UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

NEW YORK STATE ELECTRIC & GAS CORPORATION	)))	Docket No. 50-410 Facility Operating License No. NPF-69

REQUEST FOR CONSENT TO CORPORATE REORGANIZATION

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September 18, 1997

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REQUEST FOR CONSENT TO
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I. INTRODUCTION

New York State Electric & Gas Corporation ("NYSEG") hereby requests consent, under 10 C.F.R. § 50.80, to the transfer of control of its possessory license with respect to the Nine Mile Point Nuclear Station, Unit No. 2 ("Nine Mile 2") located in Scriba, New York. NYSEG is a New York corporation which is an 18% co-owner of Nine Mile 2 and which is presently engaged principally in the generation, purchase, transmission, distribution and sale of electric energy and the purchase, transportation, distribution and sale of natural gas in parts of central, eastern and western New York State. NYSEG is proposing to reorganize in order to satisfy the requirements of the New York Public Service Commission ("NYPSC") and to fulfill an Agreement in Principle regarding, among other things, such

corporate reorganization signed on July 28, 1997 by NYSEG and NYPSC Staff, as further detailed in a proposed comprehensive Settlement Agreement reached on August 20, 1997.

The corporate reorganization ("Reorganization") will result in the creation of a holding company over NYSEG[1]. Insofar as the Nuclear Regulatory Commission ("NRC" or the "Commission") has taken the position that a reorganization involving the creation of a holding company over a NRC license holder requires notification and approval pursuant to 10 C.F.R. § 50.80 and Section 184 of the Atomic Energy Act, as amended, NYSEG is hereby filing this request for NRC approval of the formation of the holding company.

The other co-owners of Nine Mile 2 are Niagara Mohawk Power Corporation ("Niagara Mohawk"), Rochester Gas and Electric Corporation, Central Hudson Gas & Electric Corporation and Long Island Lighting Company. Pursuant to Section 2.B.(2) of Facility Operating License No. NPF-69, NYSEG, as a possession licensee, is licensed only to own an interest in the nuclear plant. NYSEG

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[1] The name of the holding company has not yet been determined and for purposes of this application it is referred to as HoldCo.

does not have an operator's license with respect to Nine Mile 2. The operator's license is held by Niagara Mohawk.

II. PROPOSED REORGANIZATION

The proposed Reorganization is in response to the "Competitive Opportunities" proceeding instituted by the NYPSC in 1994, which addresses the future structure of the electric utility industry in New York State. As part of the proceeding, the NYPSC required NYSEG to file a restructuring plan consistent with the NYPSC's policy and vision for increased competition. The restructuring plan was required to address, among other things, the structure of the utility, both in the short and long term, a schedule for the introduction of retail access and a rate plan to be effective for a significant portion of the transition.

On July 28, 1997, NYSEG and the Staff of the NYPSC entered into a Joint Statement of Principles to Govern the Settlement Agreement ("Statement of Principles") which sets forth the terms and conditions of the proposed Reorganization. The Statement of Principles serves as the basis for a Settlement Agreement ("Settlement Agreement"), which was distributed jointly by the NYPSC Staff and NYSEG on August 20, 1997. The Settlement Agreement is subject to NYPSC approval. NYSEG does not expect

material modifications to be made to the Settlement Agreement by the NYPSC, and a copy of the approved Settlement Agreement will be supplied to the NRC as soon as it is available. Copies of the Statement of Principles and the Settlement Agreement (as distributed by the NYPSC Staff and NYSEG on August 20, 1997) are attached hereto as Exhibits A-1 and A-2, respectively. NYSEG has also filed with the Federal Energy Regulatory Commission ("FERC") an application seeking approval of the Reorganization, a copy of which is attached hereto as Exhibit B.

Pursuant to the Reorganization, outstanding shares of NYSEG's common stock (other than shares with respect to which appraisal rights, if any, are properly exercised) will be exchanged on a share-for-share basis for common stock of HoldCo. Following the Reorganization, HoldCo will own all of the outstanding common stock of NYSEG, and NYSEG will become a regulated transmission and distribution subsidiary of HoldCo. HoldCo, rather than NYSEG, will own, directly or indirectly, the stock of any non-utility subsidiaries. The holding company structure, therefore, will provide clear separation between NYPSC-regulated NYSEG, and unregulated lines of business conducted by HoldCo, thereby insulating the utility ratepayers from any risks associated with the unregulated enterprises.

As part of the Reorganization and to fulfill an obligation under the Settlement Agreement, NYSEG will transfer to a wholly owned subsidiary of HoldCo (collectively referred to in this application as "GenSub")[2], NYSEG's coal-fired fuel generation facilities (collectively referred to in this application as "Coal-fired Generation Assets"). The Coal-fired Generation Assets to be transferred consist of NYSEG's seven coal-fired power plants, representing approximately 2,335 MW of capacity, with a net book value of approximately $1.2 billion as of December 31, 1996. Also included in the transfer are certain assets and liabilities associated with these plants.

The transfer of the Coal-fired Generation Assets to GenSub will be in accordance with Article V 1. g. of the Settlement Agreement, attached hereto as Exhibit A-2. The "fair value" of the Coal-fired Generation Assets will be determined in accordance with NYSEG's mortgage bond indenture for purposes of obtaining the release of such property from the lien of such indenture. Upon transfer to GenSub, a regulatory asset of NYSEG will be created for the shortfall, if any, between the fair value

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[2] GenSub will initially be a subsidiary of NYSEG and as part of the proposed Reorganization will be transferred by NYSEG to HoldCo. In addition to GenSub, NYSEG may create one or more other generating subsidiaries.

determined in accordance with the mortgage bond indenture and the book value of the Coal-fired Generation Assets ("Regulatory Asset").

The Coal-fired Generation Assets will be subject to a subsequent auction process in which third parties as well as GenSub can participate. The framework for the auction is described in Article V of the Settlement Agreement, attached hereto as Exhibit A-2. Based on the after-tax proceeds resulting from the auction process, the Regulatory Asset will then be adjusted accordingly. After the auction, there will be no further adjustment of the Regulatory Asset. In the event that the auction proceeds exceed the book value of the plants, any net regulatory credit will be used to write down NYSEG's investment in Nine Mile 2.

III. EFFECT OF PROPOSED REORGANIZATION

After the Reorganization, NYSEG, which is referred to as "RegSub" in the Settlement Agreement, will continue to be an electric utility engaged in the transmission, distribution and, in the case of Nine Mile 2 and hydroelectric facilities, the generation of electricity. NYSEG will continue to be regulated by the NYPSC and the FERC.

As shown below, the proposed Reorganization will not affect NYSEG's qualifications as a possession licensee for Nine Mile 2, will not affect the status of NYSEG as an "electric utility" for purposes of decommissioning as that term is defined in 10 C.F.R. § 50.2 and is otherwise consistent with applicable provisions of law, NRC regulations and NRC orders.

NYSEG's ownership interest in Nine Mile 2 will not be changed by the Reorganization. The Nine Mile 2 ownership interest will not be transferred to GenSub as part of the proposed Reorganization, but will remain with NYSEG. After the Reorganization, NYSEG will continue to be a co-owner of Nine Mile 2 and no actual transfer of the license or ownership interest in Nine Mile 2 will be effected as part of the Reorganization. NYSEG will continue to recover the costs of its ownership share of Nine Mile 2 through the rate-making process.

NYSEG's retail utility operations are currently, and after the Reorganization will remain, subject to regulation by the NYPSC pursuant to the New York Public Service Law ("PSL"). The PSL regulates, inter alia, NYSEG's retail rates and charges, issuances of securities (other than short-term debt securities), services, facilities, classification of accounts, transactions with affiliated interests, and other matters.

NYSEG is also currently, and after the Reorganization will remain, subject to wholesale regulation by the FERC as a "public utility" as defined in Section 201(e) of the Federal Power Act, 16 U.S.C. 824(e). Using its interests in the nuclear facility and its interests in its hydroelectric facilities, NYSEG will continue to sell electric energy at wholesale to, and will transmit electric energy in interstate commerce for, other electric utilities under rate schedules approved by FERC, on a cost of service, rate of return basis, in addition to making market-based sales pursuant to FERC authority. NYSEG will continue to own all of the transmission and distribution facilities which it now owns and will continue to provide transmission and distribution service on a cost of service, rate of return basis.

In addition to the NYPSC and FERC applications previously discussed, an application seeking appropriate approval of the Securities and Exchange Commission under the Public Utility Holding Company Act of 1935, as amended, in order to effect the Reorganization will also be filed in the near future. The creation of a holding company over NYSEG and its subsidiaries will also require shareholder approval.

IV. NUCLEAR REGULATORY COMMISSION REVIEW

To assist the NRC in its review of this request, NYSEG is providing information with respect to the following four specific areas which have been the focus of the NRC's review in prior cases involving the creation of holding companies over NRC licensees:

1. *The proposed Reorganization will not impair NYSEG's ability to carry out its responsibilities under its NRC possession license, or otherwise affect the financial health of NYSEG.*

The proposed Reorganization will not have an adverse impact on NYSEG's ability to fulfill its responsibilities under its NRC possession license. Specifically, the proposed Reorganization will not adversely affect the ability of NYSEG to meet its financial obligations with respect to the future operating and capital requirements related to Nine Mile 2 or to meet its funding obligations with respect to the eventual nuclear decommissioning of Nine Mile 2.

In NRC Administrative Letter 96-02 (issued June 21, 1996), the NRC addressed the future restructuring of the electric utility industry and voiced concerns that NRC licensed entities continue to have access to adequate funds so that funds are available for safe reactor operation and the payment of decommissioning costs. The same concerns were voiced by the NRC in its recently issued "Final Policy Statement on the Restructuring and Economic Deregulation of the Electric Utility Industry" ("Final Policy Statement"), 62 Fed Reg. 44071 (1997).

With respect to both financial qualification reviews for operating license applicants and decommissioning funding assurance reviews, the NRC has noted that it has distinguished between an "electric utility" and other licensees. As defined in 10 C.F.R. § 50.2, an "electric utility" is an entity that generates or distributes electricity for which costs are recovered by rates set by the entity or by a separate regulatory authority. Investor-owned utilities, including generation and distribution subsidiaries, are included within the meaning of "electric utility". The underlying rationale for different treatment is that rate regulators typically allow an electric

utility to recover prudently incurred costs of generating, transmitting and distributing electric services.[3]

The proposed Reorganization will not change the status of NYSEG as an "electric utility" for decommissioning purposes, as defined in 10 C.F.R. § 50.2. After the proposed Reorganization is complete, the nuclear generation assets and investment will be retained by NYSEG and NYSEG will continue to be a public utility subject to regulation by the NYPSC with respect to, among other things, its retail rates. In addition, FERC will continue to regulate NYSEG's transmission and wholesale electric rates. As further described below, the Settlement Agreement provides that throughout the remaining life of the nuclear facility, all decommissioning costs will continue to be

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3 The NRC recently proposed revisions to the definition of "electric utility" in its proposed rulemaking regarding financial assurance requirements for decommissioning nuclear power reactors (issued September 4, 1997). In the proposed rulemaking, the Commission proposed to revise its definition of "electric utility" to introduce additional flexibility to address potential impacts of electric industry deregulation. The Commission noted that the key component of the revised definition is a licensee's rates being established either through cost-of-service mechanisms or through other non-bypassable charge mechanisms, such as wires charges or non-bypassable customer fees by a rate-regulating authority. The NRC indicated that as a result of the proposed change it would expect licensees to be more likely to continue to qualify as "electric utilities."

recovered through rates which are regulated on a cost-based, rate of return basis or through a non-bypassable wires charge, as described in the Settlement Agreement. Thus, for purposes of decommissioning, NYSEG will at all times remain an "electric utility", as defined in the Commission's present and proposed regulations.

Attached hereto as Exhibit C is an affidavit of Robert Kump, NYSEG's Treasurer, which reviews the financial and regulatory implications for NYSEG of the proposed Reorganization as they relate to the continued recovery of NYSEG's costs relating to Nine Mile 2. The Settlement Agreement contemplates a five-year rate cap period ("Price Cap Period"). During the Price Cap Period, all expenditures associated with Nine Mile 2, including decommissioning costs, are presumed to be within overall rate objectives and will continue to be recoverable through retail electric rates. Electric service tariffs for the Price Cap Period will be approved in accordance with the terms of the Settlement Agreement. The Settlement Agreement also provides additional protection through its return on equity and uncontrollable cost provisions. NYSEG may request rate relief if earnings fall below a certain floor or if certain uncontrollable costs are incurred.

For years beyond the Price Cap Period, the Settlement Agreement contemplates a subsequent cost-of-service rate filing by NYSEG with the NYPSC. The Settlement Agreement provides that after the Price Cap Period, the nuclear plant fixed costs (including all nuclear decommissioning and wind down costs and 62.5% of annual property taxes) will be recovered for the life of the applicable amortization period, contract or license through a non-bypassable wires charge borne by the retail customers. After the Price Cap Period, the Settlement Agreement contemplates that nuclear variable costs will be recovered through proceeds of sales of the Nine Mile 2 power in the marketplace, but only if the other Nine Mile 2 cotenants put the same to the market. Sufficient funds will be available to assure adequate funding for the safe operation of Nine Mile 2.

As further set forth in Mr. Kump's affidavit, it is anticipated that the Reorganization will not have an adverse effect on NYSEG's capital structure, ability to raise capital or bond ratings. In conclusion, the Settlement Agreement and the Company's financial position will ensure adequate funding for both decommissioning and safe operation.

2. *The proposed Reorganization will not adversely affect the management of NYSEG's utility operations or its technical qualifications.*

As previously noted, NYSEG is a possession licensee and is not the NRC-licensed operator of Nine Mile 2. The operating licensee, Niagara Mohawk, will continue to be responsible for the day-to-day operations of the plant and the technical qualifications required by the operating license will continue to be the responsibility of Niagara Mohawk.

The holding company structure retains the utility as a discrete and separate entity. No responsibility for nuclear operations within NYSEG will be changed by the Reorganization. Officer responsibilities at the holding company level will be primarily administrative and financial in nature and will not involve operational matters relating to Nine Mile 2. After the proposed holding company formation, NYSEG will continue to actively participate in the oversight and non-operational decision making with respect to Nine Mile 2.

3. *The proposed Reorganization will not result in NYSEG becoming owned, controlled or dominated by an alien, a foreign corporation, or a foreign government.*

At the time the Reorganization becomes effective, HoldCo will become the sole holder of NYSEG's common stock, and the current holders of NYSEG's common stock (other than stockholders who have exercised their appraisal rights, if any) will become holders of the common stock of HoldCo on a share-for-share basis. Therefore, immediately following the Reorganization, the common stock of HoldCo will be owned by the previous holders of NYSEG's common stock in substantially the same proportions in which they held NYSEG's common stock. Based upon currently available information, shares of NYSEG's common stock held in foreign accounts represent less than one percent (1%) of the total outstanding shares of NYSEG.

Based on the foregoing, the Reorganization will not result in NYSEG becoming owned, controlled or dominated by foreign interests.

4. *The proposed Reorganization will not adversely affect competition.*

The implications of the proposed Reorganization are pro-competitive in their anti-trust effects and there is no need for an NRC inquiry with respect to this issue. The potential effect of the proposed Reorganization on competition is discussed on pages 17 through 22 of the FERC Application attached hereto as Exhibit B and will be analyzed by FERC in their review of that Application.

As described in the Settlement Agreement, the proposed reorganization was designed to greatly enhance competition, as determined by the NYPSC. The formation of a holding company, and the divestiture and eventual sale of the Coal-fired Generation Assets, are integral parts of the comprehensive plan to increase competition for the retail supply of electricity, and to expand the range of power supply choices available to consumers throughout the state of New York. For those reasons, the proposed license transfer will have no anti-competitive effects, and indeed is essential to promote competition for power supply in the affected region.

V. THE PROPOSED TRANSFER WILL HAVE NO SIGNIFICANT ENVIRONMENTAL EFFECT

As discussed above, the proposed transfer will have no effect on the operation of Nine Mile 2. The transfer is merely a technical change in corporate control over a minority owner, through the creation of a holding company. That change will not result in any change in the types, or any increase in the amounts, of any effluents that may be released offsite, and there will be no increase in individual or cumulative occupational radiation exposure as a result of the creation of the holding company or the other actions discussed herein. Accordingly, pursuant to 10 C.F.R. § 52.22(c)(9), the proposed action is excluded from the need for an environmental assessment or an environmental impact statement, and special circumstances do not exist which would otherwise require such an assessment or impact statement. Accordingly, the Applicant requests that the Commission issue and publish a finding of no significant environmental impact pursuant to 10 C.F.R. §§ 51.32 and 51.35.

VI. SUBSEQUENT TRANSFERS OF ASSETS

NYSEG agrees to inform the Director, Nuclear Reactor Regulation, 60 days prior to a transfer (excluding grants of

security interests or liens) during any twelve month period from NYSEG to HoldCo, or any direct or indirect subsidiary of HoldCo, of facilities for the production, transmission or distribution of electric energy (other than the transfer of the Coal-fired Generation Assets, which are discussed in this application) having a depreciated book value exceeding ten percent (10%) of NYSEG's consolidated net utility plant, as recorded on NYSEG's books of account.

VII. REQUEST FOR EXPEDITED CONSIDERATION

NYSEG respectfully requests a fifteen day notice period and expedited consideration of its application.

The proposed Reorganization is anticipated to be fully implemented as soon as practicable after a special meeting of the stockholders currently expected to be held on or about January 15, 1998. To facilitate this restructuring, NYSEG requests Commission approval for the proposed Reorganization by December 15, 1997.

VIII. CONCLUSION

NYSEG believes that the information contained in this application and its exhibits will be sufficient for the NRC to grant its consent to the proposed Reorganization as promptly as possible. As shown above, the proposed Reorganization will not adversely affect NYSEG's qualifications as a possession licensee for Nine Mile 2 and is also consistent with applicable provisions of law and with the NRC's regulations.

Respectfully submitted,

NEW YORK STATE ELECTRIC &
GAS CORPORATION

By: Sherwood J. Rafferty
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NEW YORK STATE ELECTRIC & GAS CORPORATION	)))	Docket No. 50-410 Facility Operating License No. NPF-69

STATE OF NEW YORK)
) SS.:
COUNTY OF TOMPKINS)

AFFIDAVIT OF SHERWOOD J. RAFFERTY

Sherwood J. Rafferty, being duly sworn, states that he is the Senior Vice President and Chief Financial Officer of New York State Electric & Gas Corporation ("NYSEG"); that he is authorized on the part of NYSEG to sign and file with the Nuclear Regulatory Commission the foregoing Application; and that said Application is true and correct to the best of his knowledge, information and belief.

Sherwood J. Rafferty
Sherwood J. Rafferty
Senior Vice President and
Chief Financial Officer

Subscribed and sworn to before me, a Notary Public, this 17th day of September, 1997.

Lisa M. Cochran
Notary Public

LISA M. COCHRAN
Notary Public, State of New York
No. 4638459
Qualified in Tompkins County
Commission expires July 31, 1999

EXHIBIT A-1

July 28, 1997

NYSEG/PSC Staff Joint Statement of Principles
to Govern a Settlement

Coal Plant Valuation

- Coal plant valuation to be determined by a simultaneous multiple round open auction process designed to obtain highest final market value for purposes of mitigation of above-market costs and establishment of regulatory asset for recovery of remaining above-market costs. All coal plants and associated assets and liabilities (including, without limitation, Somerset railroad, environmental liabilities, coal purchase contracts, etc.) will be subject to such auction process. The process will not be designed to necessarily require NYSEG to divest its coal plants to a third party, except as otherwise agreed to in this settlement. The company's unregulated generating subsidiary (GenSub) can participate as a bidder, and shall not have any special rights or privileges, including the right to close out the bidding by a matching bid. NYSEG shall provide (with appropriate confidentiality protections) all potential bidders with the same plant and operating information as NYSEG makes available to GenSub.

- The ascending bid auction proceeds for a given coal plant until no new bids are received. Bids are compared in the auction process on a gross cash basis, and the company agrees to sell (or transfer to GenSub) the plants at the auction determined value without subsequent negotiation of value.

- The auction process will be completed and the transaction(s) resulting therefrom shall close no later than 8/1/99.

- If no bids are received for a plant above the minimum bid requirement of the auction, an appraisal process will be used and completed no later than 8/1/99, or as soon as practicable thereafter. The valuation, on an after-tax basis, achieved by the appraisal process shall be used in lieu of the value of net after tax auction proceeds for purposes of establishing the regulatory asset or credit as set forth below.

- Protocols, terms and conditions to implement the auction and appraisal process will be developed by the company in consultation with Commission Staff and will be submitted to the Commission for pre-auction approval by approximately February 1, 1998. Such auction provisions will state time requirements for bids and have mechanisms to pre-qualify

bidders willing and able to abide by auction requirements and to disqualify or penalize bidders for cause. The Commission may employ a consultant, at NYSEG's expense (recoverable from the auction proceeds), to advise the Commission on the design and implementation of the auction process consistent with this Settlement. The Commission shall select the consultant from a list of at least three qualified individuals or firms selected jointly by the company and the Commission Staff.

- In order to facilitate a competitive generation market, an auction sale or transfer free and clear of the company's mortgage indenture, and establishment of a minimum bid value for the auction process, the coal plants will be transferred to GenSub as soon as practicable after the creation of HoldCo and obtaining the mortgage trustee's release. GenSub earnings with respect to any such transferred plant will be combined with RegSub's earnings for the period prior to an auction sale or transfer of that plant. Upon such transfer, a regulatory asset of RegSub will be created for the difference between the book value of the coal plants and the valuation performed in accordance with the bond indenture. Such regulatory asset will be adjusted subsequently upon a sale or transfer based on the cash proceeds resulting from the auction process net of tax, auction and transaction costs. Once a plant is sold or transferred pursuant to the auction process there will be no further readjustment of RegSub's regulatory assets.

- Upon completion of the auction process and sale of any plant to an unrelated third party or GenSub, the regulatory asset or credit on RegSub's books will represent the difference between the net book value of the plant, less funded deferred taxes, and the net after-tax auction proceeds. This regulatory asset or credit will be grossed up in accordance with SFAS 109. Any net regulatory asset and carrying charges thereon (calculated based on the pre-tax cost of capital used by the Commission to determine the Company's retail rates, i.e. 12.43%) will be recovered from all customers through a wires charge over a period of time to be determined by the Commission at the conclusion of the auction process and which shall not exceed the weighted average remaining life of the auctioned assets as of the conclusion of the auction process and the closing(s) thereon. In the event that the GenSub is the winning bidder of any plant in the auction, any deferred tax liability on the gain will remain the responsibility of RegSub's customers by virtue of its inclusion in the calculation of the above-described regulatory asset or credit which may result from the auction. The amount of this future customer responsibility will be limited to the tax (calculated at the then current tax rate) which derives from the tax gain that

would have been realized at the time of the transfer to the GenSub at the auction-determined value, had the sale been made to an unrelated third party grossed up in accordance with SFAS 109. Any net regulatory credit will be used by RegSub to writedown the company's Nine Mile II investment, and any such credit remaining after such writedown will be used by RegSub as directed by the Commission.

Rate Plan

- There will be no second and third year increases as provided for in the September 27, 1995 rate settlement. Beginning 8/1/97, rates will be reduced 5% per year for 5 years for industrial customers with average on-peak demands of 500 KW or more and all customers with load factors of 68% or greater. Customers currently served pursuant to contracts or incentive rates will become eligible for such rate reductions after expiration of contracts unless contracts render them eligible for such reductions during term of contract.

- Stranded cost recovery, including amortization of the RegSub regulatory assets associated with the coal plants, is presumed within overall rate objectives during the five-year rate cap period and recovered through retail electric rates. Post-year 5, remaining RegSub regulatory assets, including those resulting from the auction process, and hydro, IPP and nuclear fixed costs will be recovered (for the life of the amortization period, contract or license) through a non-bypassable wires charge or, possibly, a non-bypassable competitive transition charge (CTC). Nuclear variable costs, which would exclude decommissioning and wind down costs and 62.5% of annual property taxes, will be put to market post-year 5, provided that the company's cotenants put the same to market. In year 5, RegSub will make a filing with the Commission for year 6 rates for RegSub.

- Company may petition for recovery of costs in excess of 3% of RegSub Net Income for items identified as Category 1 on Appendix A attached hereto (force majeure). Definitive agreement will define force majeure. Recovery of costs is also permitted upon petition by the company for costs incurred above the target levels of Category 2 items pursuant to Appendix A, which will be refined to show zero targets for legislative, etc. changes. Recovery will be determined through a limited and expedited process similar to a traditional "second stage" review and will not result in a reopener of any terms of the settlement. The Company shall submit an annual filing which reports the variances of actual costs from the Category 1 and 2 targets and costs included on Appendix A. Any recovery of Category 1 or 2 cost items may be offset by Category 1 or 2 savings below

the targets achieved during the period, any earnings in excess of the 12% cap discussed below, and any net NUG contract cost savings achieved by contract termination or restructuring during the period. System benefits charge-related Category 2 targets may be separated into an unbundled System Benefit Charge as determined by the Commission and, upon such separation, are deleted from Category 2 for purposes of recovery. Separation of the SBC targets from Category 2 will not alter the target levels for these components from those shown on Appendix A. After creation of such SBC, any variances from the targets for the separated components will be recovered or credited through the SBC.

- Over the five-year price cap period, RegSub earnings are capped at 12% of common equity including any combined GenSub earnings prior to the completion of the auction or the subsequent appraisal process (if necessary). The RegSub earnings floor is 9.0% during that period. Any earnings in excess of 12% will be returned to customers in a manner to be determined by the Commission. Notwithstanding a Company filing to recover costs pursuant to the Category 1 and 2 cost items, the Company shall make an annual filing for each of the years of this Agreement to report on earnings and to defer any excess earnings for the benefit of customers. The company may petition for rate relief if earnings fall below the floor. In the event that in any year of the price cap period the company petitions for cost recovery under the uncontrollable cost recovery provision stated above for Category 1 or 2 items, the Commission will be entitled to offset any such request with any company earnings in excess of 12% that would have been realized but for the use by the company of accelerated (increased) depreciation or amortization of any physical or regulatory assets. Such acceleration (increase) is permitted without pre-approval by the Commission.

Retail Access

- The company will implement the retail access program required in the Dairylea proceeding.

- Access to Norwich and Lockport customers begins on 8/1/98.

- All remaining customers transitioned to retail access starting 8/1/99 assuming ISO is approved by FERC and operating. Customers selecting a new supplier will have power delivered by RegSub for their chosen supplier commencing no later than 12/31/99. RegSub may rely on the ISO to plan for power supply.

Company permits access to those customers taking service at negotiated or incentive rates if their contracts allow for it.

- For customers eligible for retail access through the Dairylea proceeding, the backout method for billing retail access customers for the period prior to the completion of the auction and the closing(s) thereon is the market price of energy plus a 4 mill/kWh adder for industrial and large commercial customers and a 10 mill/kWh adder for residential and small commercial customers.

- The retail access credit used to back out generation during the period prior to the completion of the auction and the closing(s) thereon for Norwich and Lockport customers electing to switch suppliers shall be the market price of energy plus a 4 mill/kWh adder for industrial and large commercial customers, and a 10 mill/kWh adder for residential and small commercial customers, but such credit shall in no event exceed 3 cents/kWh, including GRT.

- The retail access credit used to back out generation during the period following the completion of the auction and the closing(s) thereon through the end of the rate-cap period for all customers electing to switch suppliers shall be equal to (i) 3.23 cents/kWh including GRT through 7/31/2000, (ii) 3.47 cents/kwh including GRT from 8/1/2000 through 7/31/2001, and (iii) 3.71 cents/kwh including GRT from 8/1/2001 through 7/31/2002. Commencing 8/1/2002, all costs (other than the non-bypassable wires charge or CTC) related to the assets subject to the auction/appraisal process hereunder shall be excluded from the rates charged by RegSub for all customers, and all customers shall pay the market price of generation plus any applicable GRT.

- In the event the auction or appraisal process and the closing(s) thereon are not completed by 8/1/99, the retail access credit during the period commencing 8/1/99 and ending upon the completion of the auction or appraisal process used to back out generation for all customers electing to switch suppliers shall be the market price of energy plus a 4 mill/kWh adder for industrial and large commercial customers and 10 mills/kWh adder for residential and small commercial customers, but such credit shall in no event exceed 3.23 cents/kWh, including GRT.

- All customers, including those who switch suppliers, shall pay the non-bypasssable wires charge or CTC plus any GRT for as long as is necessary to permit the company to recover the regulatory asset determined by the auction process. Bills will disclose all generation-related credits and charges.

- Other NY utility ESCOs permitted into service territory only on a reciprocal basis.

- Except as specifically modified by this Agreement, the Company's right and obligation under New York Law and its Public Service Law Section 68 Certificates to provide electric service to its customers remains unchanged notwithstanding the full implementation of retail access and remains in full force and effect for the full term of the Definitive Agreement and thereafter until duly changed.

Corporate Structure

Structural separation via holding company as set forth in paragraphs 1 through 7 of Section VII of the 3/25/97 "Definitive Agreement" filed by the company, including the following:

- Conditions to ensure protection and prevent anti-competitive behavior as set forth in subparagraphs (a) through (e) of paragraph 8 of Section VII of the 3/25/97 "Definitive Agreement," and subparagraph (f) thereof, as modified as set forth on Attachment B.

- The company shall have flexibility to retain on a cumulative basis M&A savings for a period of five years from the date of closing of any utility merger or acquisition pursuant to a petition filed jointly or individually by the company, up to the amount of acquisition premium paid over the lesser of book value or fair market value of assets merged or acquired. Savings in excess of that recovery will be disposed of by order of the Commission. Cost recovery provisions of settlement continue in combined entity. Company petitions given expedited review and treatment.

- Affiliate ESCO permitted to operate in service area with competitive safeguards.

- The Section 107 order (Order in Case 91-M-0838, issued April 28, 1992) on diversification is superseded.

Rate Design

- Undue bill shock for any customers from any rate design changes will be avoided. Rate design for the five-year rate cap period will be pre-approved by the Commission in the definitive settlement agreement, and will increase the basic monthly charge in steps as energy charges decrease toward marginal cost. Imposition of certain revenue neutral direct charge fees based on incremental costs may be proposed by the company. RegSub may petition for minor, revenue-neutral price changes between and within customer classes. The

company may also petition for a retail access transaction fee on an incremental cost basis.

Unbundling

- On August 1, 1997, or as soon thereafter as practicable, customers' rates will be unbundled as follows:

  - Electric Power Supply per Kwh and per KW.
  - Electric Power Delivery (T&D) per Kwh and per KW.
  - Basic Service Charge (BSC) per customer per month.
  - Non-bypassable wires charge or CTC to amortize regulatory asset per Kwh and per KW.
  - System Benefits Charge applied as determined by the Commission.

- Further unbundling of Delivery into Transmission and Distribution elements will be implemented based on the classification of facilities determined in the proceeding begun for that purpose at the February 12, 1997 session.

- The company commits to provide a study and agrees to unbundle "customer service" functions on an incremental cost basis by tariffs to be effective 8/1/99.

General

- The settlement meets all of the PSC's rate goals. It encourages economic development and freezes prices under a hard, five-year price cap. The aggregate value of the revenue concessions is nearly $600 million.

Other Issues

- Company withdraws outstanding Energy Association, year-2 rate increase, and Dairylea litigation against the Commission pursuant to mutually-agreed stipulations.

- After further negotiation, the current gas rate settlement will be extended through July 31, 2002.

- Implementation of a penalty-only service quality plan which focusses on T&D reliability.

- If the Company achieves NUG contract savings from targets to be set forth in the Definitive Agreement (net of transaction costs) during the rate cap period through contract termination or restructuring (but not securitization), 80% of such savings shall flow through to customers as determined by the Commission; the remaining 20% shall be retained by the Company. The foregoing is subject to the potential offset against uncontrollable costs described

above in the event the Company petitions for uncontrollable cost recovery with respect to Category 1 or 2 items. Beginning in year 6 of the settlement, all net NUG contract cost savings are subject to flow through to customers as determined by the Commission.

- Net gross receipts tax savings will be flowed through to customers.
- SC-11 tariff modification to be negotiated.
- Deferred credit balances as of 8/1/97 will be used by the company during the rate cap period as an offset to deferred charges.
- The FAS 71 language in the 3/25/97 "Definitive Agreement" is to be included.
- The finality language in the 3/25/97 "Definitive Agreement" is to be included.
- Definitive settlement agreement to be negotiated expeditiously.

