applicable to all Client Companies, will be allocated among all Client Companies, including the holding company, and billed to them using the global allocation factor.

Cost Allocation

Service Company uses cost allocation methods designed to fully distribute costs. Service Company's cost allocation methodology is comprised of the following three steps:

1. To "direct charge" all labor, materials and other expenses to Client Companies whenever feasible.

2. To allocate directly attributable costs to Client Companies based upon a measurable cost causing relationship, i.e., payroll department costs are allocated on the number of employees for each Client Company.

3. To allocate indirectly attributable costs that are common to all Client Companies, including the holding company, using the global allocation factor taking into consideration the relative size of each Client Company with regards to gross revenues, gross payroll expense and plant.

4. Costs that can be directly attributed to direct charges are allocated in proportion to the direct charges or other appropriate cost allocations. For example, direct labor charged to prepare testimony for a specific utility not only includes the direct payroll charge (the hourly rate times the hours reported) but also includes the cost of that individual's proportional payroll overhead cost, and such other overheads as common asset usage,

occupancy charges and management overhead charges (commonly referred in aggregate as an Administrative and General Overhead).

General and administrative costs that are not associated with a specific, identifiable, causal relationship are pooled and allocated to all Client Companies, including the holding company.

Allocation Methods

Allocations related to Direct Labor Charges

The following allocations will be applied to the Direct Labor Charges:

Payroll Overhead Charge will be calculated to recover costs associated with labor, such as pension, benefits, lost time and payroll taxes. The payroll overhead costs will be charged to Client Companies based on direct labor charges. The rate is computed by dividing the annual payroll overhead expenses by the annual base labor dollars.

Other Allocations applied to Direct Labor Charges will consist of the following:

1. Common Asset Usage Overhead:

   The Common Asset Usage Overhead allocates the cost of furniture and desktop equipment (including PC's) used by Service Company. The rate is calculated by dividing the economic carrying costs of the assets by the total actual labor dollars of employees using those assets. This overhead is directly applied to all Service Company labor charged or allocated to Client Companies.

2. Occupancy Overhead:

   The Occupancy Overhead allocates costs related to the workspace occupied by Service Company employees. The rate is calculated by dividing the economic carrying costs for the buildings by the total actual labor dollars of employees working in those buildings. This overhead is directly applied to all Service Company labor charged or allocated to Client Companies.

3. Management Overhead:

   This overhead represents the management cost of a function within Service Company. It is based on the ratio of Service Company supervisory wages to all other wages. This fixed rate is applied to all direct labor charged to Client Companies.

An Alternative Allocation Applied to Direct Labor Charges or Other Direct Charges

An alternative allocation applied to direct labor charges or other direct charges is commonly referred to as an Administrative and General Support Adder. This overhead is a general overhead used in place of other specific administrative and general support overheads and is added to total costs of client services. The purpose is to recover indirect administrative and general expenses incurred and not otherwise charged directly to Client Companies for certain activities. The adder also includes expenses associated with office facilities, including furniture and office equipment, used in performing these administrative functions.

Allocations related to Distributed Services

The following ratios will be used to allocate costs for services not directly assigned but pooled and allocated based on a causal measurement:

Number of Employees Ratio – Based on the number of employees benefiting from the performance of a service. This ratio will be determined annually based on actual count of applicable employees at the end of the previous calendar year and may be adjusted periodically due to a significant change.

Accounts Payable Ratio - Based on the number of invoices processed for each of the specific Client Companies. This ratio is determined annually based on the actual count of invoices at the end of the previous calendar year and may be adjusted periodically due to a significant change.

Number of Customers Ratio - Based on the number of customers at each Client Company benefiting from the performance of a service. This ratio will be determined annually based on the average annual customer count and may be adjusted periodically due to a significant change.

Global Allocation Factor – This formula will be determined annually based on the average of gross plant (original plant in service), gross payroll charges (salaries and wages, including overtime, shift premium and lost time, but excluding pension, payroll taxes and other employee benefits) and gross revenues during the previous calendar year and may be adjusted for any known and reasonable quantifiable events or at such time as may be required due to significant changes. This formula is commonly referred to as the Massachusetts Formula.

Regulated Global - 8 Allocation Factor – This formula is derived through utilization of the same data as the global allocation noted above, but it is limited to data of the eight regulated utility affiliates only. The eight utility companies include NYSEG, CMP, SCG, CNG, RGE, BGC, MNG, and NHGC.

Regulated Global – 6 Allocation Factor – This formula is derived through utilization of the same data as the Regulated Global – 8 allocation factor above, but it is limited to data of the following six utility subsidiaries: NYSEG, CMP, SCG, CNG, RGE, and BGC.

Regulated Global – 5 Allocation Factor – This formula is derived through utilization of the same data as the Regulated Global – 8 allocation factor above, but it is limited to data of the following five utility subsidiaries: NYSEG, CMP, SCG, CNG, and RGE.

Regulated Global – 4 Allocation Factor – This formula is derived through utilization of the same data as the Regulated Global – 8 allocation factor above, but it is limited to data of the following four utility subsidiaries: NYSEG, CMP, SCG, and CNG.

Commodity – Energy Supply Transaction System Allocation Factor – This formula is used to allocate the cost of management of the Energy Supply Transaction System to all Client Companies that benefit from this system. The formula is derived through utilization of the gas and/or electric supply costs of the Client Companies and reflects the proportion of such costs occurring between these entities.

Commodity - Global Allocation Factor – This formula is used to allocate the cost of commodity planning, procurement, and sale when the service is applicable to or benefits all Client Companies, regardless of whether they are a gas, electric, or combined company. The formula is derived through utilization of the gas and/or electric supply costs of the Client Companies and reflects the proportion of such costs occurring between these entities.

Commodity - Regulated Gas Allocation Factor – This formula is used to allocate costs for gas commodity planning, procurement and sale for regulated gas utility Client Companies. The formula is derived through utilization of the gas supply costs of the regulated gas utility affiliates and reflects the proportion of such costs occurring between these entities.

