STATE OF NEW YORK

Public Service Commission

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PSC Approves Extension of NYSEG's Fixed Rate Option

-Action Revises Current Commodity Supply Service Offerings-

Albany, NY—8/22/07—The New York State Public Service Commission (Commission) today decided to allow New York State Electric & Gas Corporation (NYSEG) to continue to offer both hedged default commodity service and an elective fixed price option (FPO) with terms and conditions through December 31, 2010. Additionally, the Commission approved the acceleration of the schedule under which larger commercial and industrial customers that take supply service from NYSEG will be required to do so in conformance with mandatory hourly pricing.

The Commission will also institute a proceeding to establish a revenue decoupling mechanism (RDM) for NYSEG's electric and gas businesses. An RDM is intended to enhance the achievement of customer-initiated efficient energy use by reducing or eliminating the dependence of a utility's revenues on increased sales.

"The Commission is aware that a fixed price supply option is an important benefit offering stability to customers," said Commission Chairwoman Patricia L. Acampora. "The three-year continuation of the fixed-priced option is based on a practical consideration of demonstrated customer demand. During the course of the Commission's proceeding in this matter, it is notable that the FPO proposal garnered broad support from parties with normally disparate interests."

On April 5, 2007, NYSEG filed tariff amendments substantially revising its current commodity supply service offerings. Thereafter, settlement negotiations were held among interested parties. A Joint Proposal filed by the parties was issued for public comment in a notice dated July 12, 2007, and an evidentiary hearing was held to consider the terms of the Joint Proposal. Under the Joint Proposal, NYSEG's commodity service offerings would be established for three calendar years beginning January 1, 2008 and concluding December 31, 2010, unless modified by the Commission. Commission approval would be required for continuation of the supply service plan beyond the year 2010.

Supply Service Options

Today, the Commission determined that the current commodity supply service offered by NYSEG, under which the default service is hedged for small customers and the FPO may be affirmatively elected by residential and small commercial and industrial customers, is to be continued for the three-year period, subject to the following modifications:

- The pricing formula for the FPO is modified, in that the "conversion factor" applied to wholesale prices to produce a retail rate is altered from 117.5 percent plus 4 mills per kilowatt hour (kWh) to 116.9 percent plus 6 mills per kWh. The revenue impact of the change to NYSEG is currently estimated to be an increase of $3.5 million or 0.26 percent over current commodity revenue.

- Any customer that enrolls in NYSEG's fixed price option during the annual enrollment period, November 1 through December 31 of the preceding year, may leave NYSEG's FPO to take service from an energy services company (ESCO) without any exit fee.

- NYSEG's "ESCO Option with Supply Adjustment" (EOSA), previously the only option for customers leaving the FPO during its term, will be eliminated.

- As is currently the case, a NYSEG FPO customer may not switch to NYSEG's default service once a customer has enrolled for a given calendar year.

- Interested parties will further collaborate to establish a "price to compare" program to simplify the display of price comparisons between ESCO and utility commodity offers on the bills of NYSEG customers.

The schedule under which larger commercial and industrial customers are required to take supply service from NYSEG pursuant to mandatory hourly pricing is accelerated.

Non-bypassable Charge

NYSEG's service plan will include a fixed rather than a variable non-bypassable charge (NBC). The NBC is intended to recover from customers costs associated with long-term contracts for supply. The NBC, which is paid by all customers, whether on NYSEG's FPO, NYSEG's default service, or ESCO service, will be changed from a charge that varies monthly to a fixed charge. The fixed NBC will be set pursuant to NYSEG's forecast at the beginning of each enrollment period and remain unchanged for the following calendar year. However, deviations from the forecasted amounts of the costs recovered and revenues received through the NBC will be reconciled at the end of each year, with the reconciled amounts added to or subtracted from the NBC set for the following year.

Earnings Sharing Mechanism

Currently, NYSEG retains the first $5 million of gain or absorbs the first $5 million of loss on its FPO commodity service income each year. Under the Joint Proposal, NYSEG will retain the first $10 million of pre-tax supply service income but absorb 100 percent of losses on supply service. For gains above $10 million, NYSEG would be entitled to retain 15 percent of gains for the benefit of shareholders, rather than the 20 percent it currently retains above the current $5 million.

NYSEG will be required to accelerate $5 million of the customers' anticipated earnings by imputing $5 million for the benefit of customers in the 2008 NBC that will be calculated in November 2007.

A copy of the Commission's order in Case 07-E-0479, when issued, will be available on the Commission's Web site at www.dps.state.ny.us by accessing the Commission's File Room section of the homepage. Many libraries offer free Internet access. Commission orders can also be obtained from the Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).