STATE OF NEW YORK
DEPARTMENT OF PUBLIC
SERVICE STAFF

By: Leonard Van Ryn
Leonard Van Ryn, Staff
Counsel

Dated: July 28, 1997

NEW YORK STATE ELECTRIC & GAS
CORPORATION
By: Huber Lawrence & Abell,
General Counsel

By: Kenneth M. Jasinski
Kenneth M. Jasinski,
Partner

Dated: July 28, 1997

Price Adjustment Factor [1]		
	Category 1	**Category 2**
Frequency:	One-Time Event	Ongoing Costs
General Description of Qualifying Events:	Natural Disasters, Acts of Terrorism, and Category 2 Costs Incurred Before Rates are Changed	Accounting, Legislative, Regulatory, or Tax Changes
Examples of Potential Qualifying Events:	- Storms - Bombings - Retroactive Tax Levies	- Change in DSM Expenses - FASB Accounting Pronouncements - Changes in Federal Income Tax Rate - Changes in Nuclear Decommissioning Costs - NYPA Transmission Adjustment Charge
Threshold Limits for Rate Recovery:	Aggregate Costs in Excess of 3% of RegSub Net Income	Variations from Targets Stated in Appendix A, Page 2
Recovery Method:	The PAF will be applied to each customer's bill in a manner to be determined by the Commission.	The PAF will be applied to each customer's bill in a manner to be determined by the Commission.
Timing of Rate Change/Recovery Period:	Annually in a manner and over a period to be determined by the Commission.	Annually in a manner and over a period to be determined by the Commission.

[1] The price adjustment methods relate to cost increases and decreases.

Category 2 Price Adjustment Factor Targets
($000)

	12 Months Ending July,				
	1998	1999	2000	2001	2002
Nuclear Decommissioning Costs:					
Internal Fund	$208	$263	$263	$263	$263
External Fund	1,494	4,062	4,062	4,062	4,062
Total	1,702	4,325	4,325	4,325	4,325
Demand Side Management Costs	6,090	7,124	6,924	7,162	7,431
Research & Development Costs	4,710	5,951	6,996	6,902	7,065
Manufactured Gas Plan Site Remediation Costs	1,569	2,163	2,640	2,640	2,640
Fresh Start Program Costs	475	475	475	475	475
Renewable Resource Costs	157	157	157	157	157
NYPA Transition Adjustment	0	0	0	0	0
Total	$14,703	$20,195	$21,517	$21,661	$22,093

The above targets are the amounts that are covered within the rates specified in this settlement.
Prudently incurred changes from these amounts will be included in the Price Adjustment Factor.

Appendix B

STANDARDS OF CONDUCT

- Separate Entities: any affiliate should be set up as a business entity separate from RegSub to foster competition in the utility's territory. Separate entities will help to minimize the potential for self-dealing and the perception of self-dealing by customers and other competitors.

- Separation of books and records: Separation should include books and records, non-officer employees, advertising and marketing efforts, and energy purchasing (except for tariffed services). Where common costs are shared to take advantage of economies of scale, direct cost allocation should be used where practical. However, if direct cost allocation is impractical, cost allocations should be accomplished by using a fully distributed cost method to be provided by NYSEG and approved by the Commission.

- Physical Separation: RegSub and HoldCo may occupy the same building. Any non-regulated affiliate, other than HoldCo, should be located at a different location from RegSub to reduce the opportunity for, and appearance of, anti-competitive behavior or other inappropriate activities. Generation employees may occupy the same building as RegSub until completion of the auction required pursuant to the competitive generation plan.

- Affiliate Transactions: Affiliate transactions should be minimized to protect against cross-subsidies. When transactions occur, they should be priced at tariff rates, if applicable, or at least at fully distributed costs. In addition, such transactions should be at arms-length. All transactions in excess of $100,000, other than tariffed transactions and corporate governance and administrative services, between RegSub and either HoldCo or any affiliate will be pursuant to written contracts filed with the Commission, and the provision of goods and services by such contracts will be on a basis that neither disadvantages RegSub nor unduly prefers HoldCo or any affiliate.

- Transfer of Assets: Any transfer of utility assets should be compensated to RegSub based on the greater of book value or market value, except for the transfer of generation assets (coal plants, related equipment and contracts) as contemplated by this settlement.

- Transfer of Data/Information: RegSub should not provide any competitive information or data to its affiliated entities unless that same information or data is provided to all competitors at the same time.

- Access to Books and Records: Staff should have direct access to the books and records of RegSub and, prior to the auction, of GenSub. For purposes of Public Service Law Section 110, Staff should also have direct access to the books and records of RegSub, GenSub, HoldCo, and any majority-held affiliate. For the purpose of auditing any Section 110 transactions between RegSub and either HoldCo or its affiliates, including GenSub, HoldCo will provide Commission designated personnel reasonable opportunity to audit any such transaction, subject to appropriate confidentiality agreements and trade secret protection.

- Dispute Resolution Process: A process should be established for a competitor or customer to use if it believes that RegSub, or its affiliate in a regulated transaction, has acted in an anti-competitive manner. Complete records of disputes should be retained for Department of Public Service review.

- Name and Reputation: There shall be no restrictions on HoldCo or any affiliate using the same name, trade name, trademarks, service name, service mark or a derivative of a name, of HoldCo or RegSub, or in identifying itself as being affiliated with HoldCo or RegSub. RegSub will not provide sales leads for customers in RegSub's service territory to any affiliate and will refrain from giving the appearance that RegSub speaks on behalf of an affiliate or that the affiliate speaks on behalf of RegSub. If a customer requests information about securing any service or product offered within the service territory by an affiliate, RegSub may provide a list of all companies known to RegSub operating in the service territory that provide the service or product, which may include the affiliate, but RegSub may not promote its affiliate.

- Debt Rating: Regsub should have its own debt rating. If RegSub experiences a downgrading or placement on creditwatch or review of its senior debt, RegSub management should notify the Director of Accounting & Finance of the New York State Department of Public Service.

- Guarantee of Affiliate Debt: RegSub should not guarantee the notes, debentures, debt obligations or other securities of any affiliate, nor should it pledge any of its assets as security for any indebtedness of HoldCo or its affiliates.

- Loans of Employees: RegSub should not loan operating employees to its affiliates. Operating employees are those involved in competitive lines of business, which excludes (among other categories) corporate governance, finance, accounting, legal, and administrative services.

EXHIBIT A-2

Case 96-E-0891

Memorandum

FROM: Staff and NYSEG

TO: All Active Parties

DATE: August 20, 1997

Staff and NYSEG have prepared, for your review and consideration, a proposed comprehensive Settlement Agreement as contemplated by the July 28, 1997 Statement of Principles. The proposed Agreement, a copy of which is attached, reflects Staff's and NYSEG's understanding of the Statement of Principles, our efforts to incorporate comments parties made at the August 5 and August 12, 1997 meetings, and the comments conveyed to us outside the meetings.

Staff and NYSEG invite you to a meeting on Tuesday, August 26, 1997 at 10:30 a.m. at the Omni Hotel in Albany. We would like to explain the Agreement, hear your comments, and discuss their incorporation into the Agreement, towards the end of obtaining your endorsement for the Agreement. You are also encouraged to contact us in advance with your comments.

Since we desire to bring the benefits of this Agreement to consumers as swiftly as possible, we anticipate the execution and filing of the Agreement during the first week of September. We will be available in the days following the August 26 meeting to assist the parties in achieving that goal. NYSEG personnel will be staying in Albany through August 28 for this purpose.

Leonard Van Ryn
Staff Counsel

Kenneth M. Jasinski
Huber Lawrence & Abell

Enclosure
cc: ALJ Jeffrey E. Stockholm

NEW YORK STATE PUBLIC SERVICE COMMISSION

New York State Electric & Gas Corporation Filing in Compliance with Opinion No. 96-12 issued in Case 92-E-0952 *et al*. - In the Matter of the Competitive Opportunities Proceeding Regarding Electric Service	Case 96-E-0891

AGREEMENT CONCERNING

THE COMPETITIVE RATE AND RESTRUCTURING PLAN

OF

NEW YORK STATE ELECTRIC & GAS CORPORATION

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AGREEMENT

CONCERNING THE COMPETITIVE RATE AND RESTRUCTURING PLAN

OF

NEW YORK STATE ELECTRIC & GAS CORPORATION

This agreement concerning the competitive rate and restructuring plan of New York State Electric & Gas Corporation (this "Agreement") is entered into as of this ___th day of September 1997 among New York State Electric & Gas Corporation ("NYSEG" or the "Company"),[1] the Department of Public Service Staff ("Staff") and other parties as indicated on the signature pages at the end of this Agreement, hereinafter collectively referred to as the "Parties." The Parties agree as follows:

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[1] In various provisions of this Agreement, these terms refer to the corporation as of the date of this Agreement and, where this Agreement applies to periods after the formation of a holding company ("HoldCo"), to the electric business of RegSub which will continue to be the Commission-regulated electric and gas utility. After the corporate restructuring contemplated by Article VII of this Agreement, HoldCo will be the parent of RegSub and other subsidiaries, including but not limited to one or more generation companies ("GenSub") and energy services companies ("ESCO").

I. Introduction

In response to the Order Establishing Procedures and Schedule, issued October 9, 1996 in this proceeding by the Public Service Commission of the State of New York (the "Commission"), representatives of NYSEG and Staff have been engaged in discussions regarding a rate plan for the Company's business operations and a restructuring of the Company. As a result of further discussions, the Parties have reached this Agreement to resolve the issues raised in this proceeding and in the Commission's Opinion and Order Regarding Competitive Opportunities for Electric Service, Opinion No. 96-12, issued May 20, 1996 ("Opinion No. 96-12") in the competitive opportunities proceeding (Case 94-E-0952).

The issues raised in these proceedings are interrelated and complex and will have long-range impacts on the provision of electric service in the Company's service territory. Notwithstanding the complexity of the issues, the Parties have resolved these matters by settlement rather than litigation. This Agreement gives fair consideration to the interests of NYSEG's customers, investors and other stakeholders and achieves the Commission's principles, vision and goals set forth in Opinion No. 96-12 and its Opinion No. 95-7, Opinion and Order Adopting Principles to Guide the Transition to Competition, issued in Case 94-E-0952 on June 7, 1995.

In general, this Agreement provides for: (1) lower rates for all customers as contrasted to those that would have applied under NYSEG's 1995 electric settlement agreement; (2) a retail access program that will lead to retail choice of power supplier for all NYSEG customers commencing August 1, 1999; (3) a mechanism to assess the market value of NYSEG's coal-fired generation; (4) authority to implement a HoldCo structure in accordance with the terms set forth in Article VII below; (5) a rate with the objective of moving basic customer service charges, and incremental demand and energy use toward marginal cost, while avoiding undue bill shock for any customer; (6) reasonable unbundling of existing electric rates; and (7) an extension of the gas rate settlement after further negotiation;

1. Procedural History of Opinion No. 96-12

In 1993, the Commission initiated a proceeding to address issues related to potential competition in the regulated energy markets in New York State. Case 93-M-0229, Proceeding on Motion of the Commission to Address Competitive Opportunities Available to Customers of Electric and Gas Service and Develop Criteria for Utility Responses, Order Instituting Proceeding (March 19, 1993) (changed to Case 94-E-0952, by Order dated November 30, 1994, to reflect new focus on electric service) (the "competitive opportunities proceeding").

Subsequently, the Commission issued its Opinion No. 94-15 which addressed the utilities' ability to enter into individually negotiated flex rate contracts with qualifying customers. Case 93-M-0229, Opinion and Order Regarding Flexible Rates, Opinion No. 94-15, issued July 11, 1994. In that Opinion, the Commission stated that "a second phase of this proceeding may be helpful to investigate issues related to the future regulatory regime in light of competitive opportunities." Id. at p. 35.

On August 9, 1994, the Commission instituted phase II of the competitive opportunities proceeding, Order Instituting Phase II of Proceeding, Case 93-M-0229 (August 9, 1994). This phase of the proceeding was intended "to identify regulatory and ratemaking practices that will assist in the transition to a more competitive electric industry designed to increase efficiency in the provision of electricity while maintaining safety, environmental, affordability, and service quality goals." Id. at pp. 1-2. Parties to Phase II of the proceeding were urged to work together to "examine issues related to the establishment of a fully efficient wholesale market for electricity and any pricing reforms necessary to reflect those market efficiencies in retail customer rates." Id. at p. 3.

The Commission adopted, on June 7, 1995, final principles to guide the transition to greater competition in the electric industry. Case 94-E-0952, Opinion and Order Adopting Principles to Guide the transition to Competition, Opinion No. 95-7, issued June 7, 1995.

On December 21, 1995, Administrative Law Judge Judith A. Lee and Ronald Liberty, then-Deputy Director of the Energy and Water Division, issued a Recommended Decision addressing implementation of the restructuring principles.

Subsequently, on May 20, 1996, the Commission issued its Opinion No. 96-12.

2. The Requirements of Opinion No. 96-12

Opinion No. 96-12 sets forth the Commission's vision and goals for the future electric regulatory regime. The Commission's stated vision for the future of the electric utility industry includes the following factors: (1) effective competition in the generation and energy services sectors; (2) reduced prices resulting in improved economic development for the State as a whole; (3) increased consumer choice of supplier and service company; (4) a system operator that treats all participants fairly and ensures reliable service; (5) a provider of last resort for all consumers and the continuation of a means to fund necessary public policy programs; (6) ample and accurate information for consumers to use in making informed decisions; and (7) the availability of information that permits adequate oversight of the market to ensure its fair operation. Id. at 24. In addition, the Commission reiterated that the principles adopted on June 7, 1995 "set forth the overall goals of the future regulatory regime by briefly stating the advantage to be gained and the limitations that are necessary as the State moves toward a more competitive electric industry." Id. at p. 26. The Commission also established the following goals: (1) lowering rates for consumers; (2) increasing customer choice; (3) continuing reliability of service; (4) continuing programs that are in the public interest; (5) allaying concerns about market power; (6) continuing customer protections and the obligation to serve. Id. at pp. 26-27.

In its Opinion, the Commission directed NYSEG and four other electric utilities to each file a rate and restructuring plan consistent with the Commission's policy and vision for increased competition. Id. at pp. 74-75; see also id. at p. 92.

The Commission stated that these utility plans should address, at a minimum, the following matters: (1) the structure of the utility both in the short and long term, including a description of how that structure complies with the Commission's vision and, in cases where divestiture is not proposed, effective mechanisms that adequately address resulting market power concerns; (2) a schedule for the introduction of retail access to all of the utility's customers, and a set of unbundled tariffs that is consistent

with the retail access program; (3) a rate plan to be effective for a significant portion of the transition; and (4) numerous other issues relating to strandable costs, load pockets, energy services, and public policy costs. Id. at pp. 75-76, 90.

In addition, the Commission directed the utilities to collaborate with Staff and other interested parties to accomplish technical studies on subjects including load pockets, market prices, energy services companies and reporting requirements. Collaborative efforts were also directed to be held on public educational forums and on necessary Federal Energy Regulatory Commission ("FERC") filings, which have centered on development of an independent system operator and power exchange. Id. at 63-64.

In a petition filed September 18, 1996 in the Supreme Court of New York, Albany County, the electric utilities, including NYSEG, challenged certain aspects of the Commission's determinations made in Opinion No. 96-12. On November 25, 1996, Justice Joseph Harris issued a decision and order denying the petition of the electric utilities. A notice of appeal was filed by the electric utilities on December 24, 1996 and the appeal remains pending. If this settlement is approved and becomes effective as set forth in Article X below, NYSEG will withdraw its appeal.

3. NYSEGPlan

In compliance with the directives of Opinion No. 96-12, the Company submitted its rate and restructuring proposal called NYSEGPlan on September 27, 1996. On December 19, 1996, the Company filed a petition pursuant to which NYSEG has sought authority to form a holding company. The Commission subsequently notified the parties that the holding company petition would be addressed herein. Case 96-E-0891, Notice to the Parties (issued January 7, 1997).

4. NYSEG's 1995 Electric Settlement

In Opinion No. 95-17, the Commission's Opinion and Order Concerning Electric Revenue and Rate Design (issued September 27, 1995 in Case 94-M-0349), the Commission approved a three-year settlement agreement (the "1995 Electric Settlement") which replaced the third year of a previous agreement. In the 1995 Electric Settlement, NYSEG agreed to forgo the 9.1% increase provided for in a

previously-approved agreement, and eliminated its fuel adjustment clause and its revenue decoupling mechanism and waived its right to most of the reconciliations and true-ups that had been provided under the prior agreement. The 1995 Electric Settlement resolved NYSEG's revenue requirement for a 36-month period by providing for the following increases[2]:

Year One:	$45,079,000	(2.9%)
Year Two:	$45,250,000	(2.8%)
Year Three:	$45,500,000	(2.7%)

Under the terms of the 1995 Electric Settlement, rate design for the first year was adopted and NYSEG was required to file its proposal for Years 2 and 3 revenue allocation and rate design no later than six months before the Year 2 rates were to go into effect (February 1, 1996). On January 31, 1996, NYSEG filed its proposed revenue allocation and rate design for the second and third years and subsequently submitted applicable tariffs on July 18, 1996 for Year 2. On September 9, 1996, NYSEG petitioned for rehearing of the Commission's Order Suspending Rate Filing issued August 26, 1996, which deferred through December 30, 1996 the rates in the July 18 tariff submission. On December 18, 1996, the Commission issued an order further extending the effective date of the July 18, 1996 tariffs to June 30, 1997. By letter dated May 29, 1997, the Company agreed to an extension of the suspension period, with certain conditions, pending the outcome of its rate/restructuring proceeding. At its Open Session of June 25, 1997, the Commission approved this extension of the maximum suspension period. By its Order Suspending Rate Filing, issued July 10, 1997, the Commission suspended the Year 3 rate increase that was scheduled to take effect on August 1, 1997.

In a petition filed and pending in the Supreme Court of the State of New York, Albany County, the Company is seeking a judgment annulling and setting aside the orders issued August 26, 1996 and December 18, 1996 and directing the Commission to issue an order granting rates for the second year increase under the 1995 Electric Settlement. On January 16, 1997, the Commission issued its Order Denying Petition for Rehearing and Requiring Further Proceedings. In this order, the Commission: (1) denied NYSEG's petition

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[2] Years One, Two and Three refer to the twelve month periods ending July 31, 1996, July 31, 1997 and July 31, 1998, respectively.

for rehearing; and (2) determined that the issue of whether NYSEG should receive the second year increase of 2.8% under the 1995 Electric Settlement would be reviewed in this proceeding.

5. Negotiations Among The Parties

Case 96-E-0891 was established by the Commission to examine NYSEGPlan. On October 9, 1996, the Commission issued its Order Establishing Procedures and Schedule (the "October 9 Order"). In the October 9 Order, the Commission established a schedule and assigned Administrative Law Judge Jeffrey E. Stockholm to preside over this proceeding. To date, 58 parties have intervened in this proceeding.

In the October 9 Order, the Commission stated that a negotiated outcome is preferable to a litigated outcome and that discussions and negotiations among the parties are strongly encouraged. October 9 Order at p. 3. The Commission also established a 90-day period for negotiations. To facilitate these negotiations, the Commission waived certain provisions of its settlement guidelines.

On November 1, 1996, NYSEG conducted a briefing session concerning the NYSEGPlan submission and technical experts were available at that session to answer questions. By letter dated November 14, 1996, NYSEG provided notice of impending settlement negotiations pursuant to applicable Commission rules and regulations. An all parties conference was held on December 4, 1996. Public Statement Hearings were held in Plattsburgh on November 20, 1996, in Binghamton on December 11, 1996 and in Elmira on December 12, 1996.

ALJ Stockholm convened procedural conferences on November 18 and December 20, 1996 to review the status of negotiations and discovery, to establish future procedures and schedules and to address other necessary matters. By notices issued December 19, 1996, January 9, February 13, February 27 and March 6, 1997, the Secretary of the Commission informed the parties that the period established in the October 9 Order for the submission of a settlement agreement would be extended for NYSEG, the last extension being to March 25, 1997. Without an executed settlement by that date, the parties proceeded to litigate the case.

6. Litigation of NYSEG's Modified Plan for Competition

On March 25, 1997, NYSEG submitted direct testimony that updated, and in certain respects revised, the testimony that had been filed in support of NYSEGPlan on September 27, 1996. In addition, the Company filed a Proposed Settlement Agreement (Exh. 117). In a letter dated April 10, 1997, the Company explained that the Proposed Settlement Agreement supersedes the March 25th testimony where differences between the two appear.

Direct testimony was also submitted by the following parties: Staff; the American Association of Retired Persons ("AARP"); Independent Power Producers of New York, Inc. and Enron Trade & Capital Resources ("IPPNY/Enron"); Multiple Intervenors ("MI"); the Public Interest Intervenors ("PII"); EnerScope; New York Power Authority ("NYPA"); the New York State Consumer Protection Board ("CPB"); the New York State Department of Economic Development ("DED"); the Retail Council of New York ("Retail Council"); the RE3SCO Restructuring Coalition ("RE3SCO"); and Wheeled Electric Power Company ("WEPCO").

A Procedural Conference was held before ALJ Stockholm on April 16, 1997 to address a variety of procedural issues. The Company submitted responsive testimony on April 21, 1997. Staff and most of the other parties identified above filed rebuttal testimony on May 6, 1997. Evidentiary Hearings were held in Albany, New York before ALJ Stockholm on May 15-16 and 19-22, 1997. The record in this proceeding comprises 3,718 pages of transcript. In addition, 205 exhibits were received in evidence. Initial and Reply Briefs were submitted to ALJ Stockholm on June 13, 1997 and June 23, 1997, respectively.

7. The Settlement Agreement

Negotiations between the Company and Staff continued through the litigation phase of the case. On July 30, 1997, the Company filed with the Commission and ALJ Stockholm, and served upon all parties to the proceeding, a Joint Statement of Principles, which was executed on July 28, 1997 by counsel for NYSEG and Staff. The Settlement Agreement incorporates, and is based upon, the points covered in the Joint Statement of Principles.

II. General Provisions

1. Term

The electric price cap and price reduction provisions of this Agreement cover the five-year period beginning with the effective date of tariffs implementing the Commission opinion approving this Agreement. That five-year period is referred to herein as the "Price Cap Period." Other provisions continue thereafter in accordance with the terms of this Agreement. To more particularly define the Price Cap Period, the terms Year One, Year Two, Year Three, Year Four and Year Five describe the first, second, third, fourth and fifth twelve month period, respectively, after the commencement of the Price Cap Period.

2. Relationship to 1995 Electric Settlement

a. NYSEG is currently operating under the terms of the 1995 Electric Settlement, which expires July 31, 1998. The increases for the second year, commencing August 1, 1996, and the third year commencing August 1, 1997, were suspended by the Commission pending the outcome of this proceeding, as stated in Article I.4 of this Agreement.

b. This Agreement supersedes the 1995 Electric Settlement. As a result, upon this Agreement becoming effective, NYSEG will (*i*) withdraw its pending Article 78 petition regarding the electric increase for the second year under the 1995 Electric Settlement, and (*ii*) forgo the increases scheduled for the second and third years of the 1995 Electric Settlement. NYSEG will withdraw that petition based upon a court-filed stipulation between NYSEG and the Commission.

3. Relationship to Existing Gas Settlement Agreement

NYSEG is currently providing natural gas service consistent with a three-year gas settlement agreement approved by the Commission in Opinion No. 95-19, issued December 14, 1995. After further negotiations, this gas settlement will be extended through the Price Cap Period.

III. Rate Plan

1. Price Reductions, Price Freeze and Securitization

a. NYSEG will forgo the $45.25 million revenue increase approved as part of Year 2 and the $45.5 million revenue increase approved as part of Year 3 under the 1995 Electric Settlement. Those forgone revenues will result in a price reduction of approximately 6% for residential and commercial customers from levels previously anticipated in the 1995 Electric Settlement.

b. Beginning with the effective date of Year 1 tariff leaves implementing the Commission opinion approving this Agreement, current electric rates will be reduced five percent on average each year for five years for the following eligible customer groups: (*i*) industrial customers with average on-peak demands of 500 kw or greater and (*ii*) all demand-billed customer with load factors of 68% or greater. Customers receiving negotiated or incentive rates will become eligible for such rate reductions after their contracts with NYSEG expire unless those contracts permit them to become eligible for such rate reductions prior to the contract expiration date.

c. Overall average electric prices (other than those referred to in paragraph 1.b.) will be frozen by service class during the Price Cap Period unless otherwise adjusted by the terms of this Agreement.

d. The forecast summary of kilowatthours ("kWh") and revenue effects due to revised rates for each service classification for each year of the Price Cap Period is attached hereto as Appendix A.

e. In the event that New York law is enacted to permit and facilitate the voluntary securitization of intangible assets, including but not limited to the generation asset provided for in Article V.1 of this Agreement, and is so utilized by NYSEG, net savings resulting from securitization will be returned to customers in a manner to be determined by the Commission.

2. Electric Earnings Cap

a. During each year of Price Cap Period, RegSub electric earnings will be capped at 12% of common equity, including any combined GenSub earnings prior to the

completion of the auction or the subsequent appraisal process (if necessary). Any such earnings in excess of 12% will be returned to customers in a manner to be determined by the Commission. Any reduction in the common equity balance resulting from any writeoff or writedown of assets, or the repurchase of common stock authorized by this Agreement, will be eliminated before RegSub's electric return on equity is calculated under the earnings cap. The costs of any potential takeover defense mounted by NYSEG may be excluded from the earnings cap calculation at the discretion of the Commission.

b. During each year of the five-year Price Cap Period, the RegSub electric earnings floor will be 9.0%. The Company may petition for rate relief if earnings fall below the floor. Such rate relief will be prospective from the date of the filing.

3. Electric Rate Design

a. As a rate objective, the parties agree that the basic service charge and the energy and demand charges upon which customers make decisions about whether to consume more or less electricity should reflect marginal costs, while avoiding undue bill shock for any customer. The Company agrees, however, to freeze rates for customers not covered by paragraph III.1.b. above for Years 1 and 2 of the Agreement, subject to the terms of this Agreement.

b. Year 1 and 2 rates for all service classifications are shown on the rate schedules attached hereto as Appendix B and made a part hereof. The Year 1 rates for customers covered by paragraph III.1.b. will be implemented upon the effective date of tariff leaves for Year 1 pursuant to the Commission Opinion approving this Agreement. The tariff leaves for Year 1 will be filed on one day's notice prior to the effective date. The Year 2 rates pursuant to Appendix B shall apply for Year 2 of the Price Cap Period, unless otherwise modified by the Company in accordance with the terms of this Agreement.

c. The Company will make a filing no later than February 1, 1999, that includes new electric rate designs for Years 3, 4 and 5 that address the marginal cost-based rate objectives for all classes. Beginning in Year 3, NYPA savings for residential customers will be reflected in the basic service charge. These rates will be implemented upon Commission approval of tariff leaves to be effective at the

beginning of Year 3 of the Price Cap Period, unless otherwise modified by the Company in accordance with the terms of this Agreement. At the same time, the Commission will also approve tariff leaves to be effective at the beginning of Years 4 and 5 of the Price Cap Period, unless otherwise modified by the Company in accordance with the terms of this Agreement.

d. Additionally, during the Price Cap Period, the Company may file with the Commission for approval of tariff changes to implement voluntary incentive rates to encourage changes in sales based upon marginal costs and for minor revenue-neutral electric service price changes between and within classes. Any proposed changes will be filed by RegSub upon 30 days notice and will be subject to Commission approval.

e. The NYPA savings for residential customers will be communicated to customers through a message on their bill for the term of the Price Cap Period.

4. Uncontrollable Costs

a. The Company may petition to recover revenue for the following two categories of uncontrollable costs:

- Category 1 - As outlined in Appendix C, p. 1, this category covers nonrecurring events as a result of *force majeure*, which shall include storm, flood, riot, terrorism, sabotage, war, strike or labor disturbance (other than by NYSEG's bargaining units) or acts of God. Category 1 costs also include those Category 2 costs that have been incurred before rates are changed to recover those increased costs. Aggregate costs in Category 1 during any of the specified 12-month periods in excess of a materiality threshold of 3% of RegSub's net electric income will be recovered through the aforesaid adjustment.

- Category 2 - This category covers any costs incurred above the target levels specified in Appendix C, p. 2.

b. Recovery of Category 1 and Category 2 uncontrollable costs will be determined through a limited and expedited process similar to a traditional "second stage" review, and will not result in a reopener of any

terms of this Agreement. The Company shall submit an annual filing which reports the variances of actual costs above the 3% materiality threshold for Category 1 items, and Category 2 targets and costs included on Appendix C, p. 2 of 2. Any recovery of Category 1 or 2 cost increases may be offset by Category 1 or 2 cost savings below the targets achieved during the Price Cap Period, any electric earnings in excess of the 12% cap discussed below, and any net NUG contract cost savings achieved by contract termination or restructuring during the Price Cap Period. In the event that the variances from the target are negative, the amounts will be disposed of at the discretion of the Commission.

c. Notwithstanding a Company filing to recover costs pursuant to the Category 1 and 2 cost items, the Company shall make an annual filing for each of the years of the Price Cap Period to report on electric earnings and to defer any excess electric earnings that have not been used to offset rate recovery of uncontrollable costs as described above for the benefit of customers. In the event that in any year of the Price Cap Period the Company petitions for cost recovery under the uncontrollable cost recovery provision for Category 1 or 2 items, the Commission will be entitled to offset any such request with any electric earnings in excess of 12% that would have been realized but for the use by the Company of accelerated (increased) depreciation or amortization of any physical or regulatory assets. Such acceleration (increase) is permitted without pre-approval by the Commission.

5. <u>System Benefits Charge</u>

a. The Commission will make a determination in either the instant proceeding or in the pending System Benefits Charge ("SBC") collaborative in the competitive opportunities proceeding regarding the cost level and method of recovering costs associated with certain public policy programs. The presumed level of those expenditures is included with the expenditures set forth in Appendix C, p. 2 of 2. Any reduction in that level of expenditures will be flowed through to customers. Any increases in those levels will be recovered under the provisions governing Category 2 cost increases.

b. With respect to the method of recovery, SBC-related Category 2 costs may either continue to be included in current rates or separately stated as an SBC. If the SBC is separately stated, such costs would be removed from

Category 2. Separation of the SBC targets from Category 2 will not alter the target levels for these components from those shown on Appendix C. After creation of such an SBC, any variances from the targets for the separated components will be recovered or credited through the SBC.

6. Unbundling

a. Commencing with the date on which NYSEG files tariffs implementing the Commission opinion approving this Agreement, or as soon thereafter as practicable, NYSEG electric retail rates will be unbundled as shown in the following table:

Year 1	Year 2	Years 3-5
Basic Service Charge	Basic Service Charge	Basic Service Charge
System Benefits Charge	System Benefits Charge	System Benefits Charge
Energy & Demand, as appropriate	Transmission	Power Supply
Retail Access Credit, as appropriate	Delivery and Power Supply	CTC
Total	Retail Access Credit, as appropriate	Transmission
	Total	Distribution
		Customer Service
		Retail Access Credit, as appropriate
		Total

b. Unbundling of "Transmission" from "Delivery and Power Supply" will be implemented based on the classification of transmission and distribution facilities determined by the Commission in Case 97-E-0251.

c. RegSub will submit a cost of service study for electric customer service functions by February 1, 1999. The Company agrees to unbundle the customer service function on an incremental cost basis with the filing of tariffs to be effective August 1, 1999.

7. Direct Charge Fees

a. NYSEG may petition to introduce revenue-neutral direct charge fees based on incremental costs for various electric services now performed by the Company. These services may include, but are not limited to, activation fees for customer name change or meter turn-on, reconnection fees where service is restored within 12 months of disconnection, fees to recover costs incurred where access to a customer's property is not permitted, and fees related to customer payment in the field to avoid shut off. The filing will specify the nature of the fee, the rationale for the fee based on cost causation, and the amounts to be collected from customers.

IV. Retail Access

1. General Provisions

a. NYSEG will introduce direct retail access for eligible retail electric customers to other qualified suppliers pursuant to this Agreement. Customers receiving service under tariffs allowing NYSEG negotiated or incentive rates will become eligible for retail access after their contracts expire unless their contracts with NYSEG permit such customer to become eligible earlier. NYSEG may file a petition with the Commission for a retail access transaction fee on an incremental cost basis.

b. For the purposes of this Article IV, the market price of electric power and supply shall be assumed to include energy and capacity. The market price will be obtained from published sources, such as the Dow Jones and Reuters financial service, and eventually from an appropriate power exchange once it is approved by FERC and is operating.

c. Concurrent with the Customer Choice Pilot Program described in Paragraph 2 of this Article IV, NYSEG will begin a statewide education effort for its other retail customers using various communications media.

2. Customer Choice Pilot Program

a. Beginning November 1, 1997, NYSEG will implement a Customer Choice Pilot Program in satisfaction of the Commission's "Order Establishing Retail Access Pilot Program", issued June 23, 1997 in Case 96-E-0948 - Petition of Dairylea Cooperative, Inc. to Establish Open-Access Pilot Program for Farm and Food Processor Electricity Customers. Tariffs governing the Customer Choice Pilot Program were submitted on August 1, 1997 in Case 96-E-0948 and became effective on a temporary basis on August 4, 1997.

3. Retail Access for City of Norwich and Lockport Division

a. Beginning August 1, 1998, RegSub will introduce retail access to all customers in the City of Norwich and in RegSub's Lockport Division subject to minimum load and aggregation requirements as are necessary for the Company and are consistent with the minimization of barriers to competition. There are approximately 23,000 customers in the City of Norwich and the Lockport Division. All customers in this group who sign up with a new supplier will have power delivered by RegSub for their chosen suppliers commencing no later than December 31, 1998. During this introductory period, customers who choose another supplier may be billed off-system, rather than through RegSub's Customer Information System ("CIS").

b. The retail access credit used to back out generation during the period prior to the completion of the auction as more particularly described in Article V.1 and the closing(s) thereon for Norwich and Lockport customers electing to switch suppliers shall be the market price defined in Article IV.1(b) plus an adder of four-tenths of one cent ($0.004) per kWh for customers eligible for the 5% reductions pursuant to Article III 1.b., and an adder of one cent ($0.01) per kWh for customers not eligible for the 5% reductions pursuant to Article III 1.b., except for the flex rate customers defined in Article III 1.b. unless and until they are eligible as provided for in Article III 1.b. In no event shall such credit exceed three cents ($0.03) per kWh, including GRT.