Electric Allocation Factor – This formula is used to allocate costs for the coordination and direction of electric transmission issues for the benefit of regulated electric utility Client Companies and departments. The formula is derived through utilization of the same data as the global allocation noted above, but it is limited to data of electric operating companies or departments.

Direct Costs

Direct costs include payroll or labor, materials, vendor invoices and other similar costs. Charges for labor are calculated using a standard hourly rate for each category of employees. The Service Company employees must record their time in appropriate increments and using the appropriate IO number in order to bill the Client Companies accurately.

Overheads Associated with Direct Costs

Overheads are added to the charges for the services performed in proportion to the amount of labor dollars that are directly assigned or allocated. For example, direct labor charged to a specific utility not only includes the direct payroll charge (the hourly rate times the hours reported) but also includes the proportional share of the monthly payroll overhead cost, and may also include other overheads such as common asset usage, occupancy charges and management overhead charges (commonly referred to in aggregate as an Administrative and General Overhead).

The following overhead charges may be applied to the Direct Labor Charges:

1. Payroll Overhead Charge (Benefit Overhead)

   The Payroll Overhead Charge will be calculated to recover costs associated with labor, such as pension, benefits, lost time and payroll taxes. The payroll overhead costs will be charged to client companies based on direct labor charges. The rate is computed by dividing the monthly payroll overhead expenses by the monthly base labor dollars.

2. Common Asset Usage Overhead

   The Common Asset Usage Overhead allocates the cost of furniture and desktop equipment (including PCs) used by the service companies. The rate is calculated by dividing the economic carrying costs of the assets by the total actual labor dollars of employees using those assets. This overhead may be directly applied to all service company labor charged or allocated to client entities.

3. Occupancy Overhead

   The Occupancy Overhead allocates costs related to the workspace occupied by the service companies' employees. The rate is calculated by dividing the economic carrying cost for the building by the total actual labor dollars of employees working in those buildings. This overhead is directly applied to all IUMC labor charged or allocated to Client Companies.

4. Management Overhead

   This overhead represents the management cost of a function within IUMC. It is based on the ratio of IUMC supervisory wages to all other wages. This fixed rate may be applied to all direct labor charged to Client Companies.

5. Alternative Administrative and General Support Adder

   An alternative allocation applied to direct labor charges or other direct charges is commonly referred to as an Administrative and General Support Adder. This overhead is a general overhead used in place of other specific administrative and general support overheads and is added to total costs of client services. The purpose is to recover indirect administrative and general expenses incurred and not otherwise charged directly to Client Companies for certain activities. The adder also includes expenses associated with office facilities, including furniture and office equipment, used in performing these administrative functions.

Description of Services

A description of each of the services performed by Service Company, which may be modified from time to time, is presented below.

1. Accounting Services such as establishing accounting policies, the maintenance of books and records, corporate financial consolidation, preparation of financial reports, annual capital and operating plan preparation (on a per company and corporate basis), fixed asset accounting, and compliance with applicable laws and regulations.

2. Audit Services include the management of an entity-wide framework of corporate controls.

3. Corporate Planning Services include the preparation of corporate plans, budgets and financial forecasts, monitoring trends and evaluating business opportunities.

4. Executive Services include general and administrative management and strategic planning.

5. Finance and Treasury Services include the coordination of activities relating to securities issuances, monitoring capital markets, cash management, bank reconciliation and administering insurance programs, and tax services for the coordination of income, property and revenue tax compliance and tax accounting.

6. Governmental Affairs Services include monitoring, reviewing and researching legislation and lobbying government officials.

7. Accounts Payable Services include the accurate and timely payment of invoices and employee expense reports, allocation of expenses to the proper general ledger accounts, production of annual reports to the IRS, maintenance of vendor information and source documents, processing checks and wire transfers, and performing bank reconciliations.

8. Human Resources Services include the establishment and administration of employee policies, the supervision of compliance with legal requirements in the areas of employment, compensation, benefits and employee health, welfare, and safety and contract negotiation and relations management with labor unions; and employee performance management program. May also maintain the employee master files relating to each employee as well as manage recruiting, training, and promotions.

9. Payroll Services include the supervision and coordination of the calculations, records and control requirements necessary to generate payment of employee salaries and wages and to maintain relevant employee information.

10. Records Retention Services include coordinating and maintaining a program for ensuring safe on- and off-site records retention in accordance with applicable regulations.

11. Regulatory Management Services include coordination of the Client Companies' rates and regulatory economics departments including rate-related compliance matters.

12. Legal Services include the coordination and direction of law and regulatory departments, legal support for all of the Client Companies, including managing litigation, contract review and negotiations and participating in state and federal regulatory proceedings.

13. Other Corporate Support Services may include corporate communications services.

14. Transmission and Supply Services include activities related to the coordination and direction of electric and/or gas transmission, storage, and supply functions.

15. Distribution Operation Services include activities related to the coordination and direction of electric and/or gas distribution operation functions.

16. Information Technology Services include centralized information technology services for the Client Companies such as Data Center Operations, IS Networking and Telecommunications systems operations and maintenance, software applications development and maintenance, technology development, end user support, and printing and mailing of utility customer bills.

17. Supply Chain Services include centralized purchasing services such as procurement of materials and supplies, fleet services, contract administration and materials management for the Client Companies.

18. Customer Services include call center operations including responding to Client Companies' customer calls, customer billing, accounts receivable, credit and collections services, customer satisfaction monitoring and management of low income programs.

19. Engineering Services include centralized customary engineering services including design engineering, general engineering, construction engineering and GIS technology development, meter services and testing and operations.

20. Commodity Planning Service includes coordination and direction of gas or electric supply planning and procurement at utility or non-utility companies.

SERVICE AGREEMENT BETWEEN IBERDROLA USA MANAGEMENT CORPORATION AND __________________ [CLIENT COMPANY]

This Service Agreement is made and entered into this _____ day of ___________, 2010 by and between ______________________("Client Company") and Iberdrola USA Management Corporation ("Service Company").