4. Retail Access for Remaining Customers

a. Beginning August 1, 1999, RegSub will offer retail access to all of its remaining customers who are not receiving service under RegSub negotiated or incentive rates, provided that the Independent System Operator ("ISO") is first approved by the FERC and is operating. Notwithstanding the foregoing, customers taking service under RegSub's negotiated or incentive rates shall be eligible for retail access after their contracts expire unless their contracts with NYSEG permit such customer to become eligible earlier. Customers selecting a new supplier will have power delivered by RegSub for their chosen suppliers commencing no later than December 31, 1999. The Company may petition for an extension of these deadlines if RegSub experiences unacceptable balancing/settlement problems or experiences severe customer order backlogs or if the ISO as first approved by FERC is not operating. The petition should clearly define the problems causing delay, NYSEG's potential solutions, and NYSEG's proposed revised schedule.

b. The retail access credit used to back out generation during the period following the completion of the auction and closing(s) thereon through the end of the Price Cap Period for all customers electing to switch suppliers shall be equal to (*i*) 3.23 cents per kWh including GRT through July 31, 2000, (*ii*) 3.47 cents per kWh including GRT from August 1, 2000 through July 31, 2001, and (*iii*) 3.71 cents per kWh including GRT from August 1, 2001 through the end of the Price Cap Period. The retail access credit provided to customers will be net of the CTC produced as a result of the auction described in Article V and will be adjusted without altering the system average retail access credit amounts set forth above. The method used to make this adjustment will be presented by the Company when it submits its cost of service study for electric customer service unbundling by February 1, 1999. At the end of the Price Cap Period, all costs (other than the non-bypassable CTC) related to the assets subject to the auction/appraisal process hereunder shall be excluded from the rates charged by RegSub for all customers, and all customers shall pay the market price of generation plus any applicable GRT.

c. In the event the auction or appraisal process described in Article V and the closing(s) thereon are not completed by August 1, 1999, the retail access credit during the period commencing August 1, 1999 and ending upon the

completion of the auction or appraisal process used to back out generation for all customers electing to switch suppliers shall be the market price of energy plus a four-tenths of one cent ($0.004) per kWh adder for customers eligible for the 5% reductions pursuant to Article III 1.b. and a one cent ($0.01) per kWh adder for customers not eligible for the 5% reductions pursuant to Article III 1.b., except for the flex rate customers defined in Article III 1.b unless and until they are eligible as provided for in Article III 1.b., but such credit shall in no event exceed 3.23 cents per kWh, including GRT.

5. GRT

a. All customers, including those who switch suppliers, shall pay the non-bypassable CTC plus any GRT for as long as is necessary to permit the Company to recover the regulatory asset determined by the auction process. Bills will disclose all generation-related credits and charges.

b. In the event the GRT is modified from the July 28, 1997 amounts, the backout figures listed in Article IV. 4.b shall be changed by a corresponding amount.

6. Provider of Last Resort

RegSub will be the provider of last resort during the Price Cap Period of this Agreement unless such status is changed by the Commission. For those eligible customers who do not receive electric supply from a new supplier, RegSub will deliver power to such customers at the bundled tariff rates in place at that time, but only for the Price Cap Period of this Agreement. For customers that have not made arrangements for electric supply at the end of the Price Cap Period, RegSub will acquire electric supply from an appropriate power exchange and bill those customers for such supply at cost. Unless otherwise required by law, RegSub may rely on the ISO to plan for power supply, assuming the ISO is approved by FERC and operating.

7. Reciprocity

During each phase of the retail access program, HoldCo's ESCO will have full access to provide services to RegSub's retail customers within the conditions of HoldCo's structure described in Article VII of this Agreement. Also, to the extent any other New York State utility or New York State utility-affiliated load serving entity ("LSE") seeks

to gain access to RegSub's service territory, such LSE will not be allowed to serve as a supplier in RegSub's service territory unless the service territory of the LSE's affiliated utility is open to retail access by RegSub and ESCO in an equal or greater proportion.

8. Rights and Obligations under Public Service Law Section 68

Except as specifically modified by this Agreement, RegSub's right and obligation under New York Law and its Public Service Law Section 68 Certificates to provide electric service to its customers remains unchanged notwithstanding the full implementation of retail access and remains in full force and effect for the full term of this Agreement and thereafter until duly changed.

V. Cost Recovery

1. Competitive Generation Plan

NYSEG owns, operates and maintains several coal-fired electric generation plants under traditional cost-of-service regulation supervised by the Commission. To promote a more fully competitive generation marketplace, mitigate the strandable costs associated with generation plants, achieve the Commission's goals, and prudently establish the fair market value of such NYSEG generation plants for the benefit of investors and customers, NYSEG will undertake to operate and to transfer its coal-fired plants pursuant to the following terms and conditions.

a. The NYSEG coal-fired electric generation that is covered by this competitive generation plan consists of its Kintigh, Homer City, Milliken, Goudey, Greenidge, Hickling and Jennison generating stations and their associated assets and liabilities (including without limitation, Somerset Railroad, environmental liabilities, pension costs, collective bargaining agreements, fuel contracts, land and property rights, equipment and facilities, etc.).

b. The valuation of NYSEG's coal-fired electric generation plants shall be determined by a simultaneous multiple round open auction process designed to obtain the highest final market value for purposes of mitigation of above-market costs and establishment of a regulatory asset for recovery of remaining above-market costs. All coal plants and associated assets and liabilities as set forth in

Article V, Paragraph 1.a, will be subject to such auction process. The process will not be designed to necessarily require NYSEG to divest its coal plants to a third party, except as otherwise agreed to in this settlement. The Company's generating subsidiary (GenSub) can participate as a bidder, and shall not have any special rights or privileges, including the right to close out the bidding by a matching bid. NYSEG shall provide at the same time (with appropriate confidentiality protections) all potential bidders with the same plant and operating information as NYSEG makes available to GenSub.

c. The ascending bid auction will continue for a given coal plant until no new bids are received. Bids will be compared in the auction process on a gross cash basis, and the Company agrees to sell (or transfer to GenSub) the plants at the auction determined value without subsequent negotiation of value.

d. The auction process will be completed and the transaction(s) resulting therefrom shall close no later than August 1, 1999.

e. If no bids are received for a plant above the minimum bid requirement of the auction, an appraisal process will be used and completed no later than August 1, 1999, or as soon as practicable thereafter. The valuation, on an after-tax basis, achieved by the appraisal process shall be used in lieu of the value of net after tax auction proceeds for purposes of establishing the regulatory asset or credit as set forth below.

f. Protocols, terms and conditions to implement the auction and appraisal process will be developed by the Company in consultation with Staff and will be submitted to the Commission for pre-auction approval by approximately February 1, 1998. Such auction provisions will state time requirements for bids and have mechanisms to pre-qualify bidders willing and able to abide by auction requirements and to disqualify or penalize bidders for cause. The Commission may employ a consultant, at NYSEG's expense (recoverable from the auction proceeds), to advise the Commission on the design and implementation of the auction process consistent with this Agreement. The Commission shall select the consultant from a list of at least three qualified individuals or firms selected jointly by the Company and Staff.

g. In order to facilitate a competitive generation market, an auction sale or transfer free and clear of the Company's mortgage indenture, and establishment of a minimum bid value for the auction process, the coal plants and associated assets and liabilities will be transferred to GenSub as soon as practicable after the creation of HoldCo and/or obtaining the mortgage trustee's release. GenSub earnings with respect to any such transferred plant will be combined with RegSub's earnings for the period prior to an auction sale or transfer of that plant. Upon such transfer, a regulatory asset of RegSub will be created for the difference between the book value of the coal plants and the valuation performed in accordance with the bond indenture. Such regulatory asset will be adjusted subsequently upon a sale or transfer based on the cash proceeds resulting from the auction process net of tax, auction and transaction costs. After a plant is sold or transferred, pursuant to the process described in this Article, there will be no further adjustment of RegSub's regulatory assets that have been created as a consequence of this Article, except for federal income tax consequences.

h. Upon completion of the auction process and sale of any plant to an unrelated third party or GenSub, the regulatory asset or credit on RegSub's books will represent the difference between the net book value of the plant, less funded deferred taxes, and the net after-tax auction proceeds. This regulatory asset or credit will be grossed up in accordance with SFAS 109. Any net regulatory asset and carrying charge thereon (calculated based on the pre-tax costs of capital used by the Commission to determine the Company's retail rates, i.e., 12.43%) will be recovered from all customers through the CTC over a period of time to be determined by the Commission at the conclusion of the auction process and which shall not exceed the weighted average remaining life of the auctioned assets as of the conclusion of the auction process and the closing(s) thereon. The method for calculating the CTC is attached hereto as Appendix D. In the event that the GenSub is the winning bidder of any plant in the auction, any deferred tax liability on the gain will remain the responsibility of RegSub's customers by virtue of its inclusion in the calculation of the above-described regulatory asset or credit which may result from the auction. The amount of this future customer responsibility will be limited to the tax (calculated at the then current tax rate) which derives from the tax gain that would have been realized at the time of the transfer to the GenSub at the auction-determined

value, had the sale been made to an unrelated third party grossed up in accordance with SFAS 109. Any net regulatory credit will be used by RegSub to writedown the Company's Nine Mile II investment, and any such credit remaining after such write down will be used by RegSub as directed by the Commission.

2. NUGs, NMP2, Hydroelectric and Regulatory Assets

a. Stranded cost recovery, including amortization of the RegSub regulatory assets associated with the coal plants, is presumed within overall rate objectives during the Price Cap Period and recovered through retail electric rates. After the Price Cap Period, remaining RegSub regulatory assets, other than those resulting from the auction process, and hydro, IPP and nuclear fixed costs will be recovered (for the life of the amortization period, contract or license) through a non-bypassable wires charge. The regulatory asset created by the auction will continue to be recovered through the CTC. Nuclear variable costs, which would exclude decommissiong and wind down costs and 62.5% of annual property taxes, will be put to market after the Price Cap Period, provided that the Company's cotenants put the same to market. In year 5 of the Price Cap Period, RegSub will make a filing with the Commission for rates applicable to the year following the Price Cap Period.

b. In the event NYSEG achieves NUG contract cost savings net of transaction costs from targets set forth in Appendix E of this Agreement during the Price Cap Period of this Agreement through NUG contract termination or restructuring, but excluding securitization, 80% of any net savings achieved through such NUG contract termination or restructuring shall be flowed through to customers in a manner to be determined by the Commission. The remaining 20% of any net savings achieved through such NUG contract termination or restructuring shall be retained by the Company. The foregoing shall be subject to potential offset against uncontrollable costs in the event the Company petitions for uncontrollable cost recovery with respect to Category 1 or 2 items as more particularly described in Section III, Paragraph 5, of this Agreement. Commencing after the Price Cap Period, all net NUG contract cost savings are subject to flow through to customers in a manner to be determined by the Commission.

VI. Mergers and Acquisitions

1. Pursuant to a petition filed jointly or individually by the Company, NYSEG shall have the flexibility to retain, on a cumulative basis, all savings associated with the acquisition or merger with another utility for a period of five years from the date of closing of any such merger or acquisition up to the amount of acquisition premium paid over the lesser of book value or fair market value of assets merged or acquired. Savings in excess of that recovery will be disposed of by order of the Commission.

2. The cost recovery provisions of this Agreement will continue in the combined entity.

3. Staff and the Commission will give expedited review and treatment to any petition by RegSub or HoldCo in connection with an acquisition or merger with another utility.

VII. Corporate Structure

1. NYSEG's petition to form HoldCo shall be approved, and NYSEG shall be authorized to restructure its operations by forming a holding company structure pursuant to a Plan of Exchange (the "Plan of Exchange") as more particularly set forth in this Agreement.

2. Under the terms of the Plan of Exchange, and subject to the rights of the holders of NYSEG's Common Stock (the "NYSEG Common Stock") to exercise their appraisal rights, all of the outstanding shares of NYSEG Common Stock will be exchanged on a share-for-share basis for the common stock of HoldCo (the "Share Exchange"). Such common stock exchanged for NYSEG Common Stock is referred to herein as HoldCo Common Stock. NYSEG and HoldCo will make such regulatory filings as may be required by law to effectuate the proposed restructuring.

3. Upon consummation of the Share Exchange, each person who owned NYSEG Common Stock immediately prior to the Share Exchange, other than those stockholders who properly exercise their appraisal rights, will own a corresponding number of shares and percentage of the outstanding HoldCo Common Stock, and HoldCo will own all of the outstanding shares of NYSEG Common Stock.

4. After the Share Exchange, NYSEG will be a regulated, wholly-owned utility subsidiary of HoldCo, herein referred to as RegSub, which will functionally separate electric delivery services from gas services.

5. After the Share Exchange, NYSEG shall be authorized to transfer to GenSub, in the form of a stock dividend or such other appropriate form, all of the common stock of Somerset Railroad Corporation, which is currently a wholly-owned subsidiary of NYSEG.

6. After the Share Exchange, NYSEG shall be authorized to transfer to HoldCo, in the form of a stock dividend or such other appropriate form, all of the common stock of NGE Enterprises, Inc., which is currently a wholly-owned subsidiary of NYSEG.

7. RegSub shall be authorized to structurally separate its coal-fired generation assets and liabilities by transferring such generation assets and liabilities to GenSub in accordance with Article V.1 of this Agreement.

8. The following terms and conditions shall apply to RegSub and its affiliates regarding affiliate operations and relationships.

a. Common stock dividends paid by RegSub to HoldCo will be limited in any calendar year to 100% of net income available for common stock. The calculation of net income will exclude any one-time, non-cash accounting charges. This restriction will exclude any one-time dividends to HoldCo attributable to major transactions such as asset sales, the transfer of generating assets associated with HoldCo and GenSub formation, or securitization.

b. By a separate petition that will be reviewed and acted upon expeditiously, the terms of the current Commission Global Financing Order applicable to NYSEG (Case 95-M-1195) will extend through the term of this Agreement and be amended to include authorization for RegSub to enter into derivative or other risk management transactions with respect to current or future financings. In addition, by a separate petition that will be reviewed and acted upon expeditiously, the terms of the Stock Repurchase Order applicable to NYSEG (Case 94-M-0954) will extend through the term of this Agreement and will be amended so that RegSub may, from time to time, repurchase at book value from HoldCo such amount of shares of its common stock as RegSub

determines in order to maintain the RegSub equity ratio at an appropriate level. These stock repurchases will be excluded from the calculation of excess earnings. These buyback provisions supersede the Commission's authorization to repurchase shares in Case 94-M-0954. In the event that RegSub's first mortgage bond rating falls below investment grade according to both Moody's and S&P, RegSub will be prohibited from repurchasing shares of common stock until its investment grade rating is restored.

c. Non-officer employees who transfer between RegSub and an unregulated affiliate will be prohibited from transferring back to their original employer for a period of one year unless a specific waiver is received from the Commission or its designee. Non-officer employees returning to RegSub may not transfer to an unregulated subsidiary for a minimum of one year from the date of the return unless a specific waiver is received from the Commission or its designee. HoldCo and its affiliates, including RegSub, may have common officers.

d. RegSub and its affiliates will be permitted to maintain one common pension fund at HoldCo. For the purposes of allocating pension expense (credit), excess pension fund assets as of August 1, 2002 will be attributed to RegSub. Subsequent gains or losses will be allocated to all affiliates.

e. No payment or imputation of royalties or positive benefits to ratepayers will be made by or with respect to RegSub or any affiliates given the special circumstance surrounding this Agreement. The "Order Approving Stipulation and Agreement, Subject to Conditions", issued April 28, 1992 in Case 91-M-0838 and the Stipulation and Agreement approved therein authorizing NYSEG to make investments in diversified activities are superseded.

f. In addition, the following standards of conduct shall apply:

- <u>Separate Entities</u>: Any affiliate will be set up as a business entity separate from RegSub to foster competition in the utility's territory. Separate entities will help to minimize the potential for self-dealing and the perception of self-dealing by customers and other competitors.

- Separation of books and records: Separation will include books and records, non-officer employees, advertising and marketing efforts, and energy purchasing (except for tariffed services). Where common costs are shared to take advantage of economies of scale, direct cost allocation will be used where practical. However, if direct cost allocation is impractical, cost allocations will be accomplished by using a fully distributed cost method to be provided by NYSEG and approved by the Commission.

- Physical Separation: RegSub and HoldCo may occupy the same building. Any non-regulated affiliate, other than HoldCo, will be located at a different location from RegSub to reduce the opportunity for, and appearance of, anti-competitive behavior or other inappropriate activities. Generation employees may occupy the same building as RegSub until completion of the auction required pursuant to the competitive generation plan.

- Affiliate Transactions: Affiliate transactions will be minimized to protect against cross-subsidies. When transactions occur, they will be priced at tariff rates, if applicable, or at least at fully distributed costs. In addition, such transactions will be at arms-length. All transactions in excess of $100,000, other than tariffed transactions and corporate governance and administrative services, between RegSub and either HoldCo or any affiliate will be pursuant to written contracts filed with the Commission, and the provision of goods and services by such contracts will be on a basis that neither disadvantages RegSub nor unduly prefers HoldCo or any affiliate.

- Transfer of Assets: Any transfer of utility assets will be compensated to RegSub based on the greater of book value or market value, except for the transfer of generation assets (coal plants, related equipment and contracts) as contemplated by this Agreement.

- Transfer of Data/Information: RegSub will not provide any competitive information or data to its affiliated entities unless that same information or data is provided to all competitors at the same time.

- Access to Books and Records: Staff will have direct access to the books and records of RegSub and, prior to the auction, of GenSub. For purposes of Public Service

Law Section 110, Staff will also have direct access to the books and records of RegSub, GenSub, HoldCo, and any majority-held affiliate. For the purpose of auditing any Section 110 transactions between RegSub and either HoldCo or its affiliates, including GenSub, HoldCo will provide Commission designated personnel reasonable opportunity to audit any such transaction, subject to appropriate confidentiality agreements and trade secret protection.

- Dispute Resolution Process: A process will be established, in consultation with Department of Public Service Staff, for a competitor or customer to obtain Commission review if it believes that RegSub, or its affiliate in a transaction with RegSub, has acted in an anti-competitive manner. Complete records of disputes will be retained for Department of Public Service review.

- Name and Reputation: There shall be no restrictions on HoldCo or any affiliate using the same name, trade name, trademarks, service name, service mark or a derivative of a name, of HoldCo or RegSub, or in identifying itself as being affiliated with HoldCo or RegSub. RegSub will not provide sales leads for customers in RegSub's service territory to any affiliate and will refrain from giving the appearance that RegSub speaks on behalf of an affiliate or that the affiliate speaks on behalf of RegSub. If a customer requests information about securing any service or product offered within the service territory by an affiliate, RegSub may provide a list of all companies known to RegSub operating in the service territory that provide the service or product, which may include the affiliate, but RegSub may not promote its affiliate.

- Debt Rating: Regsub will have its own debt rating. If RegSub experiences a downgrading or placement on creditwatch or review of its senior debt, RegSub management will notify the Director of Accounting & Finance of the New York State Department of Public Service.

- Guarantee of Affiliate Debt: RegSub will not guarantee the notes, debentures, debt obligations or other securities of any affiliate, nor will it pledge any of

its assets as security for any indebtedness of HoldCo or its affiliates.

- Loans of Employees: RegSub will not loan operating employees to its affiliates. Operating employees are those involved in competitive lines of business, which excludes (among other categories) corporate governance, finance, accounting, legal, and administrative services.

VIII. Other Provisions

1. The Parties will negotiate in good faith modifications to NYSEG's SC-11 tariff relating to backup and maintenance services. The negotiation shall address recovery of the CTC where backup or maintenance service continues to be provided by NYSEG.

2. As described in more detail in Appendix F NYSEG's Service Quality Mechanism will be modified to be a potential penalty-only mechanism based on RegSub's performance on electric service reliability. RegSub's earnings cap threshold will be adjusted down for the period of the penalty in the event that a penalty is incurred.

3. In order to mitigate customers' above-market cost burden, in its sole discretion, RegSub shall have the flexibility to accelerate or increase amortization of regulatory assets, including the generation asset resulting from the competitive generation plan described in Article V.1.c. of this Agreement, accelerate or increase amortization of the Nine Mile Point 2 ("NMP2") book balance, accelerate or increase depreciation, or make similar adjustments in the exercise of its business judgment. An amortization schedule is attached hereto as Appendix G. These expenses shall be included in the annual calculation of RegSub's electric return on equity for earnings cap purposes, except that these adjustments shall be excluded from such annual calculation in the event that RegSub presents to the Commission a proposed cost-recovery charge for uncontrollable costs pursuant to Article III.5. of this Agreement. In addition, the Commission will be entitled to offset such proposed charge with any RegSub earnings in excess of 12.0% on common equity that would have been realized but for the use of accelerated or increased amortization or accelerated or increased depreciation as above permitted. These adjustments shall be excluded in the calculation of any earnings shortfall for the purposes of

RegSub filing for electric rate relief described in Article III.2 of this Agreement.

4. As set forth in Appendix G, NYSEG may apply any deferred credit balances as of the commencement of the Price Cap Period against any deferred charges.

5. In its Order Reconvening Proceeding, issued September 20, 1996, in Case 93-E-0960, the Commission directed the parties to that proceeding to negotiate future Economic Development Power ("EDP") rates. Pursuant to a Memorandum of Understanding (the "Memorandum") executed December 6, 1996, the parties agreed to interim EDP rates pending litigation of all issues related to NYSEG's provision of EDP service in this proceeding (Case 96-E-0891). For the reasons explained in the Procedural Ruling of March 20, 1997, the due date for submission of testimony on the EDP rate issue was postponed from the date provided in the Memorandum. An agreement on EDP rates resolving Case 93-E-0960 is attached as Appendix H.

6. Any net savings from changes in Gross Receipts Taxes will be flowed through to NYSEG's customers subject to Article IV, Paragraph 5.

7. RegSub will make a filing at the beginning of Year 5 of the Price Cap Period to provide for recovery of delivery, NMP2 and NUG costs, recovery of or credit to regulatory assets (including the generation asset described in Article V.1 of this Agreement) and recovery of the costs of electric power supply at market rates beginning after the Price Cap Period, consistent with the terms of this Agreement.

8. NYSEG will withdraw the two Article 78 Proceedings referenced in this Agreement and the Article 78 proceeding to challenge the Commission's "Order Concerning Retail Access Proposal" issued in Case 96-E-0948 (the Dairylea Proceeding) through stipulation agreements between the Company and the Commission.

9. It is the intent of the Parties, and the Commission by virtue of its approval of this Agreement, that this Agreement meets the accounting requirements of Statement of Financial Accounting Standards No. 71, throughout its term.

IX. Finality

The Parties agree that Commission approval of this Agreement represents approval of its terms, and the Parties recognize that the concessions and assurances of NYSEG are being made, in substantial part, in reliance upon later actions of the Commission pursuant to the terms of this Agreement. Accordingly, the Parties hereby request that the Commission's Order approving this Agreement expressly find that:

1) the mutual concessions and assurances set forth in this Agreement are inextricably interrelated;

2) that they will produce rates that are just and reasonable through the Price Cap Period;

3) that they justify the reasonable opportunity for continued recovery of strandable costs and the use of non-bypassable wire charges for that purpose subsequent to the Price Cap Period according to the terms of this Agreement;

4) that they achieve the Commission's goals and policy objectives in Opinion No. 96-12; and

5) that they further the public interest.

X. Effectiveness

1. The NYSEG restructuring plan provided for under this Agreement is subject to any required approval of the NYSEG Board of Directors and stockholders and any regulatory body having jurisdiction. This Agreement is subject to issuance of a final Commission Order approving this Agreement without changes, which order shall include or adopt the above-stated express findings. In the event that any of said approvals is not received, then this Agreement and all of its terms and conditions shall be null and void. This Agreement shall be binding upon, and shall inure to the benefit of, any successor in interest to any Party.

2. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement. None of the terms and provisions of this Agreement and none of the positions

taken herein by any Party may be referred to, cited or relied upon by any other Party as precedent in any other proceeding before this Commission or any other regulatory agency or before any court of law, except in furtherance of the purposes and results of this Agreement.

Executed this _____ day of September, 1997

NEW YORK STATE ELECTRIC & GAS CORPORATION

By: _____

By: _____

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APPENDIX A

FORECAST SUMMARY OF KILOWATTHOURS AND REVENUE EFFECTS

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-08
Appendix A
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954696

Year 1 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,328,704	$483,982	$0	$483,982	0.0%
Residential Day-Night	115	8		1,738,318	$221,284	$0	$221,284	0.0%
Residential Time of Use	115	12		333,559	$39,423	$0	$39,423	0.0%
TOTAL RESIDENTIAL				5,398,581	$744,688	$0	$744,688	0.0%
General Service Regular	115	6		205,238	$35,709	$0	$35,709	0.0%
General Service Day-Night	115	9		6,520	$924	$0	$924	0.0%
Subtotal				211,758	$36,633	$0	$36,633	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	171,716	$15,770	($791)	$14,979	-5.0%
General Service-w/Demand	115	2	All Others	2,582,189	$320,861	$0	$320,861	0.0%
General Service-w/Demand	115	2	Total	2,753,905	$336,631	($791)	$335,840	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	125,402	$12,863	($658)	$12,206	-5.1%
General Service-Time of Use	115	7-1	High Load Factor>68%	68,772	$6,257	($321)	$5,936	-5.1%
General Service-Time of Use	115	7-1	All Others	595,673	$64,792	$0	$64,792	0.0%
General Service-Time of Use	115	7-1	Total	789,847	$83,912	($979)	$82,934	-1.2%
Subtotal				3,543,753	$420,543	($1,769)	$418,774	-0.4%
TOTAL GENERAL SERVICE				3,755,511	$457,176	($1,769)	$455,407	-0.4%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,491	$1,323	($67)	$1,256	-5.0%
Primary Service	115	3-P	All Others	141,387	$15,727	$0	$15,727	0.0%
Primary Service	115	3-P	Total	156,878	$17,050	($67)	$16,983	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	377,783	$36,948	($1,890)	$35,058	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	48,281	$4,260	($214)	$4,047	-5.0%
Primary Service-Time of Use	115	7-2	All Others	748,083	$74,872	$0	$74,872	0.0%
Primary Service-Time of Use	115	7-2	Total	1,174,157	$116,080	($2,094)	$113,986	-1.8%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,271	$182	($9)	$173	-5.0%
Subtransmission Service	115	3S	All Others	4,180	$471	$0	$471	0.0%
Subtransmission Service	115	3S	Total	6,451	$653	($9)	$644	-1.4%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	494,227	$41,651	($2,116)	$39,506	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	45,771	$3,674	($186)	$3,488	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	222,157	$19,882	$0	$19,882	0.0%
Subtransmission-Time of Use	115	7-3	Total	762,155	$65,237	($2,301)	$62,936	-3.5%
Transmission-Time of Use	115	7-4	Industrial>500 kW	60,458	$4,921	($246)	$4,674	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	191,620	$16,493	$0	$16,493	0.0%
Transmission-Time of Use	115	7-4	Total	252,078	$21,414	($246)	$21,168	-1.2%
TOTAL PRIMARY				2,351,719	$220,436	($4,718)	$215,717	-2.1%
TOTAL GENERAL SERVICE & PRIMARY				6,107,230	$677,611	($6,487)	$671,124	-1.0%
Outdoor Lighting	115	5		17,500	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,523,371	$1,426,012	($6,487)	$1,419,526	-0.5%
Street Lighting	115	All		66,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				11,609,706	$1,444,575	($6,487)	$1,438,088	-0.4%
Miscellaneous Contracts				1,717,457	$108,614	$0	$108,614	0.0%
TOTAL RETAIL SALES REVENUE				13,327,163	$1,553,189	($6,487)	$1,546,702	-0.4%

SUMMARY			
Residential	744,688	$0	744,688	0%
Non-Residential (not subject to decrease)	572,008	0	572,008	0%
Subtotal	1,316,696	0	1,316,696	0%
Industrial & High Load Factor	127,879	(6,487)	121,392	-5%
Miscellaneous Contracts	108,614	0	108,614	0%
Total	1,553,189	($6,487)	1,546,702	-0%

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-06
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954596

Year 2 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,346,437	$486,633	$0	$486,633	0.0%
Residential Day-Night	116	8		1,728,039	$220,128	$0	$220,128	0.0%
Residential Time of Use	115	12		329,028	$38,913	$0	$38,913	0.0%
TOTAL RESIDENTIAL				5,402,504	$745,674	$0	$745,674	0.0%
General Service Regular	115	6		207,384	$36,074	$0	$36,074	0.0%
General Service Day-Night	115	9		6,591	$933	$0	$933	0.0%
Subtotal				213,986	$37,007	$0	$37,007	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	173,224	$15,104	($759)	$14,345	-5.0%
General Service-w/Demand	115	2	All Others	2,604,864	$323,430	($26)	$323,404	-0.0%
General Service-w/Demand	115	2	Total	2,778,089	$338,534	($785)	$337,749	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	126,588	$12,334	($649)	$11,685	-5.3%
General Service-Time of Use	115	7-1	High Load Factor>68%	69,162	$5,968	($316)	$5,652	-5.3%
General Service-Time of Use	115	7-1	All Others	538,573	$65,069	($86)	$64,983	-0.1%
General Service-Time of Use	115	7-1	Total	734,324	$83,371	($1,051)	$82,321	-1.3%
Subtotal				3,672,413	$421,905	($1,836)	$420,069	-0.4%
TOTAL GENERAL SERVICE				3,786,399	$458,912	($1,836)	$457,077	-0.4%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,623	$1,266	($64)	$1,202	-5.1%
Primary Service	115	3-P	All Others	142,589	$15,849	($4)	$15,845	-0.0%
Primary Service	115	3-P	Total	158,212	$17,115	($68)	$17,047	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	381,360	$35,437	($1,798)	$33,640	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	48,484	$4,062	($203)	$3,859	-5.0%
Primary Service-Time of Use	115	7-2	All Others	749,017	$74,903	($3)	$74,900	-0.0%
Primary Service-Time of Use	115	7-2	Total	1,178,861	$114,403	($2,004)	$112,399	-1.8%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,289	$175	($9)	$166	-5.0%
Subtransmission Service	115	3S	All Others	4,162	$470	$0	$470	0.0%
Subtransmission Service	115	3S	Total	6,451	$644	($9)	$635	-1.4%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	498,807	$39,974	($2,023)	$37,952	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	45,785	$3,489	($176)	$3,313	-5.0%
Subtransmission-Time of Use	115	7-3	All Others	217,695	$19,372	$0	$19,372	0.0%
Subtransmission-Time of Use	115	7-3	Total	762,287	$62,835	($2,199)	$60,636	-3.5%
Transmission-Time of Use	115	7-4	Industrial>500 kW	61,030	$4,722	($236)	$4,487	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	192,570	$16,568	$0	$16,568	0.0%
Transmission-Time of Use	115	7-4	Total	253,600	$21,290	($236)	$21,054	-1.1%
TOTAL PRIMARY				2,359,511	$216,287	($4,515)	$211,772	-2.1%
TOTAL GENERAL SERVICE & PRIMARY				6,145,910	$675,199	($6,350)	$668,849	-0.9%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,565,974	$1,424,568	($6,350)	$1,418,238	-0.4%
Street Lighting	118	All		86,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				11,652,309	$1,443,149	($6,350)	$1,436,799	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL RETAIL SALES REVENUE				13,405,766	$1,553,369	($6,350)	$1,547,019	-0.4%

SUMMARY

Residential	745,674	$0	745,674	0%
Non-Residential (not subject to decrease)	574,944	(119)	574,825	-0%
Subtotal	1,320,617	(119)	1,320,498	-0%
Industrial & High Load Factor	122,532	(6,232)	116,300	-5%
Miscellaneous Contracts	110,220	0	110,220	0%
Total	1,553,369	($6,350)	1,547,019	-0%

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-0891
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954696

Year 3 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,373,940	$490,738	$0	$490,738	0.0%
Residential Day-Night	115	8		1,732,027	$220,762	($0)	$220,762	-0.0%
Residential Time of Use	115	12		328,023	$38,803	$0	$38,803	0.0%
TOTAL RESIDENTIAL				5,434,890	$750,303	($0)	$750,303	-0.0%
General Service Regular	115	6		209,796	$36,476	$0	$36,476	0.0%
General Service Day-Night	115	9		8,660	$942	$0	$942	0.0%
Subtotal				218,457	$37,418	$0	$37,418	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	175,124	$14,494	($728)	$13,767	-5.0%
General Service-w/Demand	115	2	All Others	2,633,435	$326,654	($25)	$326,628	-0.0%
General Service-w/Demand	115	2	Total	2,808,559	$341,148	($753)	$340,395	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	127,693	$11,802	($622)	$11,180	-5.3%
General Service-Time of Use	115	7-1	High Load Factor>68%	69,964	$5,715	($304)	$5,412	-5.3%
General Service-Time of Use	115	7-1	All Others	605,888	$85,703	($78)	$85,625	-0.1%
General Service-Time of Use	115	7-1	Total	803,538	$83,220	($1,003)	$82,217	-1.2%
Subtotal				3,612,095	$424,368	($1,756)	$422,612	-0.4%
TOTAL GENERAL SERVICE				3,828,552	$461,786	($1,756)	$460,030	-0.4%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,761	$1,212	($62)	$1,150	-5.1%
Primary Service	115	3-P	All Others	143,849	$15,973	($3)	$15,971	-0.0%
Primary Service	115	3-P	Total	159,610	$17,185	($64)	$17,121	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	384,684	$33,974	($1,735)	$32,239	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	49,067	$3,902	($196)	$3,706	-5.0%
Primary Service-Time of Use	115	7-2	All Others	759,273	$75,776	($3)	$75,773	-0.0%
Primary Service-Time of Use	115	7-2	Total	1,193,024	$113,652	($1,935)	$111,717	-1.7%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,303	$167	($8)	$158	-5.0%
Subtransmission Service	115	3S	All Others	4,148	$468	$0	$468	0.0%
Subtransmission Service	115	3S	Total	6,451	$635	($8)	$627	-1.3%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	503,255	$38,319	($1,945)	$36,374	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	48,442	$3,359	($170)	$3,189	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	223,638	$19,896	$0	$19,896	0.0%
Subtransmission-Time of Use	115	7-3	Total	773,335	$61,574	($2,115)	$59,458	-3.4%
Transmission-Time of Use	115	7-4	Industrial>500 kW	61,582	$4,529	($226)	$4,303	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	194,319	$16,701	$0	$16,701	0.0%
Transmission-Time of Use	115	7-4	Total	255,901	$21,230	($226)	$21,003	-1.1%
TOTAL PRIMARY				2,388,321	$214,276	($4,349)	$209,926	-2.0%
TOTAL GENERAL SERVICE & PRIMARY				6,216,873	$676,062	($6,105)	$669,956	-0.9%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,669,323	$1,430,078	($6,106)	$1,423,972	-0.4%
Street Lighting	116	All		86,335	$19,195	$0	$19,195	0.0%
SUBTOTAL TARIFF REVENUE				11,755,658	$1,449,273	($6,106)	$1,443,167	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL RETAIL SALES REVENUE				13,509,115	$1,559,493	($6,106)	$1,553,387	-0.4%
SUMMARY								
Residential					750,303	($0)	750,303	0%
Non-Residential (not subject to decrease)					581,497	(109)	581,388	0%
Subtotal					1,331,800	(109)	1,331,691	0%
Industrial & High Load Factor					117,473	(5,996)	111,477	-5%
Miscellaneous Contracts					110,220	0	110,220	-0%
Total					1,559,493	(6,106)	1,553,387	-0%

NOTE: Total Revenues will be based on MWh shown above and rates resulting from design approved resulting from filing by February 1, 1998.

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-0891
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954696

Year 4 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,407,676	$495,665	$0	$495,665	0.0%
Residential Day-Night	115	8		1,747,872	$222,604	$0	$222,604	0.0%
Residential Time of Use	115	12		330,600	$39,094	$0	$39,094	0.0%
TOTAL RESIDENTIAL				5,488,148	$757,363	$0	$757,363	0.0%
General Service Regular	115	6		212,715	$36,955	$0	$36,955	0.0%
General Service Day-Night	115	9		6,753	$954	$0	$954	0.0%
Subtotal				219,469	$37,910	$0	$37,910	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	177,482	$13,942	($699)	$13,243	-5.0%
General Service-w/Demand	115	2	All Others	2,668,903	$330,647	($11)	$330,636	-0.0%
General Service-w/Demand	115	2	Total	2,846,385	$344,589	($711)	$343,879	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	128,731	$11,284	($585)	$10,699	-5.2%
General Service-Time of Use	115	7-1	High Load Factor>68%	70,936	$5,485	($286)	$5,199	-5.2%
General Service-Time of Use	115	7-1	All Others	615,029	$66,628	($25)	$66,603	-0.0%
General Service-Time of Use	115	7-1	Total	814,696	$83,297	($896)	$82,401	-1.1%
Subtotal				3,661,081	$427,886	($1,607)	$426,280	-0.4%
TOTAL GENERAL SERVICE				3,880,549	$465,796	($1,607)	$464,189	-0.3%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,916	$1,161	($58)	$1,102	-5.0%
Primary Service	115	3-P	All Others	145,262	$16,112	($2)	$16,110	-0.0%
Primary Service	115	3-P	Total	161,178	$17,273	($61)	$17,213	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	387,813	$32,537	($1,660)	$30,878	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	49,683	$3,750	($188)	$3,561	-5.0%
Primary Service-Time of Use	115	7-2	All Others	770,519	$76,742	($3)	$76,739	-0.0%
Primary Service-Time of Use	115	7-2	Total	1,208,015	$113,029	($1,851)	$111,178	-1.6%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,316	$169	($8)	$161	-5.0%
Subtransmission Service	115	3S	All Others	4,135	$467	$0	$467	0.0%
Subtransmission Service	115	3S	Total	6,451	$627	($8)	$619	-1.3%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	507,349	$36,703	($1,865)	$34,838	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	47,094	$3,231	($163)	$3,068	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	229,743	$20,649	$0	$20,649	0.0%
Subtransmission-Time of Use	115	7-3	Total	784,186	$60,584	($2,028)	$58,556	-3.3%
Transmission-Time of Use	115	7-4	Industrial>500 kW	62,063	$4,341	($216)	$4,124	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	195,707	$16,803	$0	$16,803	0.0%
Transmission-Time of Use	115	7-4	Total	257,770	$21,144	($216)	$20,927	-1.0%
TOTAL PRIMARY				2,417,600	$212,657	($4,164)	$208,493	-2.0%
TOTAL GENERAL SERVICE & PRIMARY				6,298,149	$678,453	($5,770)	$672,682	-0.9%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,901,857	$1,439,529	($5,770)	$1,433,758	-0.4%
Street Lighting	118	All		86,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				11,988,192	$1,458,092	($5,770)	$1,452,321	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL YEAR 1 RETAIL SALES REVENUE				13,641,649	$1,568,312	($5,770)	$1,562,541	-0.4%

SUMMARY			
Residential	757,363	$0	757,363	0%
Non-Residential (not subject to decrease)	588,133	(41)	588,092	-0%
Subtotal	1,345,496	(41)	1,345,457	-0%
Industrial & High Load Factor	112,593	(5,729)	106,864	-5%
Miscellaneous Contracts	110,220	0	110,220	-0%
Total	1,568,312	($5,770)	1,562,541	-0%

NOTE: Total Revenues will be based on MWh shown above and rates resulting from design approved resulting from filing by February 1, 1999.

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-089
Appendix A
Page 5 of 5

Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954698

Year 5 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,443,698	$500,894	$0	$500,894	0.0%
Residential Day-Night	115	8		1,766,217	$224,853	$0	$224,853	0.0%
Residential Time of Use	115	12		334,056	$39,482	$0	$39,482	0.0%
TOTAL RESIDENTIAL				5,543,971	$765,229	$0	$765,229	0.0%
General Service Regular	115	6		215,891	$37,475	$0	$37,475	0.0%
General Service Day-Night	115	9		6,862	$968	$0	$968	0.0%
Subtotal				222,752	$38,443	$0	$38,443	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	180,120	$13,429	($673)	$12,756	-5.0%
General Service-w/Demand	115	2	All Others	2,708,565	$335,138	($31)	$335,107	-0.0%
General Service-w/Demand	115	2	Total	2,888,685	$348,568	($705)	$347,863	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	129,791	$10,799	($556)	$10,243	-5.2%
General Service-Time of Use	115	7-1	High Load Factor>68%	72,032	$5,277	($273)	$5,004	-5.2%
General Service-Time of Use	115	7-1	All Others	625,467	$67,538	$0	$67,538	0.0%
General Service-Time of Use	115	7-1	Total	827,290	$83,615	($829)	$82,785	-1.0%
Subtotal				3,715,975	$432,183	($1,534)	$430,649	-0.4%
TOTAL GENERAL SERVICE				3,938,728	$470,626	($1,534)	$469,092	-0.3%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	16,098	$1,114	($56)	$1,058	-5.1%
Primary Service	115	3-P	All Others	146,930	$16,279	$0	$16,279	0.0%
Primary Service	115	3-P	Total	163,028	$17,394	($56)	$17,337	-0.3%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	391,005	$31,168	($1,591)	$29,577	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	50,512	$3,615	($182)	$3,434	-5.0%
Primary Service-Time of Use	115	7-2	All Others	763,027	$76,694	$0	$76,694	0.0%
Primary Service-Time of Use	115	7-2	Total	1,204,544	$111,477	($1,773)	$109,704	-1.6%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,334	$161	($8)	$153	-5.0%
Subtransmission Service	115	3S	All Others	4,117	$466	$0	$466	0.0%
Subtransmission Service	115	3S	Total	6,451	$627	($8)	$619	-1.3%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	512,624	$35,220	($1,789)	$33,431	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	47,791	$3,112	($157)	$2,954	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	235,477	$20,753	$0	$20,753	0.0%
Subtransmission-Time of Use	115	7-3	Total	795,792	$59,085	($1,947)	$57,139	-3.3%
Transmission-Time of Use	115	7-4	Industrial>500 kW	62,574	$4,161	($207)	$3,954	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	197,617	$16,948	$0	$16,948	0.0%
Transmission-Time of Use	115	7-4	Total	260,191	$21,109	($207)	$20,902	-1.0%
TOTAL PRIMARY				2,430,006	$209,692	($3,991)	$205,701	-1.9%
TOTAL GENERAL SERVICE & PRIMARY				6,368,734	$680,317	($5,525)	$674,793	-0.8%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,930,265	$1,449,259	($5,525)	$1,443,734	-0.4%
Street Lighting	118	All		86,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				12,016,600	$1,467,822	($5,525)	$1,462,297	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL RETAIL SALES REVENUE				13,770,057	$1,578,042	($5,525)	$1,572,517	-0.4%

SUMMARY

Residential	765,229	$0	765,229	0%
Non-Residential (not subject to decrease)	594,538	(31)	594,508	-0%
Subtotal	1,359,766	(31)	1,359,733	-0%
Industrial & High Load Factor	108,057	(5,493)	102,564	-5%
Miscellaneous Contracts	110,220	0	110,220	0%
Total	1,578,042	($5,525)	1,572,517	-0%

NOTE: Total Revenues will be based on MWh shown above and rates resulting from design approved resulting from filing by February 1, 1998.

APPENDIX B

RATE SCHEDULES

New York State Electric & Gas Corporation
Rate Schedules - Residential Years 1 - 2*

S. C. No. 1 (Straight Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
	$0.1237	$0.1237	$0.1237
Customer Charge	$/month		
	$7.43	$7.43	$7.43

S. C. No. 8 (Day-Night Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
Day	$0.1391	$0.1391	$0.1391
Night	$0.0571	$0.0571	$0.0571
Customer Charge	$/month		
	$9.23	$9.23	$9.23

S. C. No. 12 (TOU Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
On-Peak	$0.1928	$0.1928	$0.1928
Mid-Peak	$0.1138	$0.1138	$0.1138
Off-Peak	$0.0571	$0.0571	$0.0571
Customer Charge	$/month		
	$24.00	$24.00	$24.00

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e.

New York State Electric & Gas Corporation
Rate Schedules
Non Residential (Small General Service) Years 1 - 2*

S. C. No. 6 (Straight Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
	$0.14277	$0.14277	$0.14277
Customer Charge	$/month		
	$7.43	$7.43	$7.43

S. C. No.9 (Day-Night Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
Day	$0.15512	$0.15512	$0.15512
Night	$0.06422	$0.06422	$0.06422
Customer Charge	$/month		
	$9.23	$9.23	$9.23

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e.

Rate Schedules - Non Residential Years 1 - 2

SC 2 General Service - Secondary*

	Current	Year 1		Year 2	
Hours Use	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
First 200	$0.08379	$0.07960	$0.08379	$0.07562	$0.08379
201 to 350	$0.07292	$0.06927	$0.07292	$0.06581	$0.07292
Over 350	$0.05599	$0.05319	$0.05599	$0.05053	$0.05599
Demand	$/kW				
All kW	$11.35	$10.78	$11.35	$10.24	$11.35
Customer Charge	$/month				
	$0.00	$0.00	$0.00	$0.00	$0.00
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7-1 Large General Service - Secondary*

	Current	Year 1		Year 2	
		HLF/Industrial *	All Other	HLF/Industrial *	All Other
Energy On-Peak	$/kWh				
	$0.08755	$0.08317	$0.08755	$0.07901	$0.08755
Energy Off-Peak	$/kWh				
	$0.05599	$0.05319	$0.05599	$0.05053	$0.05599
Demand On-Peak	$/kW				
All kW	$11.35	$10.78	$11.35	$10.24	$11.35
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 3 Primary Distribution*

	Current	Year 1		Year 2	
Hours Use	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
First 200	$0.07803	$0.07413	$0.07803	$0.07042	$0.07803
201 to 350	$0.06802	$0.06462	$0.06802	$0.06139	$0.06802
Over 350	$0.05422	$0.05151	$0.05422	$0.04893	$0.05422
Demand	$/kW				
All kW	$10.78	$10.24	$10.78	$9.73	$10.78
Customer Charge	$/month				
	$0.00	$0.00	$0.00	$0.00	$0.00
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7- 2 Large General Service - Primary Distribution*

	Current	Year 1		Year 2	
Energy On-Peak	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
	$0.07932	$0.07535	$0.07932	$0.07158	$0.07932
Energy Off-Peak					
	$0.05422	$0.05151	$0.05422	$0.04893	$0.05422
Demand On-Peak	$/kW				
All kW	$11.68	$11.10	$11.68	$10.55	$11.68
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
eactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2*

SC 3 Sub-Transmission**

	Current	Year 1		Year 2	
Hours Use	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
First 200	$0.07499	$0.07124	$0.07499	$0.06767	$0.07499
201 to 350	$0.06498	$0.06173	$0.06498	$0.05864	$0.06498
Over 350	$0.05118	$0.04862	$0.05118	$0.04618	$0.05118
Demand	$/kW				
All kW	$8.68	$8.24	$8.68	$7.83	$8.68
Customer Charge	$/month				
	$0.00	$0.00	$0.00	$0.00	$0.00
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

** Charges shown include a high voltage discount for SC 3 Sub-Transmission customers from the SC 3 Primary Distribution charges on Appendix B Page 5 of 9.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7-3 Large General Service - Sub-Transmission*

	Current	Year 1		Year 2	
Energy On-Peak	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
	$0.07441	$0.07069	$0.07441	$0.06716	$0.07441
Energy Off-Peak					
	$0.05165	$0.04907	$0.05165	$0.04662	$0.05165
Demand On-Peak	$/kW				
All kW	$8.88	$8.44	$8.88	$8.02	$8.88
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7-4 Large General Service - Transmission*

	Current	Year 1		Year 2	
		HLF/Industrial *	All Other	HLF/Industrial *	All Other
Energy On-Peak	$/kWh				
	$0.07305	$0.06940	$0.07305	$0.06593	$0.07305
Energy Off-Peak					
	$0.05063	$0.04810	$0.05063	$0.04570	$0.05063
Demand On-Peak	$/kW				
All kW	$8.71	$8.27	$8.71	$7.86	$8.71
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
eactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

APPENDIX C
UNCONTROLLABLE COSTS

Uncontrollable Cost Factors[1]		
	Category 1	Category 2
Frequency:	One-Time Event	Ongoing Costs
General Description of Qualifying Events:	Natural Disasters, Acts of Terrorism, and Category 2 Costs Incurred Before Rates are Changed	Accounting, Legislative, Regulatory, or Tax Changes
Examples of Potential Qualifying Events:	- Storms - Bombings - Retroactive Tax Levies	- Change in DSM Expenses - FASB Accounting Pronouncements - Changes in Federal Income Tax Rate - Changes in Nuclear Decommissioning Costs - NYPA Transmission Adjustment Charge
Threshold Limits for Rate Recovery	Aggregate Costs in Excess of 3% of RegSub Net Income	Variations from Targets Stated in Appendix A, Page 2
Recovery Method:	The Uncontrollable Costs Factors will be applied to each customer's bill in a manner to be determined by the Commission.	The Uncontrollable Cost Factors will be applied to each customer's bill in a manner to be determined by the Commission.
Timing of Rate Charge/Recovery Period:	Annually in a manner and over a period to be determined by the Commission.	Annually in a manner and over a period to be determined by the Commission.

[1] The Uncontrollable Cost Factors relate to cost increases and decreases.

Uncontrollable Cost Factor Adjustments[1]
($000)

	Year 1	Year 2	Year 3	Year 4	Year 5
Nuclear Decommissioning Costs:					
Internal Fund	$ 208	$ 263	$ 263	$ 263	$ 263
External Fund	1,494	4,062	4,062	4,062	4,062
Total:	1,702	4,325	4,325	4,325	4,325
Demand Side Management Costs	6,090	7,124	6,924	7,162	7,431
Research & Development Costs	4,710	5,951	6,996	6,902	7,065
Manufactured Gas Plan Site Remediation Costs	1,569	2,163	2,640	2,640	2,640
Fresh Start Program Costs	475	475	475	475	475
Renewable Resource Costs	157	157	157	157	157
NYPA Transition Adjustment	0	0	0	0	0
Mandatory Regulatory, Legislative, Accounting and Tax Changes	0	0	0	0	0
Total	$14,703	$20,195	$21,517	21,661	$22,093

[1] The above targets are the amounts that are covered within the rates specified in this Settlement. Prudently incurred changes from these amounts will be included in the Uncontrollable Cost Factor Adjustments.

APPENDIX D

METHOD FOR CALCULATING THE CTC

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Summary of the Estimated CTC Rates
Based on Three Potential Valuation Results of Coal-Fired Generation Assets
$550 Million Below Book, Equal to Book, and $550 Million Above Book
($ 000)

Potential Market Valuations		Rate Year Ending July 2000	2001	2002
$550 Million Below Book	(page 2)	0.83	0.79	0.76
Equal to Book	(page 3)	0.31	0.30	0.29
$340 Million Above Book	(page 4)	0.00	0.00	0.00
$550 Million Above Book	(page 5)	0.00	0.00	0.00

Commencing August 1, 1999, retail access customers will be credited with the backout rates set forth in Article IV.4.b of the Agreement, net of a CTC calculated as illustrated in this appendix.

Since the backout rate is based on generation costs divided by retail sales, retail access customers will also be responsible to compensate NYSEG for system losses between the supply point and the customer meter.

The valuations are for illustrative purposes and do not presume any actual value. The actual CTC will be based on the results of the auction valuation or subsequent appraisal pursuant to Article V.1 of the Agreement and actual balances of generation net assets on the books after the auction.

Based on these estimates, if the market value of the coal-fired generation assets is $340 million, the CTC would be zero. Any value in excess of that needed to produce a zero CTC will be disposed of pursuant to Article V.1.h of the Agreement.

In the event of a negative determination from the IRS regarding normalization issues, it would be necessary to remove funded deferred taxes from the CTC.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Based on Assumed Market Value of Coal-Fired Generation Assets
$550 Million Below Book
($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work in Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			546,064					
Before-Tax Gain or (Loss)			(550,000)					
Federal Income Tax								
Sale Price			546,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			86,247					
Tax Rate			35%					
Tax Liability			30,186					
After-Tax Gain or (Loss)			(580,186)					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			580,186	549,650	519,114	488,578	458,042	427,506
Annual Amortization through 2015 - the End of the Average Service Life			(30,536)	(30,536)	(30,536)	(30,536)	(30,536)	(30,536)
Ending Balance			549,650	519,114	488,578	458,042	427,506	396,970
Average Balance			564,918	534,382	503,846	473,310	442,774	412,238
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			70,219	66,424	62,628	58,832	55,037	51,241
Annual Amortization Grossed Up for FIT @	35%		46,978	46,978	46,978	46,978	46,978	46,978
Total Annual Cost Before GRT			$117,197	$113,402	$109,606	$105,810	$102,015	$98,219
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.88	0.84	0.81	0.77	0.74	0.71
(f) Gross Revenue Tax @	4.53%		0.04	0.04	0.04	0.04	0.04	0.03
(g) Annual CTC Based on Market Value $550 Million Below Book			0.92	0.88	0.86	0.81	0.78	0.74
(h) CTC for Rate Year Ending July						0.83	0.79	0.76

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC) Based on Assumed Market Value of Coal-Fired Generation Assets Equal to Book

($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work in Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			1,096,064					
Before-Tax Gain or (Loss)			0					
Federal Income Tax								
Sale Price			1,096,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			636,247					
Tax Rate			35%					
Tax Liability			222,686					
After-Tax Gain or (Loss)			(222,686)					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			222,686	210,966	199,246	187,526	175,806	164,086
Annual Amortization through 2015 - the End of the Average Service Life			(11,720)	(11,720)	(11,720)	(11,720)	(11,720)	(11,720)
Ending Balance			210,966	199,246	187,526	175,806	164,086	152,366
Average Balance			216,826	205,106	193,386	181,666	169,946	158,226
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			26,951	25,495	24,038	22,581	21,124	19,667
Annual Amortization Grossed Up for FIT @	35%		18,031	18,031	18,031	18,031	18,031	18,031
Total Annual Cost Before GRT			$44,982	$43,526	$42,069	$40,612	$39,155	$37,698
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.34	0.32	0.31	0.30	0.28	0.27
(f) Gross Revenue Tax @	4.53%		0.02	0.02	0.01	0.01	0.01	0.01
(g) Annual CTC Based on Market Value Equal to Book			0.36	0.34	0.32	0.31	0.29	0.28
(h) CTC for Rate Year Ending July						0.31	0.30	0.29

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Based on Assumed Market Value of Coal-Fired Generation Assets
$340 Million Above Book
($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work in Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			1,436,064					
Before-Tax Gain or (Loss)			340,000					
Federal Income Tax								
Sale Price			1,436,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			976,247					
Tax Rate			35%					
Tax Liability			341,686					
After-Tax Gain or (Loss)			(1,686)					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			1,686	1,597	1,508	1,419	1,330	1,241
Annual Amortization through 2015 - the End of the Average Service Life			(89)	(89)	(89)	(89)	(89)	(89)
Ending Balance			1,597	1,508	1,419	1,330	1,241	1,152
Average Balance			1,642	1,553	1,464	1,375	1,286	1,197
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			204	193	182	171	160	149
Annual Amortization Grossed Up for FIT @	35%		137	137	137	137	137	137
Total Annual Cost Before GRT			$341	$330	$319	$308	$297	$286
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.00	0.00	0.00	0.00	0.00	0.00
(f) Gross Revenue Tax @	4.53%		0.00	0.00	0.00	0.00	0.00	0.00
(g) Annual CTC Based on Market Value $340 Million Above Book			0.00	0.00	0.00	0.00	0.00	0.00
(h) CTC for Rate Year Ending July						0.00	0.00	0.00

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Based on Assumed Market Value of Coal-Fired Generation Assets
$550 Million Above Book
($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work In Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			1,646,064					
Before-Tax Gain or (Loss)			550,000					
Federal Income Tax								
Sale Price			1,646,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			1,186,247					
Tax Rate			35%					
Tax Liability			415,186					
After-Tax Gain or (Loss)			134,814					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			(134,814)	(127,719)	(120,624)	(113,529)	(106,434)	(99,339)
Annual Amortization through 2015 - the End of the Average Service Life			7.095	7.095	7.095	7.095	7.095	7.095
Ending Balance			(127,719)	(120,624)	(113,529)	(106,434)	(99,339)	(92,244)
Average Balance			(131,267)	(124,172)	(117,077)	(109,982)	(102,887)	(95,792)
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			(16,316)	(15,435)	(14,553)	(13,671)	(12,789)	(11,907)
Annual Amortization Grossed Up for FIT @	35%		(10,915)	(10,915)	(10,915)	(10,915)	(10,915)	(10,915)
Total Annual Cost Before GRT			($27,231)	($26,350)	($25,468)	($24,586)	($23,704)	($22,822)
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.00	0.00	0.00	0.00	0.00	0.00
(f) Gross Revenue Tax @	4.53%		0.00	0.00	0.00	0.00	0.00	0.00
Annual CTC Based on Market Value $550 Million Above Book			0.00	0.00	0.00	0.00	0.00	0.00
CTC for Rate Year Ending July						0.00	0.00	0.00

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)

Notes Relating to the CTC Calculation

(a) The items listed on pages 2 through 5 are the major net assets associated with coal-fired generation. Other assets or liabilities may be identified at the time of the auction.

(b) The balances of coal inventory, spare parts, prepayments and deferred taxes at December 31, 1996 are estimates. Actual balances will be used in the calculation of the CTC following the auction.

(c) In the event of a negative determination from the IRS regarding normalization issues, it would be necessary to remove funded deferred taxes from the CTC.

(d) RegSub's tax liability will be payable upon the sale of the plants to a third party and will be included in the CTC.

(e) The tax-depreciable basis of the successful bidder will be the purchased price of the plants. If GenSub is the successful bidder, it will receive a stepped-up basis.

If GenSub is the successful bidder, RegSub's tax liability will be included in the CTC, however it will not accrue a carrying charge because no cash payment would be made as IRS regulations allow RegSub to defer payment of the tax to match GenSub's stepped-up basis.

(f) This appendix does not reflect recent legislated reductions of the gross revenue tax rate. Pursuant to the Agreement, the rate will be adjusted when the actual CTC is calculated.

(g) Any value in excess of that needed to produce a zero CTC will be disposed of pursuant to Article V.1.h of the Agreement.

APPENDIX E

TARGET LEVELS FOR NUG CONTRACTS

New York State Electric & Gas Corporation
Description of the Method that Will be Used to Quantify Savings
Associated with the Termination or Restructuring of NUG Contracts

Net savings associated with the termination or restructuring of NUG contracts will be quantified as described in this appendix and shared pursuant to Section III.2.b of the Agreement.

Net savings will be calculated separately for individual NUGs and will be limited to changes directly resulting from the termination or restructuring of contracts.

Net savings will be calculated at the end of each rate year for inclusion in rates the following year.

The net savings will be determined as follows:

Amount of Avoided Gross Payments to NUGs
Less Cost of Replacement Power (or Reduced Sales for Resale Revenue)
Less Cost to Terminate or Restructure the Contracts

The avoided gross payments will be the difference between the forecast payments listed on Appendix E, Page 2 and the actual payments made to the NUG during the year, to the extent such changes were the result of contract termination or restructuring.

The cost of replacement power (or reduced sales for resale revenue) will be the weighted average market price for the year times the difference between the forecast mwh purchases listed on Appendix E, Page 3 and the actual mwh purchased from the NUG during the year, to the extent that such changes were the result of contract termination of restructuring.

The weighted average market price will be determined as described in Article IV.1.b of the Agreement.

Incremental costs incurred to effect a contract termination or reformation will be deferred and amortized ratably over the remainder of the original contract period. Interest will be accrued on the unamortized balance of termination and restructuring costs at the before-tax cost of capital allowed in the most recent NYSEG electric rate case (12.43% for the term of this agreement).

Sharing of the net benefit will be according to Article V of the Agreement.

New York State Electric & Gas Corporation

Cost of NUG Purchases Excluding Gas Import Tax
Forecast at Time of 1997 Rate Settlement
($ 000)

Private Generator	Year 1	Year 2	Year 3	Year 4	Year 5
Contract 1	$109,166	$112,345	$117,241	$119,366	$123,752
Contract 2	152,993	156,644	159,031	165,782	179,261
Contract 3	19,936	19,669	19,219	18,679	18,147
Contract 4	17,901	18,341	18,863	19,143	21,570
Contract 5	8,445	8,880	9,562	9,868	10,214
Contract 6	1,266	1,273	1,277	1,273	1,273
Contract 7	2,192	2,236	1,721	1,313	1,313
Contract 8	1,653	2,001	2,096	2,047	662
Contract 9	426	402	416	432	452
Contract 10	70	122	126	131	137
Contract 11	800	1,412	1,461	1,509	1,577
Contract 12	270	270	278	286	295
Contract 13	113	68	71	76	82
Contract 14	222	179	187	200	217
Contract 15	350	285	207	213	223
Contract 16	7	5	5	5	6
Contract 17	40	40	40	40	40
Contract 18	792	972	1,071	1,141	1,192
Contract 19	3,179	3,365	3,365	3,365	3,365
Contract 20	15,614	14,902	14,902	14,902	14,902
Contract 21	626	603	603	603	603
Contract 22	312	315	315	315	315
Contract 23	72	89	89	89	89
TOTAL	$336,442	$344,417	$352,145	$360,778	$379,689

New York State Electric & Gas Corporation

NUG MWH Purchases

Forecast at Time of 1997 Rate Settlement

Private Generator	Year 1	Year 2	Year 3	Year 4	Year 5
Contract 1	1,259,220	1,223,510	1,255,780	1,228,040	1,221,310
Contract 2	1,883,062	1,864,018	1,833,498	1,828,131	1,907,943
Contract 3	103,670	103,360	103,360	103,770	103,530
Contract 4	360,000	360,000	364,800	364,800	404,880
Contract 5	128,760	128,760	134,050	133,660	133,660
Contract 6	21,190	21,190	21,250	21,190	21,190
Contract 7	23,050	23,050	23,110	23,050	23,050
Contract 8	20,390	20,390	20,450	20,390	20,390
Contract 9	17,470	17,470	17,470	17,470	17,500
Contract 10	5,290	5,290	5,290	5,290	5,290
Contract 11	48,530	48,530	48,530	48,530	48,530
Contract 12	5,150	5,150	5,150	5,150	5,150
Contract 13	2,310	2,310	2,310	2,310	2,310
Contract 14	6,090	6,090	6,090	6,090	6,090
Contract 15	6,890	6,890	6,890	6,890	6,890
Contract 16	170	170	170	170	170
Contract 17	670	670	670	670	670
Contract 18	8,330	8,330	8,330	8,330	8,330
Contract 19	37,950	37,950	37,950	37,940	37,950
Contract 20	216,910	216,910	217,090	217,090	217,090
Contract 21	6,750	6,750	6,750	6,750	6,750
Contract 22	3,730	3,730	3,730	3,730	3,730
Contract 23	960	960	960	960	960
TOTAL	4,166,542	4,111,478	4,123,678	4,090,401	4,203,363

APPENDIX F

SERVICE QUALITY MECHANISM

Electric Service Quality Performance Mechanism

An Electric Service Quality Performance Mechanism shall be implemented for the Price Cap Period. The mechanism provides NYSEG an incentive to render reliable electric service to its customers by avoiding a penalty due to unsatisfactory performance. The mechanism will make use of two reliability indices. They are:

1. The customer average interruption duration index ("CAIDI"). This measures how long the average power outage lasts for an interrupted customer during each year of the Price Cap Period.

2. The system average interruption frequency index ("SAIFI"). This measures how often the average customer is interrupted during each year of the Price Cap Period.

The calculation of CAIDI and SAIFI conforms to PSC electric reliability standards and, therefore, interruptions due to "major storm", as defined in 16 NYCRR in Part 105, are excluded.

The two measures will be tracked separately for NYSEG on a systemwide composite basis (average of NYSEG district performance indicators). The systemwide, composite figure for each measure will be determined using performance indicators applicable to each NYSEG district as established in Case Nos. 90-E-1119 and 95-E-0165. The threshold systemwide composite performance indicator for duration (CAIDI) shall be 2.08 for each year of the Price Cap Period. The threshold systemwide composite performance indicator for frequency (SAIFI) shall be 1.33 for each year of the Price Cap Period.

In the event that the systemwide composite performance indicator for CAIDI is within the range of 2.08 and 2.18 during any year of the Price Cap Period, NYSEG shall be assessed a penalty equal to 3.75 basis points. If the systemwide composite performance indicator for CAIDI exceeds 2.18 during any year of the Price Cap Period, NYSEG shall be assessed the maximum CAIDI penalty of 7.5 basis points.

In the event that the systemwide composite performance indicator for SAIFI is within the range of 1.33 and 1.40 during any year of the Price Cap Period, NYSEG shall be assessed a penalty equal to 3.75 basis points. If the systemwide composite performance indicator for SAIFI exceeds 1.40 during any year of the Price Cap Period, NYSEG shall be assessed the maximum SAIFI penalty of 7.5 basis points.

The maximum aggregate penalty that could be assessed for each year of the Price Cap Period is 15 basis points. In the year that a penalty is incurred, the 12.0% earnings cap contained in the Settlement Agreement will be reduced by the number of basis points of the penalty incurred. For example, if the maximum aggregate penalty is incurred, the ROE cap for that year would be 11.85%.