WITNESSETH

WHEREAS, the Service Company was organized as a wholly-owned subsidiary service company of Iberdrola USA, Inc. based upon authorization from the Securities and Exchange Commission ("SEC") in accordance with the requirements of Section 13(b) of the Public Utility Holding Company Act of 1935 ("35 Act"); and

WHEREAS, the Energy Policy Act of 2005 ("EPAct 2005") repealed the 35 Act and the Service Company now conducts business in accordance with applicable provisions of EPAct 2005, including but not limited to the Public Utility Holding Company Act of 2005 and the regulations of the Federal Energy Regulatory Commission ("FERC"); and

WHEREAS, Client Company is a utility operating company subsidiary of Iberdrola USA, Inc. and an associate of Service Company; and

WHEREAS, Service Company and Client Company have entered into this Service Agreement whereby Service Company agrees to provide and Client Company agrees to accept and pay for various services as provided herein at cost, with cost determined in accordance with applicable rules and regulations under the Act, which require Service Company to fairly and equitably allocate costs among all associate companies to which it renders services (collectively, the "Client Companies"), including Client Company.

NOW THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties to this Service Agreement covenant and agree as follows:

ARTICLE I - SERVICES

Section 1.1 Service Company shall furnish to Client Company, as requested by Client Company, upon the terms and conditions hereinafter set forth, such of the services described in Appendix A hereto, at such times, for such periods and in such manner as Client Company may from time to time request and that Service Company concludes it is able to perform. Service Company shall also provide Client Company with such special services, so long as such special services do not materially add to those services described in Appendix A hereto, as may be requested by Client Company and that Service Company concludes it is able to perform. In supplying such services, Service Company may arrange, where it deems appropriate, for the services of such experts, consultants, advisers, and other persons with necessary qualifications as are required for or pertinent to the provision of such services.

Section 1.2 Client Company shall take from Service Company such of the services described in Appendix A, and such additional general or special services, as limited by subsection 1.1 hereof, as are requested from time to time by Client Company and that Service Company concludes it is able to perform.

Section 1.3 The cost of the services described herein or contemplated to be performed hereunder shall be directly assigned, distributed or allocated by activity, project, program, internal order or other appropriate basis. Client Company shall have the right from time to time to amend or alter any activity, project, program or internal order provided that (i) any such amendment or alteration that results in a material change in the scope of the services to be performed or equipment to be provided is agreed to by Service Company, (ii) the cost for the services covered by the activity, project, program or internal order shall include any expense incurred by Service Company as a direct result of such amendment or alteration of the activity, project, program or internal order, and (iii) no amendment or alteration of an activity, project, program or internal order shall release Client Company from liability for all costs already incurred by or contracted for by Service Company pursuant to the activity, project, program or internal order, regardless of whether the services associated with such costs have been completed.

Section 1.4 Service Company shall use its best efforts to maintain a staff trained and experienced in the services described in Appendix A.

ARTICLE II – COMPENSATION

Section 2.1 As compensation for the services to be rendered hereunder, Client Company shall pay to Service Company all costs that reasonably can be identified and related to particular services performed by Service Company for or on its behalf. The methods for assigning or allocating Service Company costs to Client Company, as well as to other associate companies, are set forth in Appendix A.

Section 2.2 It is the intent of this Service Agreement that charges for services shall be distributed among Client Companies, to the extent possible, based upon direct assignment. The amounts remaining after direct assignment shall be allocated among the Client Companies using the methods identified in Appendix A. The method of assignment or allocation of cost shall be subject to review by the Service Company annually, or more frequently if appropriate. Such method of assignment or allocation of costs may be modified or changed by the Service Company without the necessity of an amendment to this Service Agreement; provided that, in each instance, all services rendered hereunder shall be at actual cost thereof, fairly and equitably assigned or allocated, all in accordance with the requirements of the Act and any orders promulgated thereunder. The Service Company shall review with the Client Company any proposed material change in the method of assignment or allocation of costs hereunder and the parties must agree to any such changes before they are implemented.

Section 2.3 Service Company shall render a monthly report to Client Company that shall reflect the information necessary to identify the costs charged for that month in accordance with the Uniform System of Accounts for Mutual and Subsidiary Service Companies. Client Company shall remit to Service Company all charges billed to it within 30 days of receipt of the monthly report. Any amounts not paid by the due date will be subject to a late charge of .5 % per month until the remittance is received.

Section 2.4 It is the intent of this Service Agreement that the payment for services rendered by Service Company to Client Company under this Service Agreement shall cover all the costs of its doing business including, but not limited to, salaries and wages, office supplies and expenses, outside services employed, property insurance, injuries and damages, employee pensions and benefits, miscellaneous general expenses, rents, maintenance of structures and equipment, depreciation and amortization, and compensation for use of capital as permitted by applicable laws and regulations.

Section 2.5 Service Company and Client Company agree that the amount of compensation to be paid by Client Company hereunder is subject to the review and determination of the regulatory commission of the appropriate jurisdiction.

ARTICLE III- TERM

This Service Agreement shall become effective as of the date first written above, subject only to the receipt of any required regulatory approvals from any State regulatory commission with jurisdiction over Client Company, and shall continue in force until terminated by Service Company or Client Company, upon not less than 90 days prior written notice to the other party. This Service Agreement shall also be subject to termination or modification at any time, without notice, if and to the extent performance under this Service Agreement may conflict with the Act or with any rule, regulation or order of the FERC or any State regulatory commission with jurisdiction over Client Company adopted before or after the date of this Service Agreement.

ARTICLE IV - MISCELLANEOUS

Section 4.1 All accounts and records of Service Company shall be kept in accordance with applicable rules and regulations promulgated by the FERC, in particular, the Uniform System of Accounts for Centralized Service Companies in effect from and after the date hereof.

Section 4.2 New direct or indirect subsidiaries of Iberdrola USA, Inc., which may come into existence after the effective date of this Service Agreement, may become additional Client Companies of Service Company and subject to a service agreement with Service Company. The parties hereto shall make such changes in the scope and character of the services to be rendered and the method of assigning, distributing or allocating costs of such services as specified in Appendix A, subject to the requirements of Section 2.2, as may become necessary to achieve a fair and equitable assignment, distribution, or allocation of Service Company costs among all associate companies including the new subsidiaries.