APPENDIX G

AMORTIZATION SCHEDULE FOR ELECTRIC BUSINESS OF REGSUB

Appendix G

New York State Electric & Gas Corporation

Amortization Schedule for Electric Business of RegSub

(S 000)

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Balance					
Sales for Resale Profit	($4,835)				
Fuel Costs	10,662				
South Corning Termination Costs	15,905				
Demand Side Management Program Costs	69,268				
SFAS-112 OPEBs	3,175				
Ice Storm	1,426				
Somerset Non Cash Return	3,065				
Jamesport Plant Abandonment	12,484				
NYS Sales Tax Audit Deficiency	1,248				
Federal Income Tax					
TRA-86 Deferred Taxes	1,960				
RRA-93 Deferred Taxes	1,768				
R&D Tax Credits	8,046				
FIT Gross-up	5,231				
Total	129,403	101,652	73,901	46,150	18,399
Annual Amortization	(27,751)	(27,751)	(27,751)	(27,751)	(27,751)
Ending Balance	$101,652	$73,901	$46,150	$18,399	($9,352)

Pursuant to the terms of the Settlement, all of the current true-ups will be discontinued on July 31, 1997, including costs and benefits associated with Nine Mile 2, pensions and NGE.

Pursuant to Article VIII.4 of the Agreement, the net credit balances deferred through July 31, 1997 associated with the items subject to true-up per the 1995 rate settlement and the deferred credit balance associated with the gas import tax have been netted against the South Corning deferred debit balance, thereby reducing the non-cash return accrued as the remaining balance is amortized linearly over the five years of the Price Cap Period.

During the Price Cap Period, NYSEG will continue to record an amortization of $27.751 million annually, subject to the provisions of Article VIII.3.

Based on the deferred balances at July 31, 1997 identified above, the annual amortization of $27.751 million will result in a net credit balance of $9.352 million at the end of the Price Cap Period. That amount will be used to write down other miscellaneous net deferred debits. Any remainder of that credit will be used to write down a corresponding amount of the unamortized loss on reacquired debt or the unamortized debt discount & expense.

This schedule does not include the above-market costs of coal-fired generation because they cannot be identified until after the auction or subsequent appraisal.

APPENDIX H

TO BE PROVIDED

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August 29, 1997

Honorable Lois D. Cashell, Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, DC 20426

Re: New York State Electric & Gas Corporation
Application for Commission Approval of Corporate Reorganization
Docket No. EC97-52

Dear Secretary Cashell:

Pursuant to Section 203 of the Federal Power Act and the Commission's regulations thereunder, please find enclosed one executed and five copies of the above-referenced Application with exhibits and one additional copy of the Application and exhibits for the State of New York, as required by 18 C.F.R. § 33.6. Also enclosed is a diskette containing a notice suitable for publication in the Federal Register.

Section 203 authorization is an integral part of the implementation of NYSEG's comprehensive restructuring plan adopted in response to the "Competitive Opportunities" proceeding instituted by the New York Public Service Commission. As noted in the Application, NYSEG requests expedited review of the Application to allow its reorganization plan to proceed on the schedule outlined in the "Competitive Opportunities" proceeding.

As noted in the Application, NYSEG is requesting that the Commission issue a notice requesting that comments concerning the Application be filed within 30 days because

the Application does not concern a merger of public utilities but a corporate reorganization. Thus, the Application presents simpler issues than those presented in mergers where the Commission has provided a longer notice period.

Respectfully submitted,

Stuart A. Caplan/cpm

Stuart A. Caplan
Taras G. Borkowsky
Attorneys for New York State
Electric & Gas Corporation

Enclosures
cc: Hon. John C. Crary, Secretary
NY State Dept. of Public Service

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

NEW YORK STATE ELECTRIC & GAS CORPORATION	)))	Docket No. EC97-_____

APPLICATION FOR COMMISSION APPROVAL OF CORPORATE REORGANIZATION

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August 29, 1997

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APPENDICES

EXHIBITS

EXHIBIT A	-	Resolutions of the Board of Directors.
EXHIBIT B	-	A statement of the measure of control or ownership exercised by or over each party to the transaction as to any public utility, or bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party, and the extent of any intercorporate relationships.
EXHIBIT C	-	Balance sheets and supporting plant schedules for the 12-month period ended December 31, 1996 on an actual basis in the form prescribed for Statements A and B of the FERC Annual Report Form No. 1 and pro forma balance sheets.
EXHIBIT D	-	A statement of all known contingent liabilities except minor items such as damage claims and similar items involving relatively small amounts.
EXHIBIT E	-	Income statements for the 12-month period ended December 31, 1996 on an actual basis in the form prescribed for Statement C of the FERC Annual Report Form No. 1 and pro forma income statements.
EXHIBIT F	-	An analysis of retained earnings for the period covered by the income statements referred to in Exhibit E and pro forma retained earnings statements.
EXHIBIT G	-	Copy of Petition filed with the New York Public Service Commission on December 19, 1996, the Statement of Principles and the Settlement Agreement.
EXHIBIT H	-	Draft of the Agreement and Plan of Exchange between NYSEG and HoldCo.
EXHIBIT I	-	A map showing NYSEG's properties and interconnections and the principal cities of the area served.

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

NEW YORK STATE ELECTRIC & GAS CORPORATION	)))	Docket No. EC97-_____

APPLICATION FOR COMMISSION
APPROVAL OF CORPORATE REORGANIZATION

I. INTRODUCTION

Pursuant to Section 203 of the Federal Power Act ("FPA")[1] and Section 33 of the Federal Energy Regulatory Commission's ("FERC" or "Commission") regulations[2], New York State Electric & Gas Corporation ("NYSEG" or "Applicant") hereby submits this Application for Commission Approval of Corporate Reorganization ("Application"). NYSEG seeks Section 203 authority to form a holding company to implement a comprehensive restructuring plan to satisfy electric industry restructuring goals established by the New York Public Service Commission ("NYPSC"). The plan agreed to by NYSEG and the NYPSC Staff includes the separation of NYSEG's coal-fired fuel generation facilities into a separate company, the auction of those assets to mitigate strandable costs and foster competition, and the expeditious implementation of a full retail access program. Granting the Application will help fulfill the Agreement regarding, among other things, NYSEG's corporate reorganization

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[1] 16 U.S.C. § 824(b).

[2] 18 C.F.R. § 33 (1996).

signed on July 28, 1997 by NYSEG and the NYPSC Staff, as further detailed in a proposed comprehensive Settlement Agreement reached on August 20, 1997. As further discussed below, NYSEG requests expedited treatment of the Application and requests that the Commission provide a thirty day notice period for comments.

In this Application, NYSEG seeks the Commission's authorization to implement a corporate reorganization ("Reorganization") which will result in the creation of a holding company over NYSEG and its corporate subsidiaries, including its power marketing affiliate, XENERGY, Inc. ("XENERGY").[3] The creation of a holding company over a Commission-jurisdictional entity is deemed to result in a "disposition of facilities" under FPA Section 203 as that term has been interpreted by the Commission in various proceedings involving similar corporate reorganizations.[4]

In addition, as part of the proposed Reorganization, NYSEG's coal-fired fuel generation facilities ("Generation Assets") will be transferred from NYSEG to a subsidiary or subsidiaries of HoldCo[5] (collectively referred to in this

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[3] The name of holding company has not yet been determined and for purposes of this application it is referred to as HoldCo.

[4] See, e.g., Pennsylvania Power & Light Company, 60 FERC ¶ 62,267 (Issued December 30, 1994); Commonwealth Edison Company, 68 FERC ¶ 62,049 (Issued July 15, 1994); Illinois Power Company, 67 FERC ¶ 61,136 (Issued May 3, 1994); Kentucky Utilities Company and Old Dominion Power Company, 47 FERC ¶ 61,271 (1989); and Central Vermont Public Service Corporation, 39 FERC ¶ 61,295 (1987).

[5] GenSub may initially be a subsidiary of NYSEG and as part of the proposed Reorganization be transferred by NYSEG to

Application as "GenSub") as soon as practicable after obtaining the mortgage trustee's release. The Generation Assets consist of NYSEG's interests in its Kintigh, Homer City, Milliken, Goudey, Greenidge, Hickling and Jennison generation stations and certain associated assets and liabilities, as further described in Section f. of Article VI hereof. However, no Commission-jurisdictional transmission facilities are proposed to be transferred to GenSub. Such Generation Assets will be subject to an auction process in which third parties as well as GenSub may participate.[6] This Application also requests Commission approval pursuant to FPA Section 203 for the transfer of Commission-jurisdictional power sales contracts and a tariff from NYSEG to GenSub, as further described in Article IV hereof and Appendices B and C attached hereto.

The proposed Reorganization is anticipated to be implemented as soon as practicable after a special meeting of stockholders currently expected to be held on or about January 15, 1998. To facilitate this rapid restructuring, NYSEG requests that the Commission proceed on an expedited basis, provide a thirty day period for comments and issue an order in this proceeding by December 15, 1997. A thirty day notice period is

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HoldCo.

[6] Although it is not contemplated that GenSub will auction any Commission-jurisdictional assets, if it does, GenSub will file a subsequent FPA Section 203 application at a later time prior to the transfer.

appropriate since this Application does not involve a merger or similar transaction.

II. BACKGROUND

NYSEG is a combination gas and electric utility engaged principally in the generation, transmission, distribution and sale of electric energy and the transportation, distribution of natural gas in parts of central, eastern and western New York. NYSEG provides electricity to more than 804,000 customers and natural gas to more than 235,000 customers. NYSEG's wholesale rates and services are regulated by the Commission and retail rates and services are regulated by the NYPSC. Both NYSEG and XENERGY have received authorization from the Commission, by Order dated June 9, 1997, to sell wholesale power at market-based rates.

The proposed Reorganization is in response to the "Competitive Opportunities" proceeding instituted by the NYPSC in Case No. 94-E-0952, which addresses the future structure of the electric utility industry in New York State. In NYPSC Opinion No. 96-12, issued May 20, 1996, the NYPSC required NYSEG to file a restructuring plan consistent with the NYPSC's policy and vision for increased competition. The restructuring plan was required to address, among other things, the structure of the utility, both in the short and long term, a schedule for the introduction of retail access and a rate plan to be effective for a significant portion of the transition.

On September 27, 1996, NYSEG submitted to the NYPSC its rate and restructuring proposal, called NYSEGPlan, which contemplated the functional separation of NYSEG's generation business from its electric delivery business. Parties to the NYSEGPlan proceeding (Case No. 96-E-0891) including NYPSC Staff, expressed a preference for a structural separation of the generation business and on December 19, 1996, NYSEG filed a petition with the NYPSC pursuant to which NYSEG sought authority to form a holding company with a structural separation of designated NYSEG fossil generation assets from the PSC-regulated utility business. The NYPSC subsequently notified the company that the holding company petition would be addressed in the NYSEGPlan proceeding. Case 96-E-0891, Notice to the Parties (issued January 7, 1997).

On July 28, 1997, NYSEG and the Staff of the NYPSC entered into a Joint Statement of Principles to Govern the Settlement Agreement ("Statement of Principles") which sets forth the terms and conditions of the proposed Reorganization. The Statement of Principles serves as the basis for a Settlement Agreement ("Settlement Agreement"), which is subject to PSC approval. On August 20, 1997, a copy of the Settlement Agreement was sent out jointly by NYSEG and the NYPSC Staff to all participants in the NYSEGPlan proceeding for their approval. NYSEG does not expect material modifications to be made to the Settlement Agreement by the NYPSC. Copies of NYSEG's December 19, 1996 Petition to the PSC, the Statement of Principles and the

Settlement Agreement are attached hereto as Exhibits G-1, G-2 and G-3 respectively.

The restructuring plan reflects years of careful negotiation in a multi-party collaborative process, fostered by the NYPSC itself, to create a fully competitive environment for the supply of electricity, at both wholesale and retail, to benefit customers throughout New York State. The structure proposed herein is the most effective means of maximizing competition, as part of a coordinated statewide effort under the direction of the NYPSC.

III. PROPOSED REORGANIZATION

The restructuring into a holding company structure will be accomplished through an exchange (the "Share Exchange") of each outstanding share of common stock of NYSEG for one share of common stock of HoldCo pursuant to an Agreement and Plan of Share Exchange to be entered into between NYSEG and HoldCo. As a result of the Share Exchange and subject to the rights, if any, of the holders of NYSEG's Common Stock to exercise their appraisal rights, each outstanding share of common stock of NYSEG will automatically be exchanged and, without any further action, will thereafter represent one share of common stock of HoldCo. After the establishment of GenSub, the Generation Assets will be transferred to GenSub in accordance with the NYPSC's order approving the terms and conditions of the Settlement Agreement.

Attached to this Application as Appendix A are diagrams showing NYSEG's corporate structure prior to and after the creation of the holding company structure.

The Settlement Agreement contemplates an ultimate auction of the Generation Assets, in which GenSub, as well as third parties, can participate. The auction process is further described in Article V. 1. of the Settlement Agreement, attached hereto as Exhibit G-3.

IV. TRANSFER OF POWER SALES AGREEMENTS AND TARIFF

To the extent required, NYSEG hereby requests authorization under Section 203 of the FPA to transfer all of NYSEG's wholesale power sales agreements and its power sales tariff from NYSEG to GenSub effective upon the transfer of the Generation Assets to GenSub, as more fully described and with the exceptions noted below. NYSEG has many Commission-accepted power sales agreements and a power sales tariff. In addition, NYSEG has provided over 140 prospective customers with service agreements for their review and execution. NYSEG will continue to transact under new agreements as mutually beneficial opportunities arise for NYSEG and new customers.

Most of NYSEG's power sales are supported by the coal-fired generation that will be transferred to GenSub or by NYSEG's marketing function that will also be transferred to GenSub. Upon this transfer, continued participation of those resources in the wholesale power market will most efficiently be facilitated by

the substitution of GenSub in place of NYSEG with respect to the power sales agreements and tariffs, except for three agreements pursuant to which NYSEG has transactions and NYSEG's borderline sales agreements that will continue beyond the transfer of the Generation Assets. These contracts will remain with NYSEG.

Only to the extent required, NYSEG also requests authorization to transfer by assignment that part of an agreement between GPU and NYSEG dated May 1, 1969 which provides for the operation and maintenance of the Homer City Electric Generating Station. By letter of December 30, 1993, in Docket No. ER94-298-000, NYSEG filed a certificate of concurrence with respect to GPU's filing of the agreement. As noted in NYSEG's filing letter, NYSEG does not provide any jurisdictional services under the agreement, and Pennsylvania Electric Company is the operating co-tenant. To the extent the agreement concerns the operation and maintenance of the Generating Assets, NYSEG seeks authority to transfer the agreement, but only to the extent required under FPA Section 203.

NYSEG proposes that it make a subsequent "compliance filing" in which NYSEG will file all necessary notices of succession under Section 35.16 of the Commission's Regulations, 18 C.F.R. § 35.16 (1997) in response to any Commission order authorizing the formation of the holding company. This "compliance filing" would consist, among other things, of the following:

a) A restated power sales tariff (FERC Electric Rate Schedule No. 1) substituting GenSub for NYSEG and a notice of succession;

b) Restated service agreements substituting GenSub for NYSEG and a notice of succession for all power sales tariff service agreements transferred to GenSub; and

c) Restated agreements substituting GenSub for NYSEG and a notice of succession for all umbrella power sales agreements that are not pursuant to the power sales tariff and that are to be transferred to GenSub.

The specific agreements to be transferred to GenSub are identified in Appendix B hereto, which lists all service agreements under NYSEG's power sales tariff (FERC Electric Rate Schedule No. 1) and Appendix C hereto, which lists the umbrella power sales agreements.[7] The lists show the purchasers in alphabetical order, the Docket Numbers for the filings with the Commission, and the rate schedules designated by the Commission.

Additionally, NYSEG requests authorization to transfer certain power sales tariff service agreements and umbrella agreements ("New Agreements") that it enters into up to and until the time NYSEG transfers the Generating Assets to GenSub (the "Transfer Date"). The Commission's authorization is critical.

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[7] Appendix C also includes one transaction-specific rate schedule described below. Appendices B and C do not list the agreements noted above that will remain with NYSEG.

Consummation of the proposed Reorganization may not occur until approval of this Commission, the Nuclear Regulatory Commission ("NRC") and the Securities and Exchange Commission ("SEC") is obtained. Consequently, several months could go by during which new customers want to buy power from NYSEG. NYSEG will enter into these New Agreements and file them with the Commission. For each new power sales tariff service agreement/umbrella agreement entered into from the date of this Application through the Transfer Date, NYSEG will indicate in its filing letter with the Commission that the agreement is the subject of this pending FPA Section 203 Application. By allowing NYSEG to transfer these New Agreements to GenSub on the Transfer Date, NYSEG's resources will remain seamlessly in the market place, and NYSEG and the Commission can administer the transfer in the compliance filing. This procedure would avoid cumbersome and time consuming amendments under FPA Section 203. The Commission's grant of authority under FPA Section 203 could be conditional on the New Agreements being similar to the other agreements identified in this Application so the Commission need not be concerned that the New Agreements would raise new issues for purposes of the Commission's FPA Section 203 review. Moreover, the Commission will review each agreement under FPA Section 205 as it is filed, as noted, with a clear identification of whether the agreement is the subject of this pending Section 203 request.

With the exception of Rate Schedule FERC No. 111 (an agreement to sell up to 30 MW to Town of Massena), all of the

agreements being transferred to GenSub are enabling or umbrella agreements or service agreements under NYSEG's power sales tariff that do not require either party to enter into transactions. The parties enter into transactions only when it is mutually beneficial to do so for economic reasons. All of NYSEG's power sales under the agreements and tariff to be assumed by GenSub were or will be negotiated at arm's length. All of the agreements contain Mobil-Sierra clauses pursuant to which neither NYSEG nor the customer unilaterally may seek a change in the negotiated rates applicable to any transactions. None of the negotiated rates is based on cost-based formulae in which the cost inputs would be affected by the restructuring. Moreover, NYSEG has not been a traditional wholesale requirements supplier to any customers.[8] Accordingly, neither NYSEG nor GenSub will seek to change the rates applicable to any existing transactions under these power sales agreements and the tariff.

If GenSub later were to assign any power sales agreements to a party buying one or more of the Generation Assets, then a separate filing with the Commission would be necessary; this Application does not request authority to effect such a transfer or succession. After the auction, GenSub may continue to own one or more of the Generation Assets. GenSub may also purchase other generators and will enter into power purchase agreements as part of its power marketing and trading function.

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[8] The New York Power Authority has been the exclusive power supplier for most of New York's municipal and cooperative customers, including all of those interconnected to NYSEG.

Consequently, GenSub may not assign all power sales agreements[9] after GenSub concludes the auction of the Generation Assets.

NYSEG's power sales tariff, which GenSub will assume, provides that it is not available for the sale of power to affiliates. If GenSub were to sell power to NYSEG, prior to any such transaction, GenSub would be required to make a separate filing under Section 205 of the FPA (and would also have to make a filing with the NYPSC). Any such sale would be for the maximum period extending to August 1, 1999, the date established for the closing of the sale of plant pursuant to the above-described auction of plant held by GenSub.

The power sales tariff also currently requires NYSEG's merchants (and will require GenSub upon its assumption of the tariff) to obtain any NYSEG transmission services in the same manner as any non-affiliated customers (e.g., on OASIS) consistent with NYSEG's transmission protocols applicable to nonaffiliated customers under Order Nos. 888 and 889. NYSEG's standards of conduct and Order No. 889 also address transmission access and information issues and will govern the GenSub-NYSEG relationship. NYSEG's affiliate XENERGY also has a market-based power sales tariff (FERC Electric Rate Schedule No. 1) accepted in Docket No. ER97-2517-000. In that Docket, NYSEG committed to a code of conduct that, by its terms, applies to NYSEG's

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[9] At this time, however, only one transaction that extends beyond the time that the auction should be completed will be the subject of a notice of succession from NYSEG to GenSub, and that transaction is for no more than 30 MW. This transaction will represent a small portion of GenSub's trading activity.

relationship with other affiliates as well as XENERGY. If NYSEG were to propose any changes to these existing requirements (which it does not currently propose), it would require a separate filing with the Commission.

Based on the above discussion, the assignment of NYSEG's power sales agreements and tariff to GenSub will not result in any changes in rates applicable to any Commission-jurisdictional transactions and shall not result in the cancellation of any Commission-jurisdictional service.

V. PUBLIC INTEREST STANDARDS

The Commission routinely has found that reorganizations involving the creation of holding companies are consistent with the public interest.[10] NYSEG submits that its proposed Reorganization is consistent with the public interest. The Reorganization, which satisfies the electric industry restructuring goals established by the NYPSC, alleviates concerns about potential vertical market power in generation and facilitates the auction required by the Settlement Agreement. Structural separation of generation and the auction is expected to promote greater competition in generation. The proposed Reorganization furthermore strengthens the organization by

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[10] See, e.g., Pennsylvania Power & Light Company, 69 FERC ¶ 62,267 (Issued December 30, 1994); Commonwealth Edison Company, 63 FERC ¶ 62,049 (Issued July 15, 1994); Illinois Power Company, 67 FERC ¶ 61,136 (Issued May 3, 1994); Central Vermont Public Service Corporation, 39 FERC ¶ 61,295 (1987); Kentucky Utilities Company and Old Dominion Power Company, 47 FERC ¶ 61,271 (1989).

establishing a more appropriate corporate structure for the pursuit of unregulated non-utility business activities. Increased flexibility as a result of the Reorganization is expected to enhance the long-term financial strength of NYSEG.

As the Commission is well aware, deregulation and competition are reshaping the utility marketplace and changing the nature of the electric utility business. After extensive investigation and analysis, NYSEG has determined that the holding company structure, including the disaggregation of the Generation Assets, offers the best means of positioning itself for future changes and opportunities and will enable it to take advantage of emerging business opportunities to the benefit of both shareholders and customers.

The holding company structure is a vehicle for the Company to begin operating in a competitive environment while minimizing concerns about vertical market power. NYSEG's coal-fired generation that is competing in the market, which amounts to 90% of NYSEG's aggregate generation plant, will be in a different company than its transmission, distribution, and control center. The holding company structure also facilitates the unbundling of rates for purposes of NYSEG's aggressive retail access program. Under the restructuring plan, retail access charges will include a competitive transition charge. Disaggregation of the Generation Assets will facilitate a competitive generation market and the proposed auction sale and is also an integral part of the process of stranded cost

mitigation. Upon the transfer to GenSub, a regulatory asset of NYSEG will be created for the difference between the book value of the coal-fired plants and the fair value determined in accordance with NYSEG's mortgage bond indenture for purposes of obtaining the release of the property from the lien of the mortgage. Upon a subsequent sale of the coal-fired plants pursuant to the auction process, such regulatory asset will be adjusted to reflect the after-tax auction proceeds. After the auction, there will be no further readjustment of the regulatory asset.

Furthermore, through its non-regulated subsidiaries, HoldCo will be in a position to quickly take advantage of increasing opportunities in non-utility activities.

The holding company structure is a well-established form of organization for those companies conducting multiple lines of business. It is a common form of organization for unregulated companies and for regulated companies, such as telephone utilities and water utilities, which are not subject to the Public Utility Holding Company Act of 1935, as amended ("PUHCA"). In addition, the holding company structure is utilized by many electric utilities that are involved in unregulated activities. NYSEG wishes to be in a position to take advantage of business opportunities that may present themselves, and desires to do so by utilizing the most efficient and effective corporate structure.

The benefits of a holding company structure are well established. A holding company structure enables the holding company to participate in unregulated businesses in a timely manner, and fully separates the operations of regulated and unregulated businesses. As a result, it provides protection to ratepayers and a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from unregulated to regulated lines of business. A holding company structure also makes it easier for investors to analyze and value individual lines of business. Moreover, the use of a holding company structure provides legal protection against the imposition of liability on regulated utilities for the results of unregulated business activities. In short, the holding company structure is a highly desirable form of conducting regulated and unregulated businesses within the same corporate group.

Furthermore, the proposed Reorganization is in the public interest as evaluated against the three factors set forth in the Commission's recently issued Merger Policy Statement: (1) effect on competition, (2) effect on rates, and (3) effect on regulation.[11] As more fully demonstrated below, the proposed

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[11] Order No. 592, Inquiry Concerning the Commission's Merger Policy Under the Federal Power Act; Policy Statement, Docket No. RM96-6-000, 61 Fed. Reg. 68,595, 68,605 (issued December 18, 1996) ("Merger Policy Statement"). The Merger Policy Statement addresses public utility mergers subject to the Commission's jurisdiction under Section 203(a) of the FPA. While the instant Application does not involve a "merger" between electric public utilities, but rather the reorganization of an electric public utility, NYSEG has addressed each of the criteria set forth in the Merger Policy Statement to demonstrate that the Reorganization is in the public interest.

Reorganization: (1) does not raise competitive issues; (2) does not adversely affect wholesale power sales or transmission rates; and (3) does not adversely impact on the ability of the Commission or state regulators to regulate the jurisdictional entities.

A. THE PROPOSED RESTRUCTURING WILL NOT HAVE AN ADVERSE EFFECT ON COMPETITION.

The proposed Reorganization will not have an adverse effect on competition in wholesale electric markets. In fact, the proposed Reorganization is being effected substantially as a response to the NYPSC's Competitive Opportunities proceeding designed to increase competitive choices for New York ratepayers. The NYPSC has strongly urged the formation of a separate generation company and ultimately the divestiture of generation. The proposed structural separation of designated generation assets will further reduce any potential vertical market power concerns, facilitate an open auction of such assets, and thus enhance competition. It is an integral part of the movement to retail competition. With a separate company owning NYSEG's coal-fired generation, with separate books and records, even before auction, vertical separation of the generation business will be enhanced.

Creation of a holding company will also not create any horizontal market power issues. NYSEG has submitted two market power analyses to the Commission recently -- one applicable to the current market structure (filed in Docket No. ER97-2518-000

on April 11, 1997); and one applicable to the market structure proposed in the New York Independent System Operator ("NYISO") filing (filed in Docket No. ER97-1523-000 on August 15, 1997). In NYSEG, 79 FERC ¶ 61,303 (June 9, 1997), the Commission found that NYSEG could not exercise market power in generation or transmission and authorized NYSEG and XENERGY to make wholesale power sales at market-based rates.

The division of NYSEG's generation into NYSEG and GenSub will not increase NYSEG's (or HoldCo's) share of generation in the market. No change in concentration in total generation ownership can occur as a result of the formation of GenSub. Moreover, GenSub is being formed as part of a restructuring that requires the auction of all of GenSub's Generation Assets, which if anything would result in a decrease in NYSEG (or HoldCo) affiliates' generation ownership. It is clear that the formation of the holding company and GenSub will cause no change in NYSEG affiliates' aggregate generation ownership.

The transfer of the Generation Assets to GenSub would occur after release of such assets from the lien of NYSEG's mortgage indenture. Upon such transfer, NYSEG will require substantial capacity and energy in order to satisfy its native load and installed reserve requirements. As a transitional tool prior to the events described below or completion of the auction, GenSub may supply NYSEG with necessary capacity and energy pursuant to a contract that would be filed with the Commission under FPA Section 205 and that would also be subject to NYPSC

review under New York Public Service Law Section 110(4).[12] While a combination of GenSub and NYSEG generation satisfy NYSEG's load and installed reserve requirements, the holding company and its affiliates will have the same amount of total and uncommitted capacity that NYSEG has today (prior to formation of the holding company). Accordingly, the Commission can authorize NYSEG to transfer its power sales tariff, including market-based rate authorization, to GenSub without an additional market power analysis. Any necessary GenSub-NYSEG contract would result in unchanged total and uncommitted capacity shares for the holding company, making it reasonable to rely on the market power analysis that was submitted in Docket No. ER97-2518-000. On a holding company basis, nothing will have changed with respect to market shares of total capacity or uncommitted capacity.

The NYPSC has expressed its preference that as much generation as possible compete to serve load within New York State as soon as possible. The proposed Reorganization represents a fundamental pro-competitive shift in business structure that will serve the goals of the NYPSC. NYSEG has agreed to separate its coal-fired generation in a separate corporation and to subject this generation to the market as soon as reasonably practicable. It has also agreed to satisfy its load requirements (above the hydro, nuclear and NUG capacity)

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[12] As noted below, the GenSub supply arrangement would only be necessary to the extent and for the period that the energy and/or capacity markets are not sufficiently liquid to economically satisfy NYSEG's "new demand."

from the market in the same time frame. When the NYISO market structure is implemented, there will be a liquid wholesale energy market into which GenSub will sell and from which NYSEG will buy with no need for supply between the two for energy. As soon as the installed capacity market is sufficiently liquid to satisfy NYSEG's requirements without relying on GenSub (at or before completion of the auction), a GenSub supply agreement for capacity will no longer be required.[13] Exactly when this point occurs will depend on several exogenous factors, including (a) when other utilities structurally separate ("decommit") generation from load for purposes of installed capacity requirements; (b) when restructured NUG contracts result in more uncommitted generation; and (c) implementation of retail access by utilities in New York.

When NYSEG has sufficient options, it will satisfy its energy and installed capacity requirements from the market, and GenSub will sell its energy and installed capacity into the market. At that point, the market will be the new market structure described in the August 15, 1997 NYISO filing. NYSEG does not propose to address the new market structure here. The proposed market structure and market rate authorization in the New York ISO environment are the subject of NYSEG and other NYISO

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[13] Due to one local load pocket, one unit at NYSEG's Milliken Generating Station is required to run at a minimum output for NYSEG to operate reliably during a limited number of hours each year. Consequently, a limited contract will be required after the auction is completed. This contract is described more fully in NYSEG's August 15, 1997 NYISO filing.

proponents' August 15th filing in which NYSEG analyzed the new market structures, including a NYSEG holding company. While the analyses demonstrate that the proposed market structure will be workably competitive, the Commission, however, need not decide the merits of the market power analysis in the NYISO Docket to rule on the instant Application. The NYISO market analysis would be relevant to whether NYSEG/GenSub authorization to use market rates should apply in the NYISO market, but not whether to authorize a corporate restructuring.

Based on the foregoing, NYSEG does not believe that additional market power analysis is necessary in this Docket. This case does not involve a merger of two separate companies with separate generation resources. In contrast, this Application involves the disaggregation of generation, leading up to the auction of the company's coal-fired generating assets. Moreover, formation of the holding company structure proposed herein offers greater separation between NYSEG's wholesale power marketing and generation functions from its transmission and distribution functions. Accordingly, the Application does not raise any vertical market power concerns. Under the circumstances, a Merger Policy Statement Appendix A competitive analysis is not needed.

After the Reorganization, NYSEG will continue to conduct its business under the non-discriminatory rates and terms of service that it currently is using. The proposed Reorganization does not enhance the ability of NYSEG to exercise

market power in any geographic or product market. See Enova Corporation and Pacific Enterprises, 79 FERC ¶ 61,107 (1997). Furthermore, as stated previously, it is anticipated that a holding company structure will allow NYSEG and its affiliates to more effectively compete in today's energy market place.

B. THE PROPOSED RESTRUCTURING WILL NOT ADVERSELY AFFECT RATE LEVELS.

In cases involving corporate reorganizations, the Commission has analyzed whether the utility and non-utility businesses are adequately separated in order to protect the utility's ratepayers from detriments that may result from the non-regulated activities of the parent.[14] In the instant case, the structural separation of regulated and unregulated activities provides the necessary protection for NYSEG's ratepayers. The agreement of the NYPSC Staff to the proposed restructuring should suffice to alleviate any concern the Commission might otherwise have in this regard. Furthermore, the Settlement Agreement contains numerous safeguards to prevent NYSEG's customers from being harmed by the non-regulated activities of HoldCo and its subsidiaries. Such safeguards are discussed in Article VII of the Settlement Agreement, attached hereto as Exhibit G-3. In addition, GenSub will file a Code of Conduct which fully complies with the Commission's regulations governing affiliate

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[14] See e.g., Central Vermont, 39 FERC at p. 61,960; Kentucky Utilities, 47 FERC at p. 61,948.

transactions and the sharing of information as part of any FPA Section 205 filing to be made by GenSub.

As discussed in Article IV above, the proposed Reorganization will not have any effect on existing power sales rates. NYSEG already has market-based rate authority and is free to negotiate prices dictated by the market. Any cost impacts on NYSEG resulting from the proposed Reorganization will not have any effect on the market-based rates of NYSEG insofar as these rates are market-driven rather than cost-derived. NYSEG's authority to sell power at market-based rates is based on a finding that it lacks market power in generation and transmission and can erect no other barriers to entry. As discussed in Section A of Article V above, the proposed Reorganization will not provide the company with any opportunity or ability to exercise market power. Accordingly, the proposed Reorganization will not affect prospective or future power sales rates.

NYSEG is not requesting any rate increase as a part of this Application. All of the power sales contracts being transferred are at fixed rates, the terms and provisions of which may not be changed. In addition, these rates are not based upon cost-based rate formulae in which cost inputs would be affected by the restructuring. Therefore, it is also not possible for NYSEG to increase rates with respect to these contracts as a result of the proposed Reorganization.

NYSEG, furthermore, agrees that it will not recover any transaction costs associated with the proposed Reorganization

through its transmission rates. NYSEG's transmission rates will not be influenced by the proposed Reorganization, except for non-compulsory ancillary services that are generation-based. It would be reasonable to expect a change in the cost factors applied to these services, absent the New York ISO tariff (filed in FERC Docket No. ER97-1523-000), which should be effective around the time that the transfer to GenSub occurs. If the ISO tariff is in effect, then ancillary services will be provided consistent with the ISO tariff. If it is not in effect, NYSEG's ancillary service charges would not be adversely affected because they are generation-based services and subject to market discipline. Notwithstanding this fact, NYSEG commits to evaluate its generation-based ancillary service charges and to file a rate change under FPA Section 205 if it determines that its costs of these services decrease as a result of the transfer.

The Commission has held that, in merger proceedings, the Commission's role is to "remedy only specific harms resulting from a proposed transaction and, therefore, the affected utility must establish a nexus between the proposed transaction and the alleged harm." Duke Power Company and PanEnergy Corp., 79 FERC ¶ 61,236 at p. 62,041 (1997). Therefore, to be entitled to relief regarding rates in a merger context, a party should demonstrate that the merger could have some adverse effects on rates. Id. and see Enron Corp. and Portland General Corporation, 78 FERC ¶ 61,197 at p. 61,739 (1997). Given the nature of the contracts involved in the present case, and the commitments made by NYSEG

herein, it is highly unlikely that a party could demonstrate that this restructuring would have an adverse effect upon wholesale rates.

C. THE PROPOSED RESTRUCTURING WILL NOT IMPAIR THE EFFECTIVENESS OF STATE OR FEDERAL REGULATION.

The regulatory concerns noted in the Merger Policy Statement are not concerns raised by the proposed Reorganization insofar the effectiveness of government regulation of NYSEG and XENERGY will not be impaired and no "regulatory gap" will be created. Following the Reorganization, NYSEG will continue to be subject to the jurisdiction of both this Commission and the NYPSC while the Commission will continue to exercise regulatory authority over XENERGY. The Commission's prior orders granting the market-based rate authority of NYSEG and XENERGY will remain in effect. In their market-based rate filings, NYSEG and XENERGY have agreed to a code of conduct which the Commission in its June 9, 1997 Order has indicated satisfies the Commission's requirements with respect to affiliate transactions. Such Code of Conduct will remain in effect.

Furthermore, because approval of the NYPSC is required in order for NYSEG to effect the proposed Reorganization, the NYPSC, therefore, can exercise its authority to adequately protect its state regulatory interests.

In addition, the concerns of the Commission relating to the impairment of regulation under the Ohio Power decision are not applicable to the instant situation since HoldCo will not be

a registered holding company under PUHCA[15]. HoldCo will qualify for an exemption from registration under PUHCA as a "predominately intrastate" public utility holding company, under Section 3(a)(1) of PUHCA. Since HoldCo will not be a registered holding company under PUHCA, there will be no shift of regulatory authority from the Commission to the SEC. The Commission will continue to have jurisdiction over HoldCo's FPA-jurisdictional subsidiaries to the same extent as it does today. See Long Island Lighting Company, 80 FERC ¶ 61,035 (1997); Enron Corporation and Portland General Corporation, 78 FERC ¶ 61,179 (1997) (impairment of regulation relating to the SEC's jurisdiction over registered holding companies is not an issue where the utility qualifies as an exempt intrastate holding company exempt from SEC jurisdiction under PUHCA).

Lastly, GenSub, insofar as it will engage in FERC jurisdictional activity, will make all appropriate filings with the Commission and become subject to the jurisdiction of this Commission. The Commission will at that time have the opportunity to address any issues arising out of such activity.

For the foregoing reasons, NYSEG's proposed Reorganization is compatible with the public interest and should be authorized by the Commission.

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[15] Ohio Power v. FERC, 954 F.2d 779, 782-86 (D.C. Cir. 1992), cert. denied, 498 U.S. 73 (1992)

VI. SUPPORTING INFORMATION

In support of this Application, and pursuant to 18 C.F.R. § 33.2, NYSEG states the following:

a. The exact name and the address of the Applicant's principal business office and each company whose activities are involved:

New York State Electric & Gas Corporation
4500 Vestal Parkway East
P.O. Box 3607
Binghamton, New York 13902-3607

HoldCo, Inc.
4500 Vestal Parkway East
P.O. Box 3607
Binghamton, New York 13902-3607

b. Names and addresses of persons authorized to receive notices and communications concerning this Application:

Daniel W. Farley
Vice President and Secretary
New York State Electric & Gas Corporation
4500 Vestal Parkway East
P.O. Box 3607
Binghamton, New York 13902-3607
(607) 762-5901

Stuart A. Caplan, Esq.
Taras G. Borkowsky, Esq.
Huber Lawrence & Abell
605 Third Avenue, 27th Fl.
New York, New York 10158
(212) 682-6200

Sam Behrends, IV, Esq.
Bruce W. Neely, Esq.
LeBoeuf, Lamb, Greene & MacRae, L.L.P.
1875 Connecticut Avenue, N. W.
Washington, DC 20009
(202) 986-8000

c. Designation of the territories served, by counties and States:

NYSEG is engaged principally in the business of

generating, purchasing, transmitting and distributing electricity, and purchasing, transporting and distributing natural gas. NYSEG's service territory, 99% of which is located outside the corporate limits of cities, is in the central, eastern and western parts of the State of New York. NYSEG's service territory has an area of approximately 19,600 square miles and a population of 2,400,000. The largest cities in which NYSEG serves both electricity and natural gas are Binghamton, Elmira, Auburn, Geneva, Ithaca and Lockport. The following counties in New York are all of the counties in which NYSEG provides retail electric services: Alleghany, Broome, Cattaraugus, Cayuga, Chautauqua, Chemung, Chenango, Clinton, Columbia, Cortland, Delaware, Dutchess, Erie, Essex, Franklin, Greene, Hamilton, Herkimer, Livingston, Madison, Niagara, Oneida, Onondaga, Ontario, Orange, Otsego, Putnam, Rensselaer, Saratoga, Schoharie, Schuyler, Seneca, Steuben, Sullivan, Tioga, Tompkins, Ulster, Washington, Wayne, Westchester, Wyoming, and Yates.

d. General statement briefly describing the facilities owned or operated for transmission of electric energy in interstate commerce or for the sale of electric energy at wholesale in interstate commerce:

As of December 31, 1996, NYSEG's electric transmission system consisted of approximately 4,840 circuit miles of line. The electric distribution system consisted of 33,724 pole miles of overhead lines and 2,025 miles of underground lines. NYSEG also owns 433 substations having an aggregate transformer capacity of 13,367,720 kilovolt-amperes. With the exception of transmission facilities owned by NYSEG in Pennsylvania in

connection with its Homer City generation station, all of NYSEG's electric transmission facilities are located in the State of New York.

e. Whether the application is for disposition of facilities by sale, lease, or otherwise, and a description of the consideration, if any, and the method of arriving at the amount thereof:

The "disposition of facilities" deemed to occur solely from the creation of a holding company over NYSEG through the mechanism of the Share Exchange does not involve any consideration or sales price.

The transfer of the Generation Assets to GenSub will be in accordance with the terms and conditions set forth in Article V 1. g. of the Settlement Agreement, attached hereto as Exhibit G-3. The "fair value" of the coal-fired plants will be determined in accordance with NYSEG's mortgage bond indenture for purposes of obtaining the release of such property from the lien of such indenture. Upon transfer to GenSub, a regulatory asset of NYSEG will be created for the difference between the book value of the coal-fired plants and the fair value determined in accordance with the mortgage bond indenture. Such regulatory asset will then be adjusted subsequently upon a sale or transfer based on the cash proceeds resulting from the auction process, net of tax, auction and transaction costs. After the auction, there will be no further adjustment of the regulatory asset.

Attached hereto as part of Exhibits C, E and F are proforma historical balance sheet, income statements and retained earnings statements for HoldCo, NYSEG and GenSub. Since the

mortgage bond indenture valuation process has not yet taken place, the proforma financial statements have been prepared on the assumption that the coal-fired plants were transferred at book value.

f. Statement of the facilities to be disposed of, giving a description of their present use and proposed use after disposition. State whether the proposed disposition includes all the operating facilities of the parties to the transactions:

The creation of a holding company over NYSEG is deemed to be a "disposition" for purposes of the FPA of all of NYSEG's facilities, including all operating facilities. However, after the holding company structure is implemented, title, possession and use of all utility property, will be held by NYSEG or GenSub, both of which will be wholly owned subsidiaries of HoldCo. Furthermore, ultimate control of NYSEG and GenSub will remain in the hands of the NYSEG common shareholders who are such shareholders immediately prior to consummation of the Share Exchange (other than shareholders who properly exercise their appraisal rights, if any) since after the Share Exchange, those NYSEG common shareholders will own all of HoldCo's outstanding common stock and HoldCo will in turn own all of the outstanding common stock of NYSEG and GenSub.

The Generation Assets transferred by NYSEG consist of the following coal fired power plants:

a) Kintigh Generating Station, located in Somerset, New York (675 MW)

b) NYSEG's 50% interest in Homer City Generating Station, Units 1, 2 and 3, located in Homer City, Pennsylvania (945 MW)

c) Goudey Generating Station, Units 7 and 8, located in Johnson City, New York (120 MW)

d) Greenidge Generating Station, Units 3 and 4, located in Torrey, New York (163 MW)

e) Milliken Generating Station, Units 1 and 2, located in Lansing, New York (296 MW)

f) Hickling Generating Station, Units 1 and 2, located in Corning, New York (76 MW)

g) Jennison Generating Station, Units 1 and 2, located in Bainbridge, New York (60 MW)

Also included in the transfer are certain assets and liabilities associated with these plants. Of the Generation Assets to be transferred, the only FERC jurisdictional assets are the power purchase agreements and arrangements described in Appendices B and C hereof. No Commission-jurisdictional transmission facilities are proposed to be transferred to GenSub.

g. Statement (in the form prescribed by the Commission's Uniform System of Accounts for Public Utilities as Licensees) of the cost of the facilities involved in the disposition:

After the proposed Reorganization, all of the physical facilities currently owned by NYSEG will continue to be owned by NYSEG and GenSub, and NYSEG and GenSub will be wholly owned subsidiaries of HoldCo. Therefore, NYSEG incorporates herein by reference the statements contained in its FERC Form No. 1 for the year ended December 31, 1996, relating to the cost of NYSEG's net utility plant.

h. Statement as to the effect of the proposed transaction upon any contract for the purchase, sale, or interchange of electric energy:

The impact of the Reorganization on existing NYSEG contracts for the purchase, sale, or interchange of electric energy is described in Article IV of this Application.

i. Statement as to whether any application with respect to the transaction or any part thereof is required to be filed with any other federal or state regulatory body:

The proposed Reorganization requires the approval of the NYPSC, the SEC pursuant to PUHCA and the NRC. Copies of NYSEG's December 19, 1996 Petition to the NYPSC, the Statement of Principles and the Settlement Agreement are attached hereto as Exhibits G-1, G-2 and G-3, respectively.

NYSEG intends to shortly file applications with the NRC and the SEC for approval to effect the proposed Reorganization. Copies of such applications will be submitted to FERC upon availability. No similar application is required to be filed with any other State or federal regulatory body.

j. The facts relied upon to show that the proposed disposition will be consistent with the public interest:

Reference is hereby made to the prior discussion in Article V of this Application.

k. Brief statement of franchises held, showing date of expiration, if not perpetual:

NYSEG has, with minor exceptions, valid franchises from the municipalities in which it provides electric public utility service. Descriptions of the franchise territories are attached hereto as Appendix D. The proposed Reorganization does not

involve a transfer of any franchises and there will be no change in franchised territories as a result of the proposed Reorganization.

l. Form of notice suitable for publication in the Federal Register, briefly summarizing the application in such a way as to acquaint the public with its scope and purpose:

A form of Notice suitable for publication in the Federal Register, pursuant to 18 C.F.R. § 35.8, is attached hereto as Appendix E. In addition, enclosed with this Application is a 3 1/2" diskette containing the notice of filing in Wordperfect 5.1 for DOS.

m. Required exhibits:

The following exhibits required by Section 33.3 of the Commission's regulations are filed herewith, except as noted below:

Exhibit A -- Resolutions of the Board of Directors.

Exhibit B -- A statement of the measure of control or ownership exercised by or over each party to the transaction as to any public utility, or bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party, and the extent of any intercorporate relationships.

Exhibit C -- Balance sheets and supporting plant schedules for the 12-month period ended December 31, 1996 on an actual basis in the form prescribed for Statements A and B of the FERC Annual Report Form No. 1. and pro forma balance sheets.

Exhibit D -- A statement of all known contingent liabilities except minor items such as damage claims and similar items involving relatively small amounts, as of the date of this application.

Exhibit E -- Income statements for the 12-month period ended December 31, 1996 on an actual basis in the form

prescribed for Statement C of the FERC Annual Report Form No. 1 and pro forma income statements.

Exhibit F -- An analysis of retained earnings for the period covered by the income statements referred to in Exhibit E and pro forma retained earnings statements.

Exhibit G -- Copy of the Petition filed with the NYPSC on December 19, 1996, the Statement of Principles and the Settlement Agreement.

Exhibit H -- Draft of the Agreement and Plan of Exchange between NYSEG and HoldCo.

Exhibit I -- A map showing NYSEG's properties and interconnections and the principal cities of the area served.

WHEREFORE, New York State Electric & Gas Corporation respectfully requests that the Commission approve this Application and authorize the proposed corporate Reorganization under the terms and conditions set forth herein.

Respectfully submitted,

NEW YORK STATE ELECTRIC &
GAS CORPORATION

By: Sherwood J. Rafferty
Sherwood J. Rafferty
Senior Vice President
and Chief Financial Officer

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Counsel for New York State
Electric & Gas Corporation

August 29, 1997

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

New York State Electric & Gas Corporation	))	Docket No. EC97-__-000

VERIFICATION PURSUANT TO 18 C.F.R. § 33.7

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

NOW, BEFORE ME, the undesigned authority, personally came and appeared,

SHERWOOD J. RAFFERTY

who, after first being duly sworn by me, did depose and say:

That he is the Senior Vice President and Chief Financial Officer of New York State Electric & Gas Corporation, Applicant in the above proceedings, that he has the authority to verify the foregoing Application for Commission Approval of Corporate Reorganization and the Appendices and Exhibits thereto on behalf of New York State Electric & Gas Corporation; that he has read said Application and the Appendices and Exhibits thereto and knows the contents thereof; and that all of the statements contained in said Application and the Appendices and Exhibits thereto are true and correct to the best of his knowledge and belief.

Sherwood J. Rafferty
Sherwood J. Rafferty
Senior Vice President and
Chief Financial Officer

Subscribed and sworn to before me this 27th day of August, 1997.

Judy R. Stephens
Notary Public

My Commission Expires: 2/3/99
County of Residence: Kings

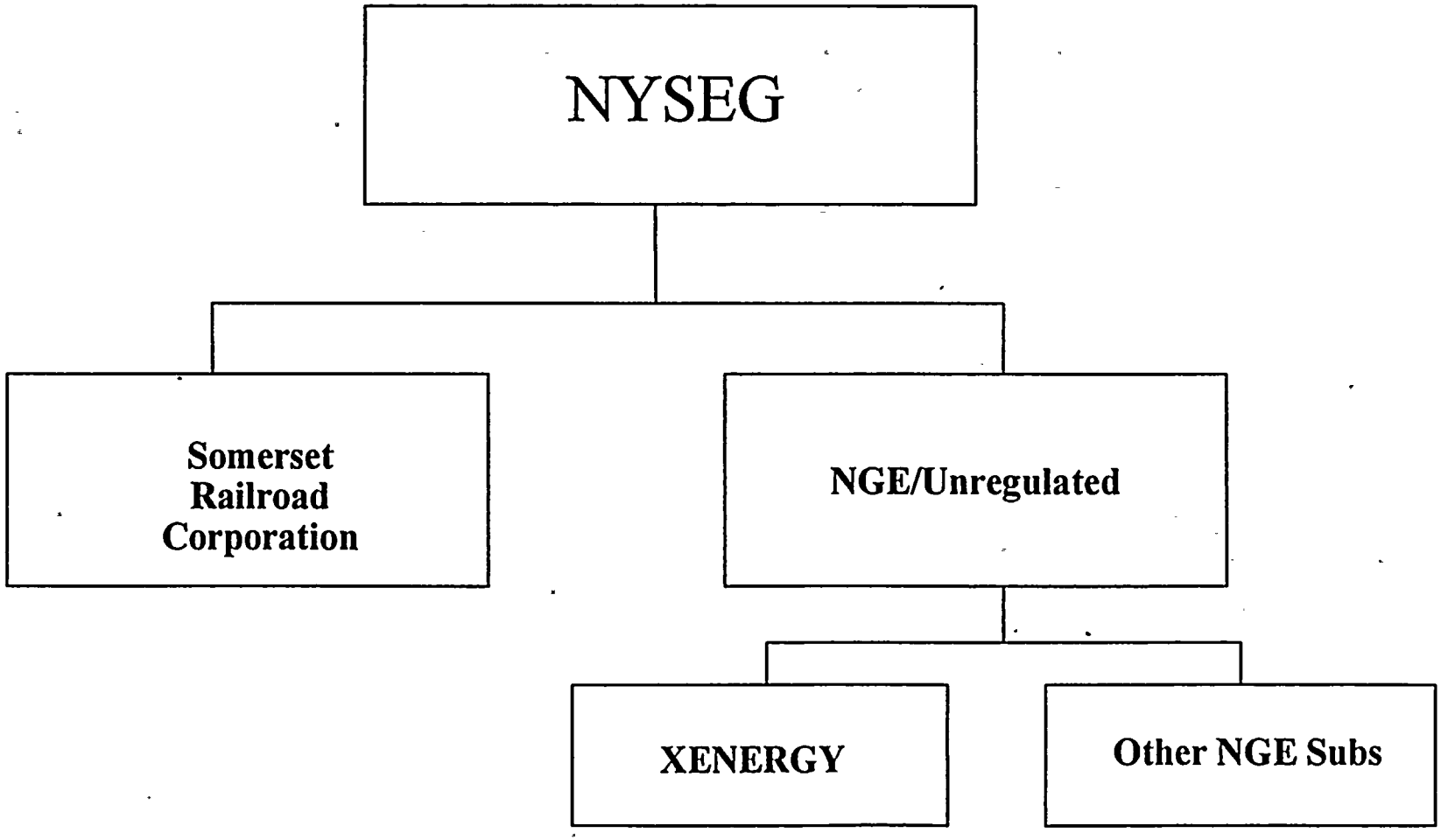
JUDY R. STEPHENS
NOTARY PUBLIC, State of New York
No. 01RA4970258
Qualified in Kings County
Certificate Filed in New York County
Commission Expires February 03, 1999

Appendix A

CURRENT STRUCTURE AND PROPOSED STRUCTURE

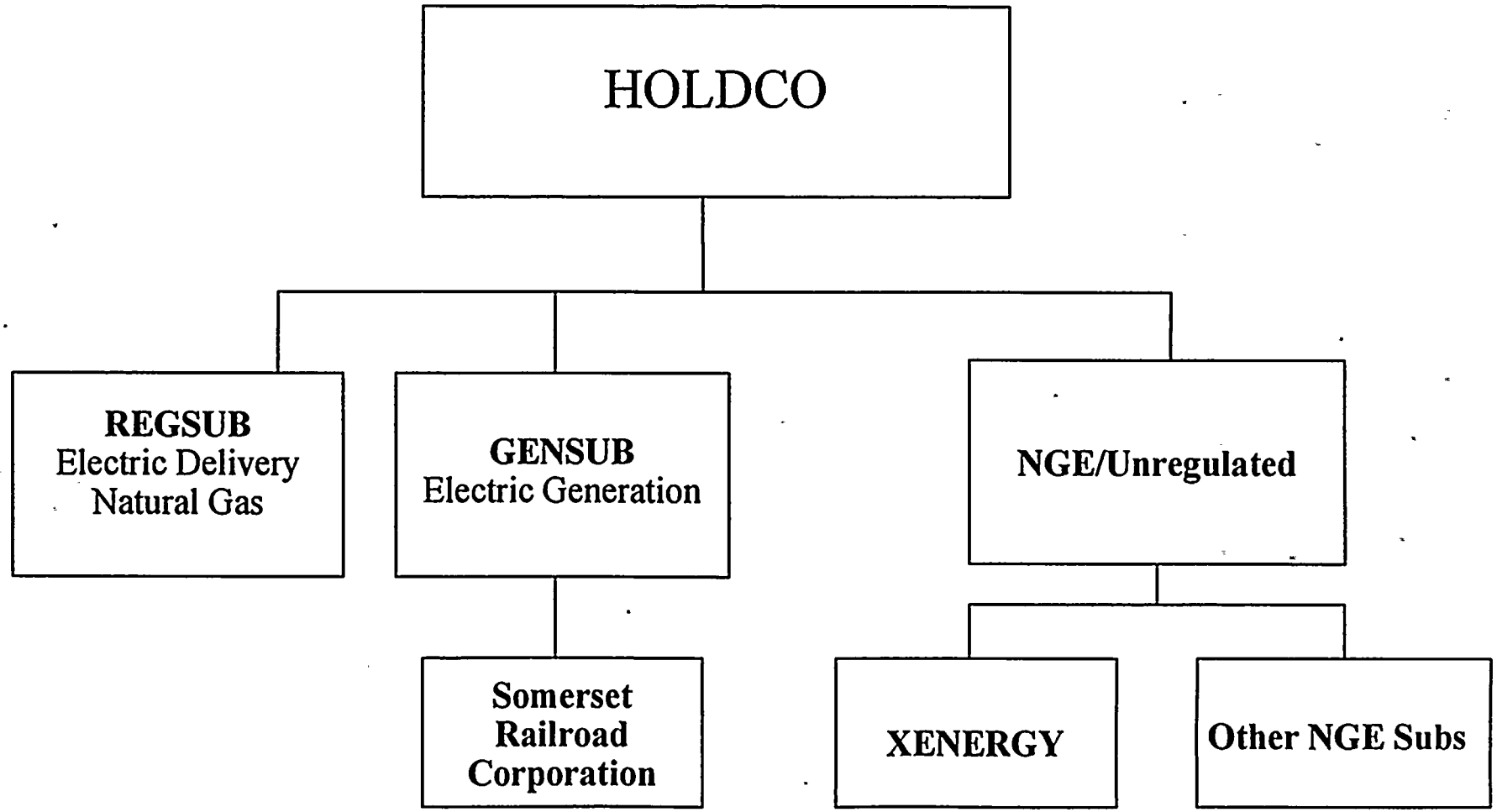
Appendix A

Existing Company Structure



Appendix A

Proposed Holding Company Structure



Appendix B

LIST OF POWER TARIFF CUSTOMERS WITH CORRESPONDING RATE SCHEDULE DESIGNATIONS

NYSEG Electric Power Sales Tariff - FERC Rate Schedule Volume No. 1

Customer	Ferc Rate Schedule	Ferc Docket No.
AIG Trading Corporation		*
American Electric Power (AEP)		ER97-3684-000**
American Energy Solutions, Inc.	1	ER97-2594-000
Aquila Power Corporation	26	ER97-2935-000
Atlantic City Electric Co. (ACE)	2	ER97-2594-000
Baltimore Gas and Electric Co. (BG and E)	3	ER97-2594-000
Boston Edison (BECo)	47	ER97-3454-000
Carolina Power and Light Company	5	ER97-2594-000
Central Hudson Gas and Electric Corporation (CHG and E)	6	ER97-2594-000
Central Park South (CPS Utilities)	27	ER97-2935-000
Chicopee Municipal Lighting Plant		*
Cinergy Oper Co.(CG and E) and (PSI)	7	ER97-2594-000
Citizens Lehman Power Sales	20	ER97-2608-000
CNG Power Services Corporation	48	ER97-3454-000
Connecticut Muni Elec. Energy Coop	38	ER97-3203-000
Coral Power, L.L.C. (Coral)		ER97-4088-000**
Dayton Power and Light Company		ER97-4088-000**
Delmarva Power and Light Co.	28	ER97-2935-000
Duke/Louis Dreyfus L.L.C.(D/LD)	21	ER97-2608-000
DuPont Power Marketing Inc.	8	ER97-2594-000
Energy Transfer Group, LLC	9	ER97-2594-000
Engelhard Power Marketing, Inc.	40	ER97-3203-000
Enron Power Marketing, Inc.	43	ER97-3454-000
Entergy Power Marketing Corp.		*
Equitable Power Services Company (Equitable)	10	ER97-2594-000
Federal Energy Sales, Inc.	23	ER97-2608-000
GPU Service Corporation		ER97-3684-000**
Green Mountain Power		ER97-3684-000**
Illinois Power Corporation	29	ER97-2935-000
KN Marketing, Inc.	11	ER97-2594-000
Koch Energy Trading, Inc.	22	ER97-2608-000
Long Island Lighting Company (LILCO)		ER97-3684-000**
Long Sault, Inc.	30	ER97-2935-000
Maine Public Service Company	31	ER97-2935-000
Morgan Stanley Capital Group Inc.	12	ER97-2594-000
Niagara Mohawk Power Corporation (NMPC)	13	ER97-2594-000
NIPSCO Energy Services, Inc.	32	ER97-2935-000
Northern Indiana Public Service	34	ER97-2935-000
NP Energy, Inc.		ER97-4088-000**
Ohio Edison/Pennsylvania Power	35	ER97-2935-000
Old Dominion Electric Coop (ODEC)	42	ER97-3203-000
Orange and Rockland Utilities, Inc.	14	ER97-2594-000
PacifiCorp Power Marketing, Inc.		*
PECO Energy Company - Power Team (PECO)	44	ER97-3454-000
Plum Street Energy Marketing, Inc.	15	ER97-2594-000
ProMark Energy, Inc.		ER97-3684-000**
Rainbow Energy Marketing Corporation	24	ER97-2608-000
Rochester Gas and Electric Corporation (RG and E)	36	ER97-2935-000
Southern Companies	39	ER97-3203-000
Southern Energy Trading and Marketing, Inc.		ER97-2935-000**

NYSEG Electric Power Sales Tariff - FERC Rate Schedule Volume No. 1

Customer	Ferc Rate Schedule	Ferc Docket No.
Stand Energy Corp.	17	ER97-2594-000
The Power Company of America, L.P.	16	ER97-2594-000
Tractebel Energy Marketing, Inc.	37	ER97-2935-000
TransCanada Power Corp.		
USGen Power Services, L.P.	18	ER97-2594-000
Virginia Electric and Power Co.	41	ER97-3203-000
Western Power Services, Inc.	19	ER97-2594-000
Williams Energy Services Co.	45	ER97-3454-000

NYSEG Electric Power Sales Tariff - FERC Rate Schedule Volume No. 1 Footnotes

*Fully executed to be filed with the FERC within 30 days of the date of commencement of short-term service.

**Filed with the FERC but not yet assigned a Rate Schedule Designation.

Appendix C

LIST OF CUSTOMERS NOT UNDER THE TARIFF WITH CORRESPONDING RATE SCHEDULE DESIGNATIONS

NYSEG Power Sales Agreement

Customer	Ferc Rate Schedule	Ferc Docket No.
AIG Trading Corporation	169	ER96-2252-000
Atlantic City Electric Co. (ACE)	139	ER95-1012-000
Allegheny Electric Coop (AEC)	123	ER94-1535-000
Aquila Power Corporation	152	ER96-154-000
Baltimore Gas and Electric Co. (BG and E)	122	ER94-960-000
Catex-Vitol Electric, Inc.	128	ER95-108-000
Central Hudson Gas and Electric Corporation (CHG and E)	113	ER93-660-000
Central Hudson Gas and Electric Corporation (CHG and E)	144	ER95-1274-000
Central Park South (CPS Utilities)	185	ER97-1821-000
Central Vermont Public Service (CVPS)	175	ER96-2868-000
Cinergy Oper Co.(CG and E) and (PSI)	189	ER97-2625-000
Citizens Lehman Power Sales	134	ER95-443-000
CNG Power Services Corporation	142	ER95-1127-000
MidCon Power Services Corp.	161	ER96-884-000
Montaup Electric Co. (EUA)	158	ER96-752-000
National Fuel Resources, Inc.	151	ER96-137-000
New England Power Company (NEPCo)	187	ER97-1999-000
Niagara Mohawk Power Corporation (NMPC)	120	ER94-1353-000
NorAm Energy Services, Inc.	173	ER96-2371-000
North American Energy Conserv. Inc. (NAEC)	150	ER96-136-000
Orange and Rockland Utilities, Inc.	99	*
PanEnergy Trading and Market Services, L.L.C (PanEnerg	170	ER96-2255-000
Pennsylvania Power and Light (PP and L)	174	ER96-2867-000
Plum Street Energy Marketing, Inc.	184	ER97-1715-000
The Power Company of America, L.P.	182	ER97-1514-000
Public Service Electric and Gas Co.(PSE and G)	156	ER96-715-000
Rainbow Energy Marketing Corporation	141	ER95-1126-000
Rochester Gas and Electric Corporation (RG and E)	162	ER94-892-000
Sonat Power Marketing L.P.	188	ER96-2493-000
Stand Energy Corp.	178	ER96-3055-000
TransCanada Power Corp.	166	ER96-2184-000
Virginia Electric and Power Co.	165	ER96-2183-000
Coastal Electric Services Corporation	149	ER96-303-000
Commonwealth Electric Company (Cambridge)	190	ER97-2950-000
Consolidated Edison Company of New York, Inc. (ConEd)	119	ER94-009-000
Coral Power, L.L.C. (Coral)	168	ER96-2176-000
Delmarva Power and Light Co.	161	ER96-2464-000
Duke/Louis Dreyfus L.L.C.(D/LD)	171	ER96-2293-000
DuPont Power Marketing Inc.	186	ER97-1822-000
El Paso Energy, Inc. formerly Eastex	163	ER96-1547-000
Electric Clearinghouse, Inc.	137	ER95-738-000
Energy Transfer Group; LLC	177	ER96-3037-000
Engelhard Power Marketing, Inc.	143	ER95-1260-000
Enron Power Marketing, Inc.	124	ER94-1536-000
Federal Energy Sales, Inc.	164	ER96-1508-000
Gateway Energy, Inc.	148	ER96-297-000
GPU Service Corporation	104	ER94-648-000
Global Petroleum	159	ER96-779-000
Green Mountain Power	136	ER95-754-000
Heartland Energy Services, Inc.	140	ER-95-1010-000
Industrial Energy Applications, Inc.	155	ER96-613-000

NYSEG Power Sales Agreement

Customer	Ferc Rate Schedule	Ferc Docket No.
InterCoast Power Marketing Co.	132	ER95-293-000
KCS Power Marketing, Inc.	154	ER96-612-000
KN Marketing, Inc.	167	ER96-2175-000
Koch Energy Trading, Inc.	153	ER96-551-000
Long Island Lighting Company (LILCO)	98	*
Long Sault, Inc.	160	ER-96-812-000
Massena Electric Department	111	ER92-520-000
Williams Energy Services Co.	176	ER96-3028-000
Xenergy, Inc.	172	ER96-2206-000
AES Power Inc.	130	ER95-197-000
Equitable Power Services Company (Equitable)	183	ER97-1713-000
LG and E Power Marketing, Inc. (LPM)	129	ER95-180-000
PECO Energy Company - Power Team (PECO)	157	ER96-729-000
Connecticut Light and Power Company	85	ER88-520-000
New York Power Authority	88	*

NYSEG Power Sales Agreement Footnotes

*Rate Schedules 88, 98 and 99 do not refer to a FERC docket number as they were filed prior to January 1, 1990.