Section 4.3 Service Company shall permit Client Company access to its accounts and records including the basis and computation of allocations.

IN WITNESS WHEREOF, the parties hereto have caused this Service Agreement to be executed as of the date and year first above written.

Iberdrola USA Management Corporation

BY: ____________________
Robert D. Kump
Chief Executive Officer

[CLIENT COMPANY]

BY:____________________

President

The undersigned requests all services described in Appendix A and listed in the Internal Order Summary from Iberdrola USA Management Corporation. Services will begin January 1, 2010.

[CLIENT COMPANY]

BY:____________________

President

Appendix A

Description of Services to be Provided by Iberdrola USA Management Corporation (Service Company) and Determination of Charges for Such Services to the Client Companies

This document sets forth the methodologies used to accumulate the costs of services performed by Iberdrola USA Management Corporation ("IUMC") and to assign or allocate such costs to utility subsidiaries within Iberdrola USA, Inc. ("Client Companies").

Description of Services

A description of each of the services performed by Service Company, which may be modified from time to time, is presented below.

21. Accounting Services such as establishing accounting policies, the maintenance of books and records, corporate financial consolidation, preparation of financial reports, annual capital and operating plan preparation (on a per company and corporate basis), fixed asset accounting, and compliance with applicable laws and regulations.

22. Audit Services include the management of an entity-wide framework of corporate controls.

23. Corporate Planning Services include the preparation of corporate plans, budgets and financial forecasts, monitoring trends and evaluating business opportunities.

24. Executive Services include general and administrative management and strategic planning.

25. Finance and Treasury Services include the coordination of activities relating to securities issuances, monitoring capital markets, cash management, bank reconciliation and administering insurance programs, and tax services for the coordination of income, property and revenue tax compliance and tax accounting.

26. Governmental Affairs Services include monitoring, reviewing and researching legislation and lobbying government officials.

27. Accounts Payable Services include the accurate and timely payment of invoices and employee expense reports, allocation of expenses to the proper general ledger accounts, production of annual reports to the IRS, maintenance of vendor information and source documents, processing checks and wire transfers, and performing bank reconciliations.

28. Human Resources Services include the establishment and administration of employee policies, the supervision of compliance with legal requirements in the areas of employment, compensation, benefits and employee health, welfare, and safety and contract negotiation and relations management with labor unions; and employee performance management program. May also maintain the employee master files relating to each employee as well as manage recruiting, training, and promotions.

29. Payroll Services include the supervision and coordination of the calculations, records and control requirements necessary to generate payment of employee salaries and wages and to maintain relevant employee information.

30. Records Retention Services include coordinating and maintaining a program for ensuring safe on- and off-site records retention in accordance with applicable regulations.

31. Regulatory Management Services include coordination of the Client Companies' rates and regulatory economics departments including rate-related compliance matters.

32. Legal Services include the coordination and direction of law and regulatory departments, legal support for all of the Client Companies, including managing litigation, contract review and negotiations and participating in state and federal regulatory proceedings.

33. Other Corporate Support Services may include corporate communications services.

34. Transmission and Supply Services include activities related to the coordination and direction of electric and/or gas transmission, storage, and supply functions.

35. Distribution Operation Services include activities related to the coordination and direction of electric and/or gas distribution operation functions.

36. Information Technology Services include centralized information technology services for the Client Companies such as Data Center Operations, IS Networking and Telecommunications systems operations and maintenance, software applications development and maintenance, technology development, end user support, and printing and mailing of utility customer bills.

37. Supply Chain Services include centralized purchasing services such as procurement of materials and supplies, fleet services, contract administration and materials management for the Client Companies.

38. Customer Services include call center operations including responding to Client Companies' customer calls, customer billing, accounts receivable, credit and collections services, customer satisfaction monitoring and management of low income programs.

39. Engineering Services include centralized customary engineering services including design engineering, general engineering, construction engineering and GIS technology development, meter services and testing and operations.

40. Commodity Planning Service includes coordination and direction of gas or electric supply planning and procurement at utility or non-utility companies.

Service Company accounting, billing and cost allocation methods utilize the "Uniform System of Accounts for Mutual Service Companies and Subsidiary Service Companies" and are structured so as to comply with the FERC standards for service companies in registered holding-company systems.

Cost Assignment

Service Company maintains an accounting system that enables costs to be identified by Internal Order (I/O) number. These I/O numbers will indicate whether the cost is a direct charge or the result of an allocated charge. The primary inputs to the accounting system are time reports, accounts payable invoices and journal entries. Charges for labor are calculated using the employees' hourly rate. All Service Company employees will maintain a record of their time. Employees will utilize separate internal orders to record their activities, including the services provided directly to Client Companies. All employees will charge their time on a daily basis using designated increments. The time sheets will be reviewed and approved by department supervisors. The wages of those employees, such as administrative assistants and secretaries, who generally assist employees who provide services directly to system companies, will be allocated based on the allocation of the wages of the employees they assist. Time records will be maintained for three years. Indirect attributable costs are charged to the services performed in proportion to the directly assigned costs or other appropriate cost allocations.

Costs will be accumulated by internal order number and assigned as follows:

4. Costs accumulated in an internal order number for services specifically performed for a single Client Company will be directly assigned or billed to that Client Company.

5. Costs accumulated in an internal order number for services specifically performed for two or more Client Companies will be distributed among those Client Companies using methods determined on a case-by-case basis consistent with the nature of the work performed and on one of the allocation methods described below.

6. Costs accumulated in an internal order number for services of a general nature, which are applicable to all Client Companies, will be allocated among all Client Companies, including the holding company, and billed to them using the global allocation factor.

Cost Allocation

Service Company uses cost allocation methods designed to fully distribute costs. Service Company's cost allocation methodology is comprised of the following three steps:

5. To "direct charge" all labor, materials and other expenses to Client Companies whenever feasible.

6. To allocate directly attributable costs to Client Companies based upon a measurable cost causing relationship, i.e., payroll department costs are allocated on the number of employees for each Client Company.

7. To allocate indirectly attributable costs that are common to all Client Companies, including the holding company, using the global allocation factor taking into consideration the relative size of each Client Company with regards to gross revenues, gross payroll expense and plant.

Costs that can be directly attributed to direct charges are allocated in proportion to the direct charges or other appropriate cost allocations. For example, direct labor charged to prepare testimony for a specific utility not only includes the direct payroll charge (the hourly rate times the hours reported) but also includes the cost of that individual's proportional payroll overhead cost, and such other overheads as common asset usage, occupancy charges and management overhead charges (commonly referred in aggregate as an Administrative and General Overhead).

General and administrative costs that are not associated with a specific, identifiable, causal relationship are pooled and allocated to all system companies, including the holding company.

Allocation Methods

Allocations related to Direct Labor Charges

The following allocations will be applied to the Direct Labor Charges:

Payroll Overhead Charge will be calculated to recover costs associated with labor, such as pension, benefits, lost time and payroll taxes. The payroll overhead costs will be charged to Client Companies based on direct labor charges. The rate is computed by dividing the annual payroll overhead expenses by the annual base labor dollars.

Other Allocations applied to Direct Labor Charges will consist of the following:

4. Common Asset Usage Overhead:

   The Common Asset Usage Overhead allocates the cost of furniture and desktop equipment (including PC's) used by Service Company. The rate is calculated by dividing the economic carrying costs of the assets by the total actual labor dollars of employees using those assets. This overhead is directly applied to all Service Company labor charged or allocated to Client Companies.

5. Occupancy Overhead:

   The Occupancy Overhead allocates costs related to the workspace occupied by Service Company employees. The rate is calculated by dividing the economic carrying costs for the buildings by the total actual labor dollars of employees working in those buildings. This overhead is directly applied to all Service Company labor charged or allocated to Client Companies.

6. Management Overhead:

   This overhead represents the management cost of a function within Service Company. It is based on the ratio of Service Company supervisory wages to all other wages. This fixed rate is applied to all direct labor charged to Client Companies.

An Alternative Allocation Applied to Direct Labor Charges or Other Direct Charges

An alternative allocation applied to direct labor charges or other direct charges is commonly referred to as an Administrative and General Support Adder. This overhead is a general overhead used in place of other specific administrative and general support overheads and is added to total costs of client services. The purpose is to recover indirect administrative and general expenses incurred and not otherwise charged directly to Client Companies for certain activities. The adder also includes expenses associated with office facilities, including furniture and office equipment, used in performing these administrative functions.

Allocations related to Distributed Services

The following ratios will be used to allocate costs for services not directly assigned but pooled and allocated based on a causal measurement:

<u>Number of Employees Ratio</u> – Based on the number of employees benefiting from the performance of a service. This ratio will be determined annually based on actual count of

applicable employees at the end of the previous calendar year and may be adjusted periodically due to a significant change.

Accounts Payable Ratio - Based on the number of invoices processed for each of the specific Client Companies. This ratio is determined annually based on the actual count of invoices at the end of the previous calendar year and may be adjusted periodically due to a significant change.

Number of Customers Ratio - Based on the number of customers at each Client Company benefiting from the performance of a service. This ratio will be determined annually based on the average annual customer count and may be adjusted periodically due to a significant change.

Global Allocation Factor – This formula will be determined annually based on the average of gross plant (original plant in service), gross payroll charges (salaries and wages, including overtime, shift premium and lost time, but excluding pension, payroll taxes and other employee benefits) and gross revenues during the previous calendar year and may be adjusted for any known and reasonable quantifiable events or at such time as may be required due to significant changes. This formula is commonly referred to as the Massachusetts Formula.

Regulated Global - 8 Allocation Factor – This formula is derived through utilization of the same data as the global allocation noted above, but it is limited to data of the eight regulated utility affiliates only. The eight utility companies include NYSEG, CMP, SCG, CNG, RGE, BGC, MNG, and NHGC.

Regulated Global – 6 Allocation Factor – This formula is derived through utilization of the same data as the Regulated Global – 8 allocation factor above, but it is limited to data of the following six utility subsidiaries: NYSEG, CMP, SCG, CNG, RGE, and BGC.

Regulated Global – 5 Allocation Factor – This formula is derived through utilization of the same data as the Regulated Global – 8 allocation factor above, but it is limited to data of the following five utility subsidiaries: NYSEG, CMP, SCG, CNG, and RGE.

Regulated Global – 4 Allocation Factor – This formula is derived through utilization of the same data as the Regulated Global – 8 allocation factor above, but it is limited to data of the following four utility subsidiaries: NYSEG, CMP, SCG, and CNG.

Commodity – Energy Supply Transaction System Allocation Factor – This formula is used to allocate the cost of management of the Energy Supply Transaction System to all Client Companies that benefit from this system. The formula is derived through utilization of the gas and/or electric supply costs of the Client Companies and reflects the proportion of such costs occurring between these entities.

Commodity - Global Allocation Factor – This formula is used to allocate the cost of commodity planning, procurement, and sale when the service is applicable to or benefits all Client Companies, regardless of whether they are a gas, electric, or combined company. The formula is derived through utilization of the gas and/or electric supply costs of the Client Companies and reflects the proportion of such costs occurring between these entities.

Commodity - Regulated Gas Allocation Factor – This formula is used to allocate costs for gas commodity planning, procurement and sale for regulated gas utility Client Companies. The formula is derived through utilization of the gas supply costs of the regulated gas utility affiliates and reflects the proportion of such costs occurring between these entities.

Electric Allocation Factor – This formula is used to allocate costs for the coordination and direction of electric transmission issues for the benefit of regulated electric utility Client Companies and departments. The formula is derived through utilization of the same data as the global allocation noted above, but it is limited to data of electric operating companies or departments.