Appendix D

LIST OF FRANCHISES

APPENDIX D

Franchise Territories

BROOME COUNTY

City:	Villages:	Towns:
Binghamton	Endicott	Barker
	Johnson City	Binghamton
	Lisle	Chenango
	Port Dickinson	Colesville
	Whitney Point	Conklin
	Windsor	Dickinson
	Deposit	Fenton
		Kirkwood
		Lisle
		Maine
		Nanticoke
		Sanford
		Triangle
		Union
		Vestal
		Windsor

CHENANGO COUNTY

City:	Villages:	Towns:
Norwich	Afton	Afton
	Bainbridge	Coventry
	New Berlin	German
	Oxford	Greene
	Smyrna	McDonough
		Otselic
		Pharsalia
		Pitcher
		Smithville
		Bainbridge
		Columbus
		Greene
		Guilford
		New Berlin
		Norwich
		North Noriwich
		Oxford
		Plymouth
		Preston
		Sherburne
		Smyrna

CORTLAND COUNTY

City:	Villages:	Towns:
		Cincinnatus
		Freetown
		Hartford
		Lapeer
		Marathon[1]
		Taylor
		Virgil[2]
		Willett

TIOGA COUNTY

City:	Villages:	Towns:
	Newark Valley	Barton[3]
	Nichols	Berkshire
	Owego	Newark Valley
	Candor	Nichols
	Spencer	Owego
		Richford
		Tioga
		Candor[4]
		Barton[5]
		Candor[6]
		Spencer

COLUMBIA COUNTY

City:	Villages:	Towns:
	Chatham	Austerlitz
	Philmont	Canaan

---

1 Except that portion served by the Village of Marathon Municipal Lighting Plant)

2 (Southeastern Portion)

3 (Eastern Portion)

4 (Portion between the north and south border lines and within one-half mile of the west branch of Owego Creek)

5 (Northern Portion)

6 (Except that portion between the North and South Border Line and within one-half mile of the West Branch of Owego Creek)

Chatham[7]
Claverack[8]
Copake
Ghent
Hillsdale
New Lebanon
Taghkanic[9]

DELAWARE COUNTY

City:	Villages:	Towns:
	Andes	Andes[10]
	Delhi	Bovina
	Fleischmanns	Colchester[11]
	Franklin	Davenport
	Hancock	Delhi
	Hobart	Deposit
	Margaretville	Franklin
	Sidney	Hamden
	Stamford	Hancock[12]
	Walton	Harpersfield
		Kortright
		Masonville
		Meredith
		Middletown
		Roxbury
		Sidney
		Stamford
		Tompkins
		Walton
		Andes[13]
		Colchester[14]
		Hancock[15]

---

7 (Except Northwest Corner)

8 (Eastern Portion)

9 (Eastern Portion)

10 (Northern Portion)

11 (Northern Portion)

12 (Northern Portion)

13 (Southern Portion)

14 (Southern Portion)

15 (Southern Portion)

GREENE COUNTY

City:	Villages:	Towns:
		Ashland
		Halcott
		Jewett[16]
		Prattsville
		Windham

HERKIMER COUNTY

City:	Villages:	Towns:
	West Winfield	Columbia[17]
		Litchfield[18]
		Warren
		Winfield

MADISON COUNTY

City:	Villages:	Towns:
	Earlville	Brookfield
	Madison	Eaton
	Morrisville	Georgetown
		Hamilton
		Lebanon
		Madison
		Smithfield

ONEIDA COUNTY

City:	Villages:	Towns:
	Bridgewater	Augusta
	Oriskany Falls	Bridgewater
	Waterville	Kirkland[19]
		Marshall
		Sangerfield

OTSEGO COUNTY

City:	Villages:	Towns:
Oneonta	Cooperstown	Burlington

---

16 (Northern Portion)

17 (Southern Portion)

18 (Southern Portion)

19 (Southern Portion)

Gilbertsville	Butternuts
Laurens	Edmeston
Milford	Exeter
Morris	Hartwick
Otego	Laurens
Richfield Springs	Middlefield
Unadilla	Milford
	Morris
	New Lisbon
	Oneonta
	Otego
	Otsego
	Pittsfield
	Plainfield
	Richfield
	Springfield
	Unadilla
	Westford

RENSSELAER COUNTY

City:	Villages:	Towns:
		Berlin
		North Greenbush
		Petersburg
		Sand Lake
		Stephentown
		Schagticoke[20]
		Nassau[21]

SCHOHARIE COUNTY

City:	Villages:	Towns:
		Conesville
		Gilboa
		Jefferson

ULSTER COUNTY

City:	Villages:	Towns:
		Hardenbergh[22]
		Shandaken
		Hardensbergh[23]

---

20 (Western Portion)

21 (Southeast Corner)

22 (Eastern Portion)

23 (Western Portion)

Shawangunk[24]

WASHINGTON COUNTY

City:	Villages:	Towns:
	Granville Salem	Granville Greenwich Hebron Jackson Salem

SARATOGA COUNTY

City:	Villages:	Towns:
Mechanicville	Round Lake Stillwater	Clifton Park[25] Halfmoon[26] Malta[27] Stillwater

ALLEGANY COUNTY

City:	Villages:	Towns:
	Alfred Almond Canaseraga	Alfred Almond Birdsall Burns Grove Ward West Almond

CHEMUNG COUNTY

City:	Villages:	Towns:
Elmira	Elmira Heights Horseheads Millport Wellburg	Ashland Baldwin Big Flats Catlin Chemung Elmira Erin

---

24 (Western Portion)

25 (Northeastern Portion)

26 (Northern Portion)

27 (Southern Portion)

		Horseheads
		Southport
	Van Etten	Van Etten
		Veteran

LIVINGSTON COUNTY

City:	Villages:	Towns:
	Dansville	Leicester
	Leicester	Mount Morris
		Ossian
		Sparta
		Springwater
		West Sparta

ONTARIO COUNTY

City:	Villages:	Towns:
	Naples	Naples
Geneva	Clifton Springs	Geneva
	Phelps	Gorham
	Rushville	Hopewell[28]
		Manchester[29]
		Phelps
		Seneca

SCHYLER COUNTY

City:	Villages:	Towns:
	Montour Falls	Catherine
	Odessa	Cayuta
	Burdett	Dix
		Montour
		Orange
		Reading
		Tyrone
		Hector

STEUBEN COUNTY

City:	Villages:	Towns:
Corning	Addison	Addison
Hornell	Arkport	Avoca
	Avoca	Bath
	Canisteo	Bradford
	Cohocton	Cameron

---

28 (Eastern Portion)

29 (Eastern Portion)

Hammondsport	Campbell
North Hornell	Canisteo
Painted Post	Caton
Prattsburg	Cohocton
Riverside	Corning
Savona	Dansville
South Corning	Erwin
Wayland	Fremont
	Greenwood
	Hartsville
	Hornby
	Hornellsville
	Howard
	Jasper
	Lindley
	Prattsburg
	Pulteney
	Rathbone
	Thurston
	Troupsburg
	Tuscarora
	Urbana
	Wayland
	Wayne[30]
	West Union
	Wheeler
	Woodhull
	Wayne[31]

WYOMING COUNTY

City:	Villages:	Towns:
	Gainsville	Castille
	Perry	Gainesville
	Warsaw	Genesee Falls
	Wyoming	Middlebury
		Perry
		Warsaw
		Bennington
		Java
		Sheldon

CAYUGA COUNTY

City:	Villages:	Towns:
	Moravia	Locke
		Moravia
		Sempronius

---

30 (Except Northeast Portion)

31 Northeastern Portion)

Auburn	Aurora Cayuga Port Byron Union Springs Weedsport	Summerhill Aurelius Brutus Fleming Genoa Ledyard Mentz Montezuma Owasco Scipio Sennett Springport Throop Venice

SENECA COUNTY

City:	Villages:	Towns:
	Interlacken Lodi Ovid Seneca Falls Waterloo	Covert Lodi Ovid Fayette Juniun Romulus[32] Seneca Falls Tyre Varick Waterloo Romulus[33]

TOMPKINS COUNTY

City:	Villages:	Towns:
Ithaca	Cayuga Heights Dryden Freeville Lansing Trumansburg	Caroline Danby Dryden Enfield Groton Ithaca Lansing Newfield Ulysses

ONONDAGA COUNTY

City:	Villages:	Towns:
	Elbridge	Camillus

---

32 (Northern Portion)

33 (Southern Portion)

	Jordan	Elbridge
	Marcellus	Marcellus
		Otisco[34]
		Spafford
		Van Buren[35]

WAYNE COUNTY

City:	Villages:	Towns:
	Clyde	Arcadia
	Lyons	Galen
	Macedon	Lyons
	Newark	Macedon
	Palmyra	Palmyra
	Savannah	Savannah[36]
		Walworth

YATES COUNTY

City:	Villages:	Towns:
	Dresden	Barrington
	Dundee	Benton
	Penn Yan	Italy
	Rushville	Jerusalem
		Middlesex
		Milo
		Potter
		Starkey
		Torrey

CLINTON COUNTY

City:	Villages:	Towns:
	Champlain	Altona
	Dannemora	Ausable
	Keeseville	Beekmantown
	Mooers	Black Brook[37]
		Champlain
		Chazy
		Clinton
		Dannemora
		Ellenburg
		Mooers

---

34 (Northwestern Portion)

35 (Southern Portion)

36 (Adjacent to Village)

37 (Northeast and Southern Corners)

		Peru Plattsburgh Saranac Schuyler Falls

ESSEX COUNTY

City:	Villages:	Towns:
		Chesterfield Elizabethtown Essex Jay Keene Lewis Newcomb Willsboro Wilmington

FRANKLIN COUNTY

City:	Villages:	Towns:
	Burke Chateaugay	Belmont[38] Burke Chateaugay Constable[39] Malone[40]

HAMILTON COUNTY

City:	Villages:	Towns:
		Indian Lake[41] Long Lake

DUTCHESS COUNTY

City:	Villages:	Towns:
	Pawling	Amenia Beekman Dover Pawling

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38 (Eastern and Southern Portions)

39 (Except Northwest Corner)

40 (Highway Northeast Portion)

41 (Northern Portion)

PUTNAM COUNTY

City:	Villages:	Towns:
	Brewster	Carmel Kent Patterson Putnam Valley Southeast

SULLIVAN COUNTY

City:	Villages:	Towns:
	Jeffersonville Liberty Monticello Woodridge	Bethel Callicoon Cochecton Delaware Fallsburg Fremont Highland Liberty Heversink[42] Rockland Thompson Tusten

WESTCHESTER COUNTY

City:	Villages:	Towns:
		Bedford Lewisboro North Salem Poundridge Somers Yorktown

ORANGE COUNTY

City:	Villages:	Towns:
	Walden	Crawford[43] Montgomery[44]

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42 (Western Portion)

43 (Northeastern Portion)

44 (Western Portion)

CATTARAUGUS COUNTY

City:	Villages:	Towns:
	East Randolph	Conewango
	Gowanda	Dayton
	Perrysburg	Leon
	Randolph	Napoli
	South Dayton	New Albion
		Perrysburg[45]
		Persia

CHAUTAUQUA COUNTY

City:	Villages:	Towns:
	Cherry Creek	Cherry Creek
	Forestville	Ellington
	Silver Creek	Hanover
		Villenova

ERIE COUNTY

City:	Villages:	Towns:
	Alden	Alden
	Depew	Amherst
	East Aurora	Aurora
	Gowanda	Boston
	Hamburg	Cheektowage[46]
	Lancaster	Clarence
	Orchard Park	Colden
	Sloan	Collins[47]
		Concord[48]
		Elma
		Hamburg[49]
		Holland
		Lancaster
		Marilla
		Orchard Park
		Sardinia[50]
		Wales

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45 (Eastern Portion)

46 (Eastern and Southern Portion)

47 (Southwestern Portion)

48 (Except Southeastern Corner)

49 (Eastern Portion)

50 (Except Southeastern Corner)

West Seneca[51]

NIAGARA COUNTY

City:	Villages:	Towns:
Lockport		Lockport Newfane[52] Pendleton[53]

F:\ATTY\BORKOWSK\FRANCHIA.820

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51 (Eastern Portion)

52 (Portion adjacent to Town of Lockport)

53 (Portion adjacent to Town of Lockport)

Appendix E

Form of Notice

UNITED STATES OF AMERICA
FEDERAL ENERGY REGULATORY COMMISSION

New York State Electric & Gas Corporation Docket No. _____

NOTICE OF FILING

(_____, 1997)

Take notice that on August 29, 1997, New York State Electric & Gas Corporation ("NYSEG") tendered for filing pursuant to Section 203 of the Federal Power Act an application for Commission approval to effect a corporate reorganization which involves the creation of a holding company and the transfer of certain contracts, all as more fully set forth in the application.

Any person desiring to be heard or to protest the application should file a motion to intervene or protest with the Federal Energy Regulatory Commission, 888 First Street, N.E., Washington, D.C. 20426, in accordance with Rules 214 and 211 of the Commission's Rules of Practice and Procedure. 18 C.F.R. § 385.214, § 385.211 (1994). All such motions to intervene or protests should be filed on or before _____, 1997. Protests will be considered by the Commission in determining the appropriate action to be taken, but will not serve to make protestants parties to the proceeding. Any person wishing to become a party to the proceeding or to participate as a party in

any hearing therein must file a motion to intervene in accordance with the FERC Rules.

_____
Secretary

EXHIBIT A

CORPORATE RESOLUTIONS AUTHORIZING TRANSACTION

EXHIBIT A

NEW YORK STATE ELECTRIC & GAS CORPORATION
RESOLUTIONS ADOPTED AT THE JANUARY 10, 1997
BOARD OF DIRECTORS MEETING

RESOLVED, that the action of the officers of the Corporation in filing an application with the Public Service Commission of the State of New York for authority to form a holding company structure; to structurally separate fossil and hydropower generation assets; and for certain related transactions, be and it hereby is ratified and approved.

RESOLVED, that the officers of the Corporation be and they hereby are authorized to make any and all applications and filings with any federal or state regulatory agency which they deem necessary or desirable in connection with the formation of a holding company structure for Corporation.

RESOLVED, that the officers of the Corporation be and they hereby are authorized to cause a Corporation to be formed which would serve as the holding company for the Corporation.

RESOLVED, that the officers of the Corporation be and they hereby are authorized to take any and all action which they may deem necessary or desirable in order to carry out the intent and purposes of the foregoing resolutions.

EXHIBIT B

STATEMENT OF MEASURE OF CONTROL OR OWNERSHIP

On the following pages is a statement of measure of control or ownership exercised by or over New York State & Gas Corporation as to any public utility, or bank, trust company, banking association or firm authorized to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such party, and the extent of any intercorporate relationships.

EXHIBIT B

Statement of Measurement of Control or
Ownership and Intercorporate Relationships

New York State Electric & Gas Corporation ("NYSEG") will own all of the outstanding common stock of HoldCo, Inc. ("HoldCo"). As more fully described in this Application, NYSEG is seeking FERC approval of a corporate reorganization in which NYSEG will become a wholly-owned subsidiary of HoldCo and NYSEG's coal-fired generation assets will be transferred to one or more generating subsidiaries of HoldCo formed to hold such assets (collectively, "GenSub").

NYSEG is a publicly owned utility with more than 67 million common shares outstanding. As far as NYSEG can determine, no FERC-jurisdictional public utility, bank, trust company, banking association, or firm that is authorized by law to underwrite or participate in the marketing of securities of a public utility, or any company supplying electric equipment to such a party, holds, individually, more than 3% of the outstanding common shares of NYSEG.

It is anticipated that upon consummation of the corporate reorganization NYSEG, HoldCo and GenSub will have common directors and officers. However, the common officers and directors have not yet been specified and are not yet known.

NYSEG has a common director with Mellon Bank, N. A., a commercial bank. The interlocking position between NYSEG, Mellon Bank Corporation and Mellon Bank, N. A. has been approved in Docket No. ID-2978-000.

NYSEG also owns 100% of NGE Enterprises, Inc., a non-utility subsidiary ("NGE"). Certain officers of NYSEG are also officers and directors of NGE and its subsidiaries. NYSEG also owns 100% of Somerset Railroad Corporation, a non-utility subsidiary ("SRC"). Certain officers of NYSEG are also officers and directors of SRC.

XENERGY, Inc. ("XENERGY") is currently a wholly-owned subsidiary of NGE, authorized by the Commission to engage in market-based rate transactions as a power marketer. Certain NYSEG officers are also directors of XENERGY. XENERGY will make all requisite filings regarding these interlocking directorates.

EXHIBIT C

BALANCE SHEET AND SUPPORTING PLANT SCHEDULES

New York State Electric & Gas Corporation's balance sheet and supporting plant schedules are set forth in its FERC Form No. 1 for the year ended December 31, 1996 (at pages 110-113 and 200-203), which is incorporated herein by reference.

New York State Electric & Gas Corporation
Unaudited Pro Forma Balance Sheets
December 31, 1996
(In Thousands)

	Actual	Pro Forma Financial Statements				
	Consolidated	GenSub		NYSEG	Other (B)	HoldCo Consolidated
Liabilities						
Current Liabilities						
Current portion of long-term debt (C)	$83,488	$19,468	(6)	$59,028	$4,992	$83,488
Commercial Paper	129,300	30,129	(6)	99,171		129,300
Accounts payable and accrued liabilities	121,123	25,260	(1)	98,528	(2,665)	121,123
Interest accrued	22,195	5,162	(7)	17,033		22,195
Other	71,324	6,000	(1)	65,324		71,324
Total Current Liabilities	427,430	86,019		339,084	2,327	427,430
Regulatory and Other Liabilities						
Regulatory liabilities						
Deferred income taxes - unfunded future federal income taxes	109,065			109,065		109,065
Deferred income taxes	94,004			94,004		94,004
Other	65,471			65,471		65,471
Total regulatory liabilities	268,540			268,540		268,540
Other liabilities						
Deferred income taxes (D)	751,553	335,648	(8)	416,277	(372)	751,553
Other postretirement benefits	95,195			95,195		95,195
Environmental remediation costs	32,100			32,100		32,100
Other	74,627	2,830		63,378	8,419	74,627
Total other liabilities	953,475	338,478		606,950	8,047	953,475
Long-term debt (C)	1,480,814	345,286	(6)	1,124,805	10,723	1,480,814
Total Liabilities	3,130,259	769,783		2,339,379	21,097	3,130,259
Commitments						
Preferred Stock Redeemable Solely at the Option of the Company	134,440			134,440		134,440
Preferred Stock Subject to Mandatory Redemption Requirements	25,000			25,000		25,000
Common Stock Equity (C)						
Common stock ($6.66 2/3 par value)	464,469	151,991	(6)	312,678	(200)	464,469
Capital in excess of par value	816,384	267,079	(6)	549,309	(4)	816,384
Retained earnings	489,129	173,255	(6)	356,268	(40,394)	489,129
Total Common Stock Equity	1,769,982	592,325		1,218,255	(40,598)	1,769,982
Total Liabilities and Stockholders' Equity	$5,059,681	$1,362,108		$3,717,074	($19,501)	$5,059,681

New York State Electric & Gas Corporation
Unaudited Pro Forma Balance Sheets
December 31, 1996
(Thousands)

	Actual	Pro Forma Financial Statements				
	Consolidated	GenSub		NYSEG	Other (B)	HoldCo Consolidated
Assets						
Current Assets						
Cash and cash equivalents	$8,253	$2,028	(1)	$3,864	$2,361	$8,253
Special deposits	31,364	10,664	(1)	20,700		31,364
Accounts receivable, net	189,043	28,968	(2)	151,623	8,452	189,043
Fuel, at average cost	36,472	17,091	(3)	19,381		36,472
Materials and supplies, at average cost	43,044	33,151	(3)	9,893		43,044
Prepayments	47,169	11,267	(1)	35,722	180	47,169
Accumulated deferred federal income tax benefits, net	3,424			1,647	1,777	3,424
Total Current Assets	358,769	103,169		242,830	12,770	358,769
Utility Plant, at Original Cost (A)						
Electric	5,177,365	1,921,540	(4)	3,255,825		5,177,365
Natural gas	529,023			529,023		529,023
Common	151,290			151,290		151,290
	5,857,678	1,921,540		3,936,138		5,857,678
Less accumulated depreciation	1,933,599	738,350	(4)	1,195,249		1,933,599
Net Utility Plant in Service	3,924,079	1,183,190		2,740,889		3,924,079
Construction work in progress	58,285	14,872	(4)	43,413		58,285
Total Utility Plant	3,982,364	1,198,062		2,784,302		3,982,364
Other Property and Investments, Net	99,221	52,616	(5)	78,601	(31,996)	99,221
Regulatory and Other Assets						
Regulatory assets						
Unfunded future federal income taxes	269,767			269,767		269,767
Unamortized debt expense	80,745			80,745		80,745
Demand-side management program costs	71,425			71,425		71,425
Other regulatory assets	181,661			181,661		181,661
Total regulatory assets	603,598			603,598		603,598
Other assets	15,729	8,261	(1)	7,743	(275)	15,729
Total Regulatory and Other Assets	619,327	8,261		611,341	(275)	619,327
Total Assets	$5,059,681	$1,362,108		$3,717,074	($19,501)	$5,059,681

New York State Electric & Gas Corporation
Notes to Unaudited Pro Forma Balance Sheets
December 31, 1996

The pro forma financial statements and the assumptions set forth below are for illustrative purposes only. The pro forma financial statements and assumptions should not be used to forecast future operating results or financial position. Actual operating results or financial position could differ materially from the pro forma financial statements.

Nature of the Transaction

New York State Electric & Gas Corporation (the company) will reorganize into a holding company structure with GenSub, NYSEG (a regulated subsidiary) and NGE Enterprises, Inc. becoming wholly-owned subsidiaries of the parent company, HoldCo. For purposes of these pro forma financial statements, the balance sheets were prepared assuming the transaction was consummated on December 31, 1996 by transferring assets, liabilities and common stock equity from NYSEG to the GenSub. It was assumed that no cash consideration was received for this transaction. For purposes of the pro forma statements of income and retained earnings, it was assumed that the transaction occurred at the beginning of 1996.

Somerset Railroad Corporation, previously a wholly-owned subsidiary of the company, will become a wholly-owned subsidiary of GenSub. The GenSub will include all of the company's coal-fired generating stations and certain assets and liabilities in addition to Somerset Railroad Corporation. Nuclear and hydro generation assets will remain with NYSEG. NGE Enterprises, Inc. remains as an unregulated subsidiary.

Assumptions

(A) Utility plant was transferred to GenSub at book value. The actual transfer of generation assets to GenSub will be at "fair value" determined in accordance with the company's mortgage bond indenture. That determination has not yet been made.

(B) Amounts in this column represent normal consolidating eliminations.

(C) Total common stock equity, long-term debt, current portion of long-term debt and commercial paper were allocated to GenSub based on utility plant, less an adjustment for regulatory assets and liabilities which are retained on NYSEG's balance sheet.

(D) Allocated to GenSub based upon the related assets.

8/27/97

New York State Electric & Gas Corporation
Accounting Entries to Record Restructuring
December 31, 1996

	Subsidiary	Line Description	Debit	Credit
(1)	GenSub	Cash and cash equivalents	$1,991	
	GenSub	Special deposits	$10,664	
	GenSub	Prepayments	$11,049	
	GenSub	Other Assets	$8,177	
	NYSEG	Accounts payable and accrued liabilities	$25,000	
	NYSEG	Other liabilities	$6,000	
	NYSEG	Cash and cash equivalents		$1,991
	NYSEG	Special deposits		$10,664
	NYSEG	Prepayments		$11,049
	NYSEG	Other assets		$8,177
	GenSub	Accounts payable and accrued liabilities		$25,000
	GenSub	Other liabilities		$6,000

To transfer a proportionate share of certain assets and liabilities to GenSub based on utility plant.

(2)	GenSub	Accounts receivable, net	$28,443	
	NYSEG	Accounts receivable, net		$28,443

To transfer a proportionate share of accounts receivable to GenSub based on operating revenues.

(3)	GenSub	Fuel, at average cost	$17,091	
	GenSub	Materials and supplies, at average cost	$33,000	
	NYSEG	Fuel, at average cost		$17,091
	NYSEG	Materials and supplies, at average cost		$33,000

To transfer fuel (excluding nuclear) and materials and supplies, specifically related to coal-fired generating plants to GenSub.

New York State Electric & Gas Corporation
Accounting Entries to Record Restructuring
December 31, 1996

	Subsidiary	Line Description	Debit	Credit
(4)	GenSub	Utility plant - electric	$1,921,540	
	GenSub	Accumulated depreciation	$738,350	
	GenSub	Construction work in progress	$14,872	
	NYSEG	Utility plant - electric		$1,921,540
	NYSEG	Accumulated depreciation		$738,350
	NYSEG	Construction work in progress		$14,872

To transfer coal-fired generating stations included in utility plant to GenSub based on book value.

(5)	GenSub	Other property and investments, net	$7,746	
	NYSEG	Other property and investments, net		$7,746

To transfer other property and investments to GenSub based on the investment in Somerset Railroad Corporation and utility plant.

(6)	NYSEG	Current portion of long-term debt	$19,468	
	NYSEG	Commercial paper	$30,129	
	NYSEG	Long-term debt	$315,386	
	NYSEG	Common stock	$151,991	
	NYSEG	Capital in excess of par value	$267,079	
	NYSEG	Retained earnings	$173,255	
	GenSub	Current portion of long-term debt		$19,468
	GenSub	Commercial paper		$30,129
	GenSub	Long-term debt		$315,386
	GenSub	Common stock		$151,991
	GenSub	Capital in excess of par value		$267,079
	GenSub	Retained earnings		$173,255

To transfer a proportionate share of debt and common stock equity to GenSub based on utility plant, less an adjustment for regulatory assets and liabilities which are retained on NYSEG's balance sheet.

New York State Electric & Gas Corporation
Accounting Entries to Record Restructuring
December 31, 1996

	Subsidiary	Line Description	Debit	Credit
(7)	NYSEG	Interest accrued	$5,126	
	GenSub	Interest accrued		$5,126
	To transfer a proportionate share of interest accrued to GenSub based on debt.			
(8)	NYSEG	Deferred income taxes	$322,989	
	GenSub	Deferred income taxes		$322,989
	To transfer a proportionate share of deferred income taxes to GenSub based on the related assets.			

EXHIBIT D

Statement of all known contingent liabilities

As of the date of this Application, the material contingent liabilities of New York State Electric & Gas Corporation ("NYSEG"), not including minor items such as damage claims and similar items involving relatively small amounts, are set forth in NYSEG's Annual Report on Form 10-K for the year ended December 31, 1996, and NYSEG's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1997 and June 30, 1997, copies of which are attached hereto.

NEW YORK STATE ELECTRIC & GAS CORPORATION
(Registrant)

FORM 10-K

ANNUAL REPORT

For Fiscal Year Ended December 31, 1996

To

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

(Mark one)
_X_ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1996.

OR

___ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____.

Commission file number 1-3103-2.

NEW YORK STATE ELECTRIC & GAS CORPORATION
(Exact name of Registrant as specified in its charter)

New York (State or other jurisdiction of incorporation or organization)	15-0398550 (I.R.S. Employer Identification No.)
P. O. Box 3287, Ithaca, New York (Address of principal executive offices)	14852-3287 (Zip Code)

Registrant's telephone number, including area code (607) 347-4131
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
First Mortgage Bonds, 7 5/8% Series due 2001 (Due November 1, 2001)	New York Stock Exchange
3.75% Cumulative Preferred Stock (Par Value $100)	New York Stock Exchange
7.40% Cumulative Preferred Stock (Par Value $25)	New York Stock Exchange
Adjustable Rate Cumulative Preferred Stock, Series B (Par Value $25)	New York Stock Exchange
Common Stock (Par Value $6.66 2/3)	New York Stock Exchange

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Securities registered pursuant to Section 12(g) of the Act:

Title of Class

4 1/2% Cumulative Preferred Stock (Series 1949) (Par Value $100)
4.15% Cumulative Preferred Stock (Par Value $100)
4.40% Cumulative Preferred Stock (Par Value $100)
4.15% Cumulative Preferred Stock (Series 1954) (Par Value $100)

* * * * * * * * * * *

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ____X_____. No _____.

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X].

* * * * * * * * * * *

The aggregate market value as of February 28, 1997, of the common stock held by non-affiliates of the Registrant was $1,612,095,178.

Common stock - 69,337,427 shares outstanding as of February 28, 1997.

DOCUMENTS INCORPORATED BY REFERENCE

Document	10-K Part
The company has incorporated by reference certain portions of its Proxy Statement dated April 11, 1997, which will be filed with the Commission prior to April 30, 1997.	III

PART I

Item 1. Business

(a) General development of business

New York State Electric & Gas Corporation (company) was organized under the laws of the State of New York in 1852.

The following general developments have occurred in the business of the company since January 1, 1996:

Regulatory and Rate Matters
(See Item 7 - Competitive Conditions and Rate Matters.)

Energy Services
(See Item 7 - Energy Services and Note 10 to the Consolidated Financial Statements.)

(b) Financial information about industry segments
(See Note 12 to the Consolidated Financial Statements.)

(c) Narrative description of business

(i) Principal business

The company's principal business is generating, purchasing, transmitting and distributing electricity and purchasing, transporting and distributing natural gas. The service territory, 99% of which is located outside the corporate limits of cities, is in the central, eastern and western parts of the State of New York. The service territory has an area of approximately 19,600 square miles and a population of 2,400,000. The larger cities in which the company serves both electricity and natural gas are Binghamton, Elmira, Auburn, Geneva, Ithaca and Lockport. The company serves approximately 808,000 electric customers and 238,000 natural gas customers. Its service territory reflects a diversified economy, including high-tech firms, light industry, colleges and universities, agriculture and recreational facilities. No customer accounts for 5% or more of either electric or natural gas revenues. For the years 1996, 1995 and 1994, 84%, 85% and 84%, respectively, of operating revenue was derived from electric service and the balance was derived from natural gas service.

The 1996-1997 winter peak load of 2,404 megawatts (mw), was set on January 17, 1997. This is 207 mw less than the all-time peak of 2,611 mw set on January 19, 1994. Power supply capability to meet peak loads is currently 3,094 mw. This is composed of 2,511 mw of generating capacity (89% coal-fired, 8% nuclear and 3% hydroelectric) and 1,190 mw of purchases offset by 607 mw of firm sales. The purchases are composed of 599 mw from nonutility generators (NUGs) and 591 mw from the New York Power Authority (NYPA). Most purchases from NYPA are hydroelectric power.

On January 18, 1997, the company experienced its 1996-1997 maximum peak daily sendout for natural gas of 413,309 dekatherms. This exceeded, by 9,686 dekatherms, the previous year peak of 403,623 dekatherms set on February 5, 1996.

(ii) New product or segment
(See Item 7 - Energy Services and Note 10 to the Consolidated Financial Statements.)

(iii) Sources and availability of raw materials

Electric

In 1996, approximately 88% of the company's generation was coal-fired steam electric, 10% nuclear and 2% hydroelectric power. About 44% of the company's steam electric generation in 1996 was supplied from its one-half share of the output from the Homer City Generating Station, which is owned in common with Pennsylvania Electric Company. An additional 31% was supplied from the company's Kintigh Generating Station, and the remaining 25% was supplied from its other generating stations which are located in New York State.

Coal

Coal for the New York generating stations is obtained primarily from Pennsylvania and West Virginia. Of the 3.1 million tons of coal purchased for the New York generating stations in 1996, approximately 84% was purchased under contract and the balance on the open market. Coal purchased under contract is expected to be approximately 88% of the estimated 3.4 million tons to be purchased in 1997.

The annual coal requirement for the Homer City Generating Station is approximately 4.7 million tons, the majority of which is obtained under long-term contracts. During 1996, approximately 58% of Homer City Generating Station coal was obtained under these contracts. The company anticipates obtaining approximately 60% of the 1997 requirements under these contracts. The balance will be purchased under short-term contracts and, when necessary, on the open market.

Nuclear

During the fall of 1996, Niagara Mohawk Power Corporation (Niagara Mohawk), the operator of Nine Mile Point nuclear generating unit No. 2 (NMP2), in which the company has an 18% interest, installed reload No. 5 into the reactor core at NMP2. This refueling will support NMP2 operations through the spring of 1998. Reload No. 6 is scheduled for May 1998 and will support operations through the spring of 2000. Enrichment services are under contract with the U.S. Enrichment Corporation for 100% of the enrichment requirements through 1998 and 75% of the requirements through 2003. Fuel fabrication services are under contract through 2004. Approximately 90% of the uranium and conversion requirements are under contract through 2003.

Natural Gas
(See Item 7 - Competitive Conditions - Natural Gas Industry, Seneca Lake Natural Gas Storage Project.)

The natural gas supply mix includes long-term, short-term and spot natural gas purchases transported on both firm and interruptible transportation contracts. During 1996, about 60% of the company's natural gas supply was purchased from various suppliers under long-term and short-term sales contracts and 40% was purchased on the monthly spot natural gas market to maximize natural gas cost savings. The company's natural gas supply is expected to be purchased in 1997 in a similar proportion as in 1996.

(iv) Franchises
(See Item 7 - Competitive Conditions.)

The company has, with minor exceptions, valid franchises from the municipalities in which it renders service to the public. In 1996, the company obtained authorization from the Public Service Commission of the State of New York (PSC) for natural gas distribution service in the city of Plattsburgh, the towns of Carlisle, Cobleskill, Davenport and Saranac, the villages of Cobleskill and Dannemora and certain sections of the town of Halfmoon and village of Rouses Point.

(v) Seasonal business

Sales of electricity are highest during the winter months primarily due to space heating usage and fewer daylight hours. Sales of natural gas are highest during the winter months primarily due to space heating usage.

(vi) Working capital items

The company has been granted, through the ratemaking process, an allowance for working capital to operate its ongoing electric and natural gas utility services.

(vii) Single customer - Not applicable

(viii) Backlog of orders - Not applicable

(ix) Business subject to renegotiation - Not applicable

(x) Competitive conditions
(See Item 7 - Competitive Conditions and Accounting Issues.)

(xi) Research and development

Expenditures on research and development in 1996, 1995 and 1994 amounted to $11.9 million, $13.1 million and $14.5 million, respectively, principally for the company's internal research programs and for contributions to research administered by the Electric Power Research Institute, the Empire State Electric Energy Research Corporation, the New York Gas Group and the New York State Energy Research and Development Authority. These expenditures are designed to improve existing technologies and to develop new technologies for the production, distribution and customer use of energy.

(xii) Environmental matters
(See Item 3 - Legal proceedings, Item 7 - Accounting Issues and Notes 7, 8 and 9 to the Consolidated Financial Statements.)

The company is subject to regulation by the federal government and by state and local governments in New York and Pennsylvania with respect to environmental matters and is also subject to the New York State Public Service Law requiring environmental approval and certification of proposed major transmission facilities.

The company continually assesses actions that may need to be taken to comply with changing environmental laws and regulations. Any additional compliance programs will require changes in the company's operations and facilities and increase the cost of electric and natural gas service. Historically, rate recovery has been authorized for environmental compliance costs.