Summary of Allocation Percentages to Allocate Charges to RGE

Allocation Factor	February 2008 - January 2009	February 2009 - January 2010
Global	16.96%	18.49%
Regulatory Global 8	20.83%	22.86%
Regulatory Global 6	20.90%	22.93%
Regulatory Global 5	21.29%	23.39%
All Employees	19.14%	17.96%
Benefit Employees	19.17%	18.00%
Regulated Employees	19.42%	18.23%
Commodity	20.42%	19.65%
Commodity - Regulated Gas	25.18%	23.27%
Commodity - ESTMS	20.42%	19.65%
Electric Transmission	23.03%	23.29%

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Global Allocation Factor

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Global Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	16.87%	822,788,172	16.35%	66,842,690	17.67%	16.96%
NYSEG	3,850,490,416	29.21%	2,028,085,929	40.30%	179,560,963	47.46%	38.99%
All Companies	13,180,062,668		5,033,019,917		378,315,774		
Feb 2009-Jan 2010							
RGE	2,296,109,475	16.94%	1,117,010,393	21.54%	73,660,866	16.99%	18.49%
NYSEG	3,978,293,478	29.36%	1,894,292,612	36.53%	181,668,603	41.90%	35.93%
All Companies	13,552,331,855		5,184,874,191		433,584,399		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Global 8 Allocation Factor
(RGE, NYSEG, SCG, CNG, CMP, Berkshire, NHG & MNG)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Reg Global 8 Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	25.01%	822,788,172	19.10%	66,842,690	18.40%	20.83%
NYSEG	3,850,490,416	43.30%	2,028,085,929	47.08%	179,560,963	49.42%	46.60%
All Companies	8,892,427,311		4,307,719,855		363,346,178		
Feb 2009-Jan 2010							
RGE	2,296,109,475	24.85%	1,117,010,393	24.62%	73,660,866	19.11%	22.86%
NYSEG	3,978,293,478	43.05%	1,894,292,612	41.75%	181,668,603	47.12%	43.97%
All Companies	9,241,716,034		4,536,895,382		385,541,739		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Global 6 Allocation Factor
(RGE, NYSEG, SCG, CNG, CMP & Berkshire)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Reg Global 6 Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	25.09%	822,788,172	19.16%	66,842,690	18.45%	20.90%
NYSEG	3,850,490,416	43.44%	2,028,085,929	47.22%	179,560,963	49.55%	46.74%
All Companies	8,863,039,633		4,295,272,624		362,350,292		
Feb 2009-Jan 2010							
RGE	2,296,109,475	24.93%	1,117,010,393	24.70%	73,660,866	19.15%	22.93%
NYSEG	3,978,293,478	43.19%	1,894,292,612	41.88%	181,668,603	47.24%	44.10%
All Companies	9,211,007,063		4,522,897,452		384,552,997		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Global 5 Allocation Factor
(RGE, NYSEG, SCG, CNG & CMP)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Reg Global 5 Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	25.53%	822,788,172	19.49%	66,842,690	18.86%	21.29%
NYSEG	3,850,490,416	44.21%	2,028,085,929	48.03%	179,560,963	50.68%	47.64%
All Companies	8,709,723,883		4,222,454,998		354,329,452		
Feb 2009-Jan 2010							
RGE	2,296,109,475	25.36%	1,117,010,393	25.15%	73,660,866	19.66%	23.39%
NYSEG	3,978,293,478	43.94%	1,894,292,612	42.66%	181,668,603	48.49%	45.03%
All Companies	9,054,358,647		4,440,803,733		374,636,210		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

All Employees Factor

	COMPANY	EMPLOYEES	All Employees Factor
Feb 2008-Jan 2009			
	RGE	1,036	19.14%
	NYSEG	2,334	43.12%
	All Companies	5,413	
Feb 2009-Jan 2010			
	RGE	985	17.96%
	NYSEG	2,421	44.15%
	All Companies	5,484	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Benefit Employees Factor
(EEC, RGE, Energetix, NYSEG, NHG, MNG, SCG, CNE, CNG, TEN, CMP, UWP & Berkshire)

	COMPANY	EMPLOYEES	Benefit Employees Factor
Feb 2008-Jan 2009			
	RGE	1,036	19.17%
	NYSEG	2,334	43.19%
	All Companies	5,404	
Feb 2009-Jan 2010			
	RGE	985	18.00%
	NYSEG	2,421	44.24%
	All Companies	5,472	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Employees Factor
(RGE, NYSEG, NHG, MNG, SCG, CNG, CMP & Berkshire)

	COMPANY	EMPLOYEES	Regulated Employees Factor
Feb 2008-Jan 2009			
	RGE	1,036	19.42%
	NYSEG	2,334	43.76%
	All Companies	5,334	
Feb 2009-Jan 2010			
	RGE	985	18.23%
	NYSEG	2,421	44.80%
	All Companies	5,404	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Commodity Factor
(RGE, Energetix, NYSEG, Solutions, NHG, MNG, SCG, CNG, CMP & Berkshire)

	COMPANY	Commodity	Commodity Factor
Feb 2008-Jan 2009			
	RGE	626,621,762	20.42%
	NYSEG	1,231,060,227	40.13%
	All Companies	3,068,007,708	
Feb 2009-Jan 2010			
	RGE	590,144,572	19.65%
	NYSEG	1,101,267,597	36.66%
	All Companies	3,003,676,812	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Commodity Regulated Gas Factor
(RGE, NYSEG, MNG, SCG, CNG, & Berkshire)

	COMPANY	Commodity	Commodity Reg Gas Factor
Feb 2008-Jan 2009			
	RGE	282,951,944	25.18%
	NYSEG	302,967,028	26.96%
	All Companies	1,123,884,625	
Feb 2009-Jan 2010			
	RGE	281,962,252	23.27%
	NYSEG	302,562,668	24.97%
	All Companies	1,211,711,680	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Commodity ESTMS Factor
(RGE, Energetix, NYSEG, Solutions, NHG, MNG, SCG, CNG, CMP & Berkshire)

	COMPANY	Commodity	Commodity ESTMS Factor
Feb 2008-Jan 2009			
	RGE	626,621,762	20.42%
	NYSEG	1,231,060,227	40.13%
	All Companies	3,068,007,708	
Feb 2009-Jan 2010			
	RGE	590,144,572	19.65%
	NYSEG	1,101,267,597	36.66%
	All Companies	3,003,676,812	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Electric Transmission
(RGE, NYSEG & CMP)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Electric Trans Factor
Feb 2008-Jan 2009							
RGE	1,567,423,853	25.79%	749,758,688	26.07%	45,334,830	17.23%	23.03%
NYSEG	3,049,824,765	50.19%	1,557,805,475	54.16%	155,143,188	58.95%	54.43%
All Companies	6,076,865,439		2,876,306,841		263,167,912		
Feb 2009-Jan 2010							
RGE	1,623,620,291	25.58%	683,956,719	25.76%	49,458,484	18.53%	23.29%
NYSEG	3,149,420,954	49.62%	1,427,150,759	53.75%	147,280,533	55.19%	52.85%
All Companies	6,347,587,682		2,655,382,582		266,874,596		

Summary of Allocation Percentages to Allocate Charges to NYSEG

Allocation Factor	February 2008 - January 2009	February 2009 - January 2010
Global	38.99%	35.93%
Regulatory Global 8	46.60%	43.97%
Regulatory Global 6	46.74%	44.10%
Regulatory Global 5	47.64%	45.03%
All Employees	43.12%	44.15%
Benefit Employees	43.19%	44.24%
Regulated Employees	43.76%	44.80%
Commodity	40.13%	36.66%
Commodity - Regulated Gas	26.96%	24.97%
Commodity - ESTMS	40.13%	36.66%
Electric Transmission	54.43%	52.85%

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Global Allocation Factor

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Global Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	16.87%	822,788,172	16.35%	66,842,690	17.67%	16.96%
NYSEG	3,850,490,416	29.21%	2,028,085,929	40.30%	179,560,963	47.46%	38.99%
All Companies	13,180,062,668		5,033,019,917		378,315,774		
Feb 2009-Jan 2010							
RGE	2,296,109,475	16.94%	1,117,010,393	21.54%	73,660,866	16.99%	18.49%
NYSEG	3,978,293,478	29.36%	1,894,292,612	36.53%	181,668,603	41.90%	35.93%
All Companies	13,552,331,855		5,184,874,191		433,584,399		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Global 8 Allocation Factor
(RGE, NYSEG, SCG, CNG, CMP, Berkshire, NHG & MNG)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Reg Global 8 Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	25.01%	822,788,172	19.10%	66,842,690	18.40%	20.83%
NYSEG	3,850,490,416	43.30%	2,028,085,929	47.08%	179,560,963	49.42%	46.60%
All Companies	8,892,427,311		4,307,719,855		363,346,178		
Feb 2009-Jan 2010							
RGE	2,296,109,475	24.85%	1,117,010,393	24.62%	73,660,866	19.11%	22.86%
NYSEG	3,978,293,478	43.05%	1,894,292,612	41.75%	181,668,603	47.12%	43.97%
All Companies	9,241,716,034		4,536,895,382		385,541,739		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Global 6 Allocation Factor
(RGE, NYSEG, SCG, CNG, CMP & Berkshire)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Reg Global 6 Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	25.09%	822,788,172	19.16%	66,842,690	18.45%	20.90%
NYSEG	3,850,490,416	43.44%	2,028,085,929	47.22%	179,560,963	49.55%	46.74%
All Companies	8,863,039,633		4,295,272,624		362,350,292		
Feb 2009-Jan 2010							
RGE	2,296,109,475	24.93%	1,117,010,393	24.70%	73,660,866	19.15%	22.93%
NYSEG	3,978,293,478	43.19%	1,894,292,612	41.88%	181,668,603	47.24%	44.10%
All Companies	9,211,007,063		4,522,897,452		384,552,997		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Global 5 Allocation Factor
(RGE, NYSEG, SCG, CNG & CMP)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Reg Global 5 Factor
Feb 2008-Jan 2009							
RGE	2,223,827,965	25.53%	822,788,172	19.49%	66,842,690	18.86%	21.29%
NYSEG	3,850,490,416	44.21%	2,028,085,929	48.03%	179,560,963	50.68%	47.64%
All Companies	8,709,723,883		4,222,454,998		354,329,452		
Feb 2009-Jan 2010							
RGE	2,296,109,475	25.36%	1,117,010,393	25.15%	73,660,866	19.66%	23.39%
NYSEG	3,978,293,478	43.94%	1,894,292,612	42.66%	181,668,603	48.49%	45.03%
All Companies	9,054,358,647		4,440,803,733		374,636,210		

Summary of Allocation Percentages to Allocate Charges to Operating Companies

All Employees Factor

	COMPANY	EMPLOYEES	All Employees Factor
Feb 2008-Jan 2009			
	RGE	1,036	19.14%
	NYSEG	2,334	43.12%
	All Companies	5,413	
Feb 2009-Jan 2010			
	RGE	985	17.96%
	NYSEG	2,421	44.15%
	All Companies	5,484	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Benefit Employees Factor
(EEC, RGE, Energetix, NYSEG, NHG, MNG, SCG, CNE, CNG, TEN, CMP, UWP & Berkshire)

	COMPANY	EMPLOYEES	Benefit Employees Factor
Feb 2008-Jan 2009			
	RGE	1,036	19.17%
	NYSEG	2,334	43.19%
	All Companies	5,404	
Feb 2009-Jan 2010			
	RGE	985	18.00%
	NYSEG	2,421	44.24%
	All Companies	5,472	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Regulated Employees Factor
(RGE, NYSEG, NHG, MNG, SCG, CNG, CMP & Berkshire)

	COMPANY	EMPLOYEES	Regulated Employees Factor
Feb 2008-Jan 2009			
	RGE	1,036	19.42%
	NYSEG	2,334	43.76%
	All Companies	5,334	
Feb 2009-Jan 2010			
	RGE	985	18.23%
	NYSEG	2,421	44.80%
	All Companies	5,404	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Commodity Factor
(RGE, Energetix, NYSEG, Solutions, NHG, MNG, SCG, CNG, CMP & Berkshire)

	COMPANY	Commodity	Commodity Factor
Feb 2008-Jan 2009			
	RGE	626,621,762	20.42%
	NYSEG	1,231,060,227	40.13%
	All Companies	3,068,007,708	
Feb 2009-Jan 2010			
	RGE	590,144,572	19.65%
	NYSEG	1,101,267,597	36.66%
	All Companies	3,003,676,812	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Commodity Regulated Gas Factor
(RGE, NYSEG, MNG, SCG, CNG, & Berkshire)

	COMPANY	Commodity	Commodity Reg Gas Factor
Feb 2008-Jan 2009			
	RGE	282,951,944	25.18%
	NYSEG	302,967,028	26.96%
	All Companies	1,123,884,625	
Feb 2009-Jan 2010			
	RGE	281,962,252	23.27%
	NYSEG	302,562,668	24.97%
	All Companies	1,211,711,680	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Commodity ESTMS Factor
(RGE, Energetix, NYSEG, Solutions, NHG, MNG, SCG, CNG, CMP & Berkshire)

	COMPANY	Commodity	Commodity ESTMS Factor
Feb 2008-Jan 2009			
	RGE	626,621,762	20.42%
	NYSEG	1,231,060,227	40.13%
	All Companies	3,068,007,708	
Feb 2009-Jan 2010			
	RGE	590,144,572	19.65%
	NYSEG	1,101,267,597	36.66%
	All Companies	3,003,676,812	

Summary of Allocation Percentages to Allocate Charges to Operating Companies

Electric Transmission
(RGE, NYSEG & CMP)

COMPANY	GROSS PROPERTY	%	GROSS REVENUE	%	GROSS PAYROLL	%	Electric Trans Factor
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RGE	1,567,423,853	25.79%	749,758,688	26.07%	45,334,830	17.23%	23.03%
NYSEG	3,049,824,765	50.19%	1,557,805,475	54.16%	155,143,188	58.95%	54.43%
All Companies	6,076,865,439		2,876,306,841		263,167,912		
Feb 2009-Jan 2010							
RGE	1,623,620,291	25.58%	683,956,719	25.76%	49,458,484	18.53%	23.29%
NYSEG	3,149,420,954	49.62%	1,427,150,759	53.75%	147,280,533	55.19%	52.85%
All Companies	6,347,587,682		2,655,382,582		266,874,596		

NYSEG 2009
Transactions with Associated (Affiliated) Companies

Description	Name of Associate	Direct	Indirect	Total
Provided by Affiliated Company				
Salaries, Wages and Associated Overheads	Rochester Gas & Electric Corporation	7,484,195		7,484,195
Salaries, Wages and Associated Overheads	Utility Shared Services Corporation	9,398,750	23,180,041	32,578,791
Salaries, Wages and Associated Overheads	Energy East Management Corporation	3,018,768	15,402,591	18,421,359
Salaries, Wages and Associated Overheads	Central Maine Power Company	2,499		2,499
Total		**19,904,212**	**38,582,632**	**58,486,844**
Provided for Affiliated Company				
Salaries, Wages and Associated Overheads	Rochester Gas & Electric Corporation	8,573,125		8,573,125
Salaries, Wages and Associated Overheads	Energy East Management Corporation	138,237		138,237
Salaries, Wages and Associated Overheads	Central Maine Power Company	6,697		6,697
Salaries, Wages and Associated Overheads	Berkshire	25,260		25,260
Salaries, Wages and Associated Overheads	Connecticut Natural Gas	62,488		62,488
Salaries, Wages and Associated Overheads	Southern Connecticut Gas	80,405		80,405
Total		**8,886,210**	**-**	**8,886,210**

RGE 2009
Transactions with Associated (Affiliated) Companies

Description	Name of Associate	Direct	Indirect	Total
Provided by Affiliated Company				
Salaries, Wages and Associated Overheads	Utility Shared Services Corporation	5,766,630	11,824,043	17,590,673
Salaries, Wages and Associated Overheads	Energy East Management Corporation	5,163,741	7,523,229	12,686,970
Salaries, Wages and Associated Overheads	New York State Electric & Gas Corporation	8,573,125		8,573,125
Salaries, Wages and Associated Overheads	Iberdrola USA, Inc. (formerly Energy East Corporation)			-
Salaries, Wages and Associated Overheads	Other			-
Total		**19,503,496**	**19,347,272**	**38,850,768**
Provided for Affiliated Company				
Salaries, Wages and Associated Overheads	Utility Shared Services Corporation			-
Salaries, Wages and Associated Overheads	Energy East Management Corporation	21,754		21,754
Salaries, Wages and Associated Overheads	New York State Electric & Gas Corporation	7,484,195		7,484,195
Salaries, Wages and Associated Overheads	Central Maine Power	3,235		3,235
Salaries, Wages and Associated Overheads	Other	841		841
Total		**7,510,025**	**-**	**7,510,025**

Code of Conduct
Complaints about NYSEG/RGE related to Affiliate 2009

The items below are 2009 issues that arose involving NYSEG and/or RG&E and their affiliates:

1) In 2009 (10/23/09) NYSEG sent a cease and desist letter to US Gas and Electric Co, a retail access supplier, based on their announced plan to change their business name to New York Gas & Electric (NYG&E). We later filed a lawsuit on 12/4/09 in federal count seeking an injunction against their using the name (i.e. "mark") New York Gas & Electric or NYG&E. US Gas and Electric counter claimed that the similarity of their name to NYSEG was no different than our affiliate's use of NYSEG Solutions Inc. On 3/19/10, the court granted our request for temporary injunction which precludes them from doing business as New York Gas & Electric. It is now up to USG&E whether they continue to pursue this at trial.

2) In 2009 NYSEG and RG&E filed an informal complaint with the PSC concerning NYSEG Solutions using a early termination fee charge on their bills. Ms. LuAnn Scherer, Manager Retal Access, resolved the complaint and found with NYSEG, disallowing NYSEG Solutions from using such a fee, as only supply related costs can be included on their bills.