Capital additions to meet environmental requirements during the three years ended December 31, 1996 were approximately $37 million and are estimated to be $7 million for 1997, $10 million for 1998 and $2 million for 1999.

Water quality

The company is required to comply with federal and state water quality statutes and regulations including the Clean Water Act (Water Act). The Water Act requires that generating stations be in compliance with federally issued National Pollutant Discharge Elimination System Permits (NPDES Permits) or state issued State Pollutant Discharge Elimination System Permits (SPDES Permits), which reflect water quality considerations for the protection of the environment. The company has SPDES Permits for its six coal-fired generating stations in New York and NMP2. The company's Homer City Generating Station in Pennsylvania has a NPDES permit.

In connection with the issuance of permits under the Water Act, the company has conducted studies of the effects of its coal pile operations on groundwater quality at its Greenidge, Jennison, Milliken and Hickling Generating Stations. New York State groundwater standards are sometimes exceeded at certain locations at each of those stations. Preliminary studies at Greenidge Generating Station indicate that elevated levels of groundwater constituents do not appear to be directly

attributable to the coal pile. The remedial work at Jennison Generating Station was completed in 1995. The remediation action at Milliken Generating Station is expected to cost $1.5 million. The remedial action, if required, at Hickling and Greenidge Generating Stations is estimated to cost $1.4 million. Groundwater monitoring data for Kintigh and Homer City Generating Stations does not indicate facility-induced groundwater contamination.

Air quality

The company is required to comply with federal and state air quality statutes and regulations. All stations have the required federal or state operating permits. Stack tests and continuous emissions monitoring indicate that the stations are generally in compliance with permit emission limitations, although occasional opacity exceedances occur. Efforts continue in the identification and elimination of the causes of opacity exceedances. The company and Pennsylvania Electric Company may find it necessary either to upgrade or install additional equipment at the Homer City Generating Station in order to consistently meet the particulate emission requirements.

The Clean Air Act Amendments of 1990 (1990 Amendments) limit emissions of sulfur dioxide and nitrogen oxides and require emissions monitoring. The U. S. Environmental Protection Agency (EPA) allocates annual emissions allowances to each of the company's coal-fired generating stations based on statutory emissions limits. An emissions allowance represents an authorization to emit, during or after a specified calendar year, one ton of sulphur dioxide.

The costs of controlling toxic emissions under the 1990 Amendments, if required, cannot be estimated at this time, since the type and level of reductions that may be required is dependent on several studies currently being performed by the EPA. Regulations may be adopted at the state level that would limit toxic emissions even further, at an additional cost to the company.

The company estimates that it will have allowances in excess of the affected coal-fired generating stations' actual emissions during Phase I, which began January 1, 1995. The company's present strategy is to bank excess allowances for use in later years. It is estimated that the company will meet Phase II (which begins January 1, 2000) emissions requirements through the year 2004, by using allowances banked during Phase I together with the company's Phase II annual emissions allowances. This strategy could be modified should market or business conditions change.

Waste disposal

The company has received or applied for SPDES Permits, Solid Waste Disposal Facilities Permits and applicable local permits for its active ash disposal sites for its New York generating stations. Groundwater standards have been exceeded in areas close to portions of the Milliken and Weber ash disposal sites. Corrective actions have been taken and studies are continuing to monitor the effectiveness of the corrective actions.

The company has received NPDES permits, a Solid Waste Disposal Permit and applicable local permits for its active ash disposal site for the Homer City Generating Station and for the active refuse disposal site for the Homer City Coal Cleaning Plant.

A low level radioactive waste management and contingency plan for NMP2 provides assurance that NMP2 is properly prepared to handle interim storage of low level radioactive waste until 2006.

Niagara Mohawk has contracted with the U.S. Department of Energy (DOE) for disposal of high level radioactive waste (spent fuel) from NMP2. The company is reimbursing Niagara Mohawk for its 18% share of the costs under the contract (currently approximately $1 per megawatt hour of net generation). The DOE's schedule for start of operations of their high level radioactive waste repository will be no sooner than 2010. The company has been advised by Niagara Mohawk that the NMP2 Spent Fuel Storage Pool has a capacity for spent fuel that is adequate until 2014. If further DOE schedule slippage should occur, construction of pre-licensed dry storage facilities would extend the on-site storage capability for spent fuel at NMP2 beyond 2014.

(xiii) Number of employees

The company had 4,114 employees as of December 31, 1996.

(d) Financial information about foreign and domestic operations and export sales - Not applicable

Item 2. Properties
(See Item 7 - Competitive Conditions - Electric Industry, Generation Business.)

The company's electric system includes coal-fired, nuclear, hydroelectric and internal combustion generating stations, substations and transmission and distribution lines, all of which are located in the State of New York, except for the Homer City Generating Station and related facilities which are located in the Commonwealth of Pennsylvania. Generating facilities are:

Name and location of station		Generating capability (mw)
Coal-fired		
Goudey	(Binghamton, N.Y.)	80 (1)
Greenidge	(Dresden, N.Y.)	104 (1)
Hickling	(East Corning, N.Y.)	44 (1)
Jennison	(Bainbridge, N.Y.)	72
Milliken	(Lansing, N.Y.)	302
Kintigh	(Somerset, N.Y.)	675
Homer City	(Homer City, Pa.)	959 (2)
Total coal-fired		2,236
Nuclear		
NMP2	(Oswego, N.Y.)	206 (3)
Hydroelectric	(Various - 9 locations)	62
Internal combustion	(Various - 2 locations)	7
Total - all stations		2,511

(1) The company has one unit at each of the Goudey, Greenidge and Hickling Generating Stations, with a combined capability of 133 megawatts, on long-term cold standby. These units can be brought on-line in three to fourteen days.
(2) Company's 50% share of the generating capability.
(3) Company's 18% share of the generating capability.

The company owns 433 substations having an aggregate transformer capacity of 13,367,720 kilovolt-amperes. The transmission system consists of 4,840 circuit miles of line. The distribution system consists of 33,724 pole miles of overhead lines and 2,025 miles of underground lines.

The company's natural gas system consists of the distribution of natural gas through 745 miles of transmission pipelines (over 3-inch equivalent) and 6,000 miles of distribution pipelines (under 3-inch equivalent).

Somerset Railroad Corporation (SRC), a wholly-owned subsidiary, owns a rail line consisting of 15 1/2 miles of track and related property rights in Lockport, Newfane and Somerset, New York which is used primarily to transport coal and other materials to the Kintigh Generating Station.

The company's first mortgage bond indenture constitutes a direct first mortgage lien on substantially all of the company's properties. Substantially all of the properties of SRC, other than rolling stock, are subject to a lien of a mortgage and security agreement.

Item 3. Legal proceedings
(See 1(c)(xii) - Environmental matters and Item 7 - Competitive Conditions and Rate Matters.)

The company is unable to predict the ultimate disposition of the matters referred to below in (a), (b), (d), (g), (h), (i), the first paragraphs in (c) and (f) and the first three paragraphs in (e). However, since the PSC has allowed the company to recover in rates remediation costs for certain of the sites referred to in the preceding sentence, there is a reasonable basis to conclude that the company will be permitted to recover in rates any remediation costs that it may incur for all of the sites referred to in the preceding sentence. Therefore, the company believes that the ultimate disposition of the matters referred to below in (a), (b), (d), (g), (h), (i), the first paragraphs in (c) and (f) and the first three paragraphs in (e) will not have a material adverse effect on its results of operations or financial position.

(a) By letter dated February 29, 1988, the New York State Department of Environmental Conservation (NYSDEC) notified the company that it had been identified as a potentially responsible party (PRP) for investigation and remediation of hazardous wastes at the Lockport City Landfill Site (Lockport Site) in Lockport, New York. The Lockport Site is listed on the New York State Registry of Inactive Hazardous Waste Disposal Sites (New York State Registry). Five other PRPs were identified in the NYSDEC letter. The company believes that remediation costs at the Lockport Site might rise to $4 million. The Lockport Site has been remediated by the site owner, the City of Lockport. By letter dated May 2, 1988, the company notified the NYSDEC that it declined to finance remediation costs because it believed that the NYSDEC had not demonstrated that a significant threat to public health or the environment existed as a result of hazardous waste disposal at the Lockport Site.

(b) By letter dated December 10, 1990, the NYSDEC notified the company that it had been identified as a PRP for investigation and remediation of hazardous wastes at the Schreck's scrapyard site (Schreck's Site) in the City of North Tonawanda, New York. The Schreck's Site is listed on the New York State Registry. Seven other PRPs were identified in the NYSDEC letter. On February 3, 1992, the NYSDEC again notified the company that it had been identified as a PRP for investigation and remediation costs at the Schreck's Site, this time listing eight other PRPs. The company was offered an opportunity to conduct remediation or finance remediation costs at the Schreck's Site, failing which the NYSDEC might remediate the Schreck's Site itself and commence an action to recover its costs and damages. By letter dated April 1, 1992, the company notified the NYSDEC that it believed it had no responsibility for the alleged contamination at the Schreck's Site, and it declined to conduct remediation or finance remediation costs. NYSDEC completed the soil remediation at the Schreck's Site in February 1994 at a cost of $2.6 million. Monitoring for groundwater contamination continues at the site.

(c) By letter dated June 7, 1991, the NYSDEC notified the company that it had been identified as a PRP at the Pfohl Brothers Landfill, an inactive hazardous waste disposal site (Pfohl Site) in Cheektowaga, New York. The Pfohl Site is listed on the National Priorities List and the New York State Registry. The NYSDEC offered the company an opportunity to enter into negotiations with it to undertake the investigation and remediation of the Pfohl Site. The NYSDEC informed the company that if it declined such negotiations, the NYSDEC would perform the necessary work at the Pfohl Site using the Hazardous Waste Remedial Fund and would seek recovery of its expenses from the company. On July 3, 1991, the company responded to the NYSDEC by declining to negotiate to undertake work at the Pfohl Site and noted that the NYSDEC had not shown any significant responsibility on the part of the company for the situation at the Pfohl Site. The company believes that remediation costs at the Pfohl Site will be $35 million to $55 million. By letter dated April 2, 1992, the NYSDEC again notified the company that it had been identified as a PRP for the Pfohl Site and offered the company an opportunity to conduct or finance the on-site remedial design and action. This notice letter was also sent to 19 other PRPs. Ten of these other PRPs have agreed to perform the remedial work required by the NYSDEC. By letter dated June 1, 1992, the company notified the NYSDEC that it declined to perform such remedial work because it believed that it was not a significant contributor to the Pfohl Site. The company believes the PRPs currently involved in conducting remediation at the Pfohl Site were much larger contributors. In May 1995 the company agreed to participate in a process for allocating remedial costs at the Pfohl Site with the other PRPs. The company contributed $20,000 toward past costs, which sum is subject to that allocation process.

Four actions were commenced against the company and approximately 19 other defendants in the New York State Supreme Court, Erie County (on January 17, 1995, April 7, 1995, June 14, 1995 and January 10, 1997), by plaintiffs who allegedly resided near or recreated at the Pfohl Site in Cheektowaga, New York, claiming damages for personal injuries, wrongful death and loss of consortium allegedly caused by exposure to hazardous chemicals from the Pfohl Site. The plaintiffs allege that the defendants are strictly liable, and were negligent or grossly negligent, for disposing of hazardous and toxic materials at the Pfohl Site, and they seek compensatory and punitive damages that total $103.5 million in the aggregate. The company believes that the actions against it are without merit and will defend them vigorously.

In 1995, four actions were commenced against approximately 11 defendants, and in 1996, an action was commenced against 13 defendants, by plaintiffs who allegedly resided near or recreated at the Pfohl Site for personal injuries, wrongful death, and loss of consortium allegedly caused by exposure to hazardous chemicals from the Pfohl Site. The plaintiffs allege that the defendants are strictly liable, and were negligent or grossly negligent, for disposing of hazardous and toxic materials at the Pfohl Site, and they seek compensatory and punitive damages. The company was not named as a defendant in these actions. Third-party actions were commenced in the four 1995 actions against the company and ten other third-party defendants in the United States District Court

for the Western District of New York (District Court) (two on April 27, 1995, one on June 9, 1995, and one on November 7, 1995), by third-party plaintiffs who were named as defendants in the main actions. A third-party action was commenced in the District Court on August 23, 1996, against the company and ten other third-party defendants. In each of the five actions, the third-party plaintiffs allege that the company and the other third-party defendants are liable for all or a part of any damages recovered by the plaintiffs. Recovery in these third-party actions depends on the plaintiffs recovering money damages against the third-party plaintiffs in the main actions. The company believes that the actions against it are without merit and will defend them vigorously.

(d) By letter dated January 21, 1992, the NYSDEC notified the company that it had been identified as a PRP at the Peter Cooper Corporation's Landfill Site (Peter Cooper Site) in the village of Gowanda, New York. Three other PRPs were identified in the NYSDEC letter. The NYSDEC letter also notified the company that state surface water and groundwater standards had been exceeded at the Peter Cooper Site and offered the company an opportunity to conduct or finance a remedial program. NYSDEC indicated that if the company did not agree to enter into a consent order it would perform the necessary work itself or seek a court order requiring the company to conduct the work. The company believes that remediation costs at the Peter Cooper Site might rise to $16 million. By letter dated May 12, 1992, the company notified the NYSDEC that it believed it had no responsibility for the alleged contamination at the Peter Cooper Site, and it declined to conduct remediation or finance remediation costs.

On July 2, 1996, the EPA notified the company of its concern regarding the stream bank erosion along a portion of the Peter Cooper Site that is located on the company's property. The company, without admitting any liability or responsibility, entered into an Order on Consent on October 24, 1996, with the EPA to stabilize the stream bank. This project was completed in January 1997 at a cost of $120,000.

(e) By letter dated April 20, 1992, the EPA notified the company that it had been identified as a PRP at the Bern Metals Removal Site (Bern Metals Site) in Buffalo, New York. Six other PRPs have been identified by the EPA. The EPA has taken response actions at the Bern Metals Site, including investigation, excavation, and removal of drums and contaminated soil, and implementation of measures to prevent surface water run-off. The EPA demanded that the company reimburse the EPA Hazardous Substances Superfund $2 million in response costs incurred to date by the EPA, with interest accruing from the date of the demand. In September 1995 the company and the EPA reached agreement on a consent order under which the company will pay the sum of $10,000 in return for a covenant by the EPA not to sue the company for the EPA's response costs, and to protect the company from claims of contribution by other PRPs for such costs incurred to date. The order is awaiting final government approval.

In addition to the foregoing, the NYSDEC, by letter dated July 21, 1992, notified the company that it had been identified as a PRP at the Bern Metals Site, which the NYSDEC defined to include an adjacent property known as the Universal Iron & Metal Site (Bern Metals/Universal Iron Site). The Bern Metals/Universal Iron Site is listed on the New York State Registry. The NYSDEC also identified eight other PRPs for the Bern Metals/Universal Iron Site. The NYSDEC has requested that the company, and the eight other identified PRPs, enter into negotiations in which the company and the other identified PRPs would agree to finance or conduct a Remedial Investigation and Feasibility Study (RI/FS) designed to determine what further remediation or removal actions may be appropriate for the Bern Metals/Universal Iron Site. By letter dated December 3, 1992, the company declined to negotiate with NYSDEC to finance or conduct an RI/FS for the Bern Metals/Universal Iron Site, because the company believes it was only a very small contributor to the Bern Metals Site and had no involvement with the Universal Iron & Metal Site.

An RI/FS was performed at the Bern Metals/Universal Iron Site by certain of the other PRPs, and a proposed remedial action plan identifying the preferred remedy and summarizing the other alternatives considered has been issued for the site. The NYSDEC, by letter dated March 22, 1996, to the company and six of the other eight PRPs, inquired whether the company and such six other PRPs were willing to conduct or finance the design and implementation of the remedial alternative once it was selected. The NYSDEC informed the company that if it declined to enter into negotiations with it for such purpose, it might remediate the Bern Metals/Universal Iron Site itself using the Hazardous Waste Remedial Fund and would seek recovery of its expense from the company. On March 29, 1996, NYSDEC issued a Record of Decision which provided for remedial action having an estimated cost of $1.9 million. By letter dated April 4, 1996, the company offered to enter into negotiations with NYSDEC without admission of liability or responsibility even though the company's contribution to the site, if any, was of a de minimis nature, provided that NYSDEC take action to send notices of responsibility to a substantial number of other PRPs. In addition, the company believes that it does not have any connection with the Universal Iron & Metal Site.

On September 11, 1996, the company was named as a third-party defendant by Niagara Frontier Transportation Authority (NFTA) claiming contributions for costs that might be recovered against NFTA in an action filed by EPA in the United States District Court for the Western District of New York. Fifty-five other third-party defendants were sued in addition to the company. NFTA is seeking contributions for response costs incurred by EPA at the Universal Iron Site. The company believes that the action against it is without merit and will defend it vigorously.

(f) By letter dated April 20, 1992, the EPA notified the company that the EPA had reason to believe that the company was a PRP for the Clinton-Bender Removal Site (Clinton-Bender Site) in Buffalo, New York. Five other PRPs have been identified by the EPA. Nine private residential lots and one commercial property at the Clinton-Bender Site were contaminated with lead, allegedly due to run-off from the adjacent Bern Metals Site. The EPA ordered the company to perform the necessary removal work at the Clinton-Bender Site and the company is remediating the site in conjunction with four other identified PRPs. The total cost of the removal actions to be performed at the Clinton-Bender Site is estimated to be $3.1 million. The company and the other participating parties are seeking to recover from other PRPs, not participating in the remedial action at the Clinton-Bender Site, any cost that the company and other participating parties have incurred or will incur.

On November 3, 1993, the company was served with a summons and complaint filed on behalf of certain of the homeowners at the Clinton-Bender Site. Seven other defendants were named in the complaint, which was filed in the New York State Supreme Court, Erie County (Supreme Court, Erie County). The action was removed to the U.S. District Court for the Western District of New York (Western District Court). In their complaint, plaintiffs make general allegations that the defendants violated federal environmental laws without alleging facts in support of these allegations. Plaintiffs also allege personal injury, property damage, and fear of cancer which they claim were caused by the presence of hazardous substances on their property, allegedly resulting from the disposal of such substances by the defendants at the Bern Metals Site. Any liability incurred as a result of these claims may be joint and several. The plaintiffs ask for $30 million in direct damages from all defendants, as well as treble damages (for unspecified reasons) from all defendants, and an additional $10 million in punitive damages from each defendant. By order dated September 1, 1995, the Western District Court dismissed the plaintiffs claims made under the Clean Air Act, the Clean Water Act, and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA), which are the only claims based upon federal causes of action, and remanded the action to the Supreme Court, Erie County. The company believes that the ultimate disposition of this matter will not have a material adverse effect on its results of operations or financial position.

(g) By letter dated February 12, 1993, NYSDEC notified the company that it had been identified as a PRP for remediation of hazardous wastes at the Booth Oil Site (Booth Oil Site) in North Tonawanda, New York. The Booth Oil Site is listed on the New York State Registry. Nineteen other PRPs were identified in the NYSDEC letter. Booth Oil Company is a waste oil re-refiner and recycler. The company had sent waste oils to Booth Oil Company for disposal as had numerous other companies in the Buffalo area. According to NYSDEC, the Booth Oil Site is contaminated with PCBs, lead, and other substances. NYSDEC has requested that the company and the other identified PRPs conduct remediation at the Booth Oil Site pursuant to an Order on Consent to be negotiated with NYSDEC. The company estimates that the present value of costs for remedial alternatives range from $7.2 million to $21.7

million. The company has been actively involved both in trying to persuade NYSDEC to name additional PRPs and in examining the process which led to the NYSDEC treatment alternatives. Other named PRPs have also been involved in these efforts. The PRPs and NYSDEC have agreed to study an alternative concept for remediation of the Booth Oil Site.

(h) On June 14, 1994, the company was served with a summons and complaint joining the company as a defendant in an action that was filed in the United States District Court for the Northern District of New York. The plaintiffs are five companies which have been required by the EPA to conduct remedial activities at the Rosen Brothers Site (Rosen Site) in the City of Cortland, New York. The Rosen Site was the location of a scrap metal processing operation and industrial waste disposal site between approximately 1971 and 1985, and it is now allegedly contaminated with hazardous substances including heavy metals, solvents and PCBs. The Rosen Site is listed on the National Priorities List and the New York State Registry. Among other claims, the plaintiffs seek contribution under CERCLA from the company and sixteen other defendants for the costs of complying with the EPA order to remediate the Rosen Site. The plaintiffs allege that the company was a contributor of transformers which may have contained polychlorinated biphenyls (PCBs). Liability under CERCLA may be joint and several.

By letter dated August 16, 1994, the EPA notified the company that the EPA had reason to believe that the company was a PRP for the Rosen Site and requested that the company participate in the RI/FS then being prepared for the Rosen Site by the other named PRPs. By letter dated October 20, 1994, the company declined to participate in this study because it believes that no facts have been established showing that it was responsible for any contamination at the Rosen Site. While the study has been completed, the EPA has not yet selected a remedy for the site, and therefore, the total amount of remedial costs is currently unknown.

(i) The company responded on October 3, 1995, to a request for information by the EPA concerning alleged disposal of PCBs at facilities owned or operated by PCB Treatment, Inc. in Kansas City, Kansas and Kansas City, Missouri. On September 27, 1996, the company entered into an Order on Consent with the EPA under which the company and at least nine other companies will conduct a Removal Site Evaluation and Engineering Evaluation/Cost Analysis (Site Evaluation) at the two facilities operated by PCB Treatment, Inc. The cost to the company of its obligations under this Order on Consent is not expected to exceed $65,000. Since the Site Evaluation has not been completed, the total cost to remediate these sites is unknown.

Item 4. Submission of matters to a vote of security holders - Not applicable.

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Executive officers of the Registrant

Name	Age	Positions, offices and business experience - January 1992 to date
Wesley W. von Schack	52	Chairman, President and Chief Executive Officer, September 1996 to date; Chairman, President, Chief Executive Officer and a Director of DQE, Inc. and Duquesne Light Company to August 1996.
Jack H. Roskoz	58	Executive Vice President, January 1995 to date; Senior Vice President-Electric Business Unit, to January 1995.
Michael I. German	46	Senior Vice President-Gas Business Unit, December 1994 to date; Senior Vice President, American Gas Association, Arlington, Virginia, to December 1994.
Gerald E. Putman	46	Senior Vice President-Customer Service Business Unit, January 1995 to date; Vice President-Fuel Supply and Operation Services, May 1993 to January 1995; Vice President-East Region Electric, September 1992 to May 1993; Executive Assistant to the Chairman, President and Chief Executive Officer, to September 1992.
Sherwood J. Rafferty	49	Senior Vice President and Chief Financial Officer, February 1996 to date; Vice President and Treasurer, to February 1996.
Daniel W. Farley	41	Vice President and Secretary.
Jeffrey K. Smith	48	Vice President-Generation, January 1995 to date; Executive Assistant to the Chairman, President and Chief Executive Officer, February 1994 to January 1995; Assistant to the Senior Vice President-Electric Business Unit, to February 1994.

Executive officers of the Registrant (Cont'd)

Name	Age	Positions, offices and business experience - January 1992 to date
Ralph R. Tedesco	43	Vice President-Strategic Growth Business Unit, February 1994 to date; Executive Assistant to the Chairman, President and Chief Executive Officer, September 1992 to February 1994; Manager, Corporate Performance, to September 1992.
Gary J. Turton	49	Vice President and Controller, February 1996 to date; Controller, December 1994 to February 1996; Assistant Controller, to December 1994.
Denis E. Wickham	48	Vice President-Electric Resource Planning.
Robert D. Kump	35	Treasurer, February 1996 to date; Director of Financial Services, February 1995 to February 1996; Manager-Investor Relations, October 1993 to February 1995; Specialist-Investor Relations, to October 1993.

The company has entered into an agreement with Wesley W. von Schack which provides for his employment as Chairman, President and Chief Executive Officer of the company for a term ending on September 8, 1999, with automatic one-year extensions unless either party gives notice that the agreement is not to be extended.

Each officer holds office for the term for which he is elected or appointed, and until his successor shall be elected and shall qualify. The term of office for each officer extends to and expires at the meeting of the Board of Directors following the next annual meeting of shareholders.

PART II

Item 5. Market for Registrant's common equity and related stockholder matters

See Note 4 and Note 13 to the Consolidated Financial Statements.

Item 6. Selected financial data

	1996	1995	1994	1993	1992
	(Thousands - except per share amounts)				
Operating revenues	$2,059,371	$2,009,541	$1,898,855	$1,800,149	$1,691,689
Net income	$178,241(1)	$196,690	$187,645(2)	$166,028(3)	$183,968
Earnings per share	$2.37(1)	$2.49	$2.37(2)	$2.08(3)	$2.40
Dividends paid per share	$1.40	$1.40	$2.00	$2.18	$2.14
Average shares outstanding	71,127	71,503	71,254	69,990	67,972
Book value per share of common stock (year end)	$25.41	$24.38	$23.28	$22.89	$22.85
Interest charges, Net	$122,729	$129,567	$136,092	$141,099	$151,831
Depreciation and amortization	$189,401	$184,770	$178,326	$164,568	$158,977
Other taxes	$206,715	$210,910	$210,729	$204,962	$200,941
Capital expenditures	$211,837	$158,681	$224,306	$245,029	$245,[illegible]
Total assets	$5,059,681	$5,114,331	$5,230,685	$5,287,958	$5,077,916
Long-term obligations, capital leases and redeemable preferred stock	$1,505,814	$1,606,448	$1,776,081	$1,755,629	$1,883,927

(1) Includes the effect of the writedown of the investment in EnerSoft Corporation that decreased net income by $10 million and earnings per share by 14 cents.

(2) Includes the effect of the 1993 production-cost penalty that decreased net income by $8 million and decreased earnings per share by 12 cents.

(3) Includes the effect of restructuring expenses that decreased net income by $17 million and decreased earnings per share by 25 cents.

Item 7. Management's discussion and analysis of financial condition and results of operations

Liquidity and Capital Resources

Competitive Conditions

Movement toward competition was swift during 1996 for the historically regulated electric industry. The company is addressing numerous issues as it adjusts to operate under the complex and sweeping changes faced by its electric and natural gas businesses.

Electric Industry

The Public Service Commission of the State of New York (PSC), the Federal Energy Regulatory Commission (FERC) and regulators in other states are revising their policies to introduce competition and reduce rates in the electric industry. Orders were issued during 1996 in two significant proceedings: the PSC's Competitive Opportunities Proceeding and the FERC's proceeding relating to competitive wholesale electric markets.

Competitive Opportunities Proceeding: The transition to a more competitive electric industry in New York State was set in motion in August 1994 when the PSC instituted the Competitive Opportunities Proceeding. The overall objective of this proceeding is to identify regulatory and ratemaking practices that will assist in the transition to a more competitive electric industry.

On May 20, 1996, the PSC issued its Order in the Competitive Opportunities Proceeding, which calls for a competitive wholesale power market in early 1997 and the introduction of retail access for all electric customers in early 1998. The Order also calls for lowering rates for consumers, increasing customers' choice of suppliers, continuing reliability of service, continuing programs that are in the public interest, allaying concerns about market power and continuing customer protections and the utilities' obligation to serve.

The Order strongly encourages divestiture, particularly of generation assets, but does not require it. The Order states that incentives for divestiture will be worked out for each utility in conjunction with the rate and restructuring plan it was required to submit by October 1, 1996. (See Electric Rate and Restructuring Plan.) The Order also states that utilities should have a reasonable opportunity to seek recovery of strandable costs consistent with the goals of lowering rates, fostering economic development, increasing customer choices and maintaining reliable service. Certain aspects of the restructuring envisioned by the PSC -- particularly its apparent

determinations that it can deny a reasonable opportunity to recover prudent past investments made on behalf of the public, order retail wheeling, require divestiture of generation assets and deregulate certain sectors of the energy market -- could, if implemented, have a negative effect on the operations of New York's investor-owned electric utilities, including the company.

On October 9, 1996, the PSC issued a procedural order allowing until January 7, 1997, (subsequently extended for the company until March 25, 1997) to complete the discovery and settlement negotiations regarding the utilities' submissions. An evidentiary hearing will be held in each case in which a proposed settlement agreement is filed and opposed by one or more parties.

Energy Association Lawsuit: In September 1996 the company joined with six other New York utilities and the Energy Association of New York State (Energy Association) in filing a lawsuit in the New York State Supreme Court, Albany County (Court) to annul the PSC's Order in the Competitive Opportunities Proceeding. The lawsuit seeks a declaration that the PSC's Order is unlawful, or in the alternative, that the Court clarify that the PSC's Order is simply a policy statement and can be given no binding effect by the PSC. The intent of the lawsuit is not to challenge the transition to competition, but to ensure that the transition is orderly and competition is fair to customers, shareholders and taxpayers. The lawsuit was necessary to preserve the company's shareholders' rights to have the opportunity to recover prudent investments made to serve customers and to protect the reliability of the electric system. To preserve those rights a lawsuit had to be filed within four months of the PSC's Order.

The lawsuit contends, among other things, that the PSC did not follow proper procedures in reaching its decision in the Competitive Opportunities Proceeding and lacks the statutory or legal authority to: deny a reasonable opportunity for utilities to recover past expenditures prudently incurred to fulfill their legal obligation to provide electricity service to the public, mandate retail wheeling, deregulate the rates charged by electricity generators or the energy services sector and order divestiture of the utilities' assets. On November 26, 1996, the Court issued a decision denying the relief requested.

On December 24, 1996, the seven New York utilities and the Energy Association appealed the decision to the New York State Supreme Court, Appellate Division (Third Department).

Given the uncertainties regarding the Competitive Opportunities Proceeding and the Energy Association lawsuit to annul the PSC's Order in that proceeding, the company is unable to predict the outcome of this proceeding and the ultimate effect on the company's financial position, results of operations, or

its eligibility to continue applying Statement of Financial Accounting Standards No. 71 (Statement 71), Accounting for the Effects of Certain Types of Regulation. (See Accounting Issues.)

Electric Rate and Restructuring Plan: On September 27, 1996, the company submitted a five-year rate and restructuring plan (NYSEGPlan) in response to the PSC's Order dated May 20, 1996, in the Competitive Opportunities Proceeding. The company anticipates amending NYSEGPlan in the near future to provide for the formation of a holding company. If implemented with the anticipated amendments, NYSEGPlan would:

- Freeze the average retail price of electricity for five years, beginning August 1, 1997, and allow customers to increase their electricity use at up to half the present price.

- Allow the company to form a holding company and transfer designated coal-fired generation assets to a generation company or companies within the holding company structure.

- Introduce wholesale competition on August 1, 1997, and phase in retail competition beginning August 1, 1998.

- Give investors a reasonable opportunity to fully recover past, prudently incurred costs.

In NYSEGPlan, the company emphasizes that lowering electric prices will take a combination of competition and a reduction of mandated costs, such as power purchases from nonutility generators (NUGs) and New York State's high taxes. Those mandated costs have resulted in excess payments to NUGs and taxes in New York State that are more than twice the national average. Such above-market costs will diminish the ability of New York State utilities to compete in the retail market with utilities in other states.

NYSEGPlan is contingent upon the receipt of electric price increases of 2.8% scheduled for August 1, 1996, and 2.7% a year later, as approved by the PSC in August 1995 under the company's three-year electric rate settlement agreement. The price increases are needed primarily to cover the rising cost of NUG power, higher taxes and past expenditures whose recovery has been delayed. NYSEGPlan is also contingent upon the reasonable opportunity to fully recover prudently incurred investments, the outcome of the Energy Association lawsuit, FERC approval and implementation of a statewide Independent System Operator and Power Exchange, no restriction on investment and earnings by unregulated affiliates and final corporate and regulatory approvals. (See *Energy Association Lawsuit* and *Rate Matters*.)

Generation Business: The company plans to transfer designated generation assets to a generation company or companies. (See *Electric Rate and Restructuring Plan.*) The company has sharpened its focus on the evolving wholesale power market and is concentrating on maximizing short-term wholesale power sales and pursuing and negotiating creative medium- and long-term wholesale sales contracts to improve its competitive position.

In July 1996 the company announced plans to remove three generating units from active service by mid-1997, if initiatives to improve the marketability of their output do not succeed. The three units, two at Jennison Generating Station and one at Hickling Generating Station, represent 116 megawatts (MW) of capacity and would be placed on long-term cold standby. Currently Goudey, Greenidge and Hickling generating stations each have one unit on long-term cold standby, representing a combined capacity of 133 MW. Certain of these units operated intermittently in 1996 when energy markets were favorable.

Petition to the FERC on NUGs: In February 1995 the company petitioned the FERC asking for relief from having to pay approximately $2 billion more than its avoided costs for power purchased over the lives of two NUG contracts. The FERC denied that petition in April 1995 and denied the company's subsequent request for a rehearing. The company believes that the overpayments under the two contracts violate the Public Utility Regulatory Policies Act of 1978.

In June 1995 the company filed a petition with the United States Court of Appeals for the District of Columbia to review the FERC's decision.

The company continues to seek cost-effective ways to terminate or renegotiate existing NUG contracts and thus reduce its overpayment burdens under such contracts.

FERC Orders 888 and 889: In April 1996 the FERC issued Orders 888 and 889 adopting final rules to facilitate the development of competitive wholesale electric markets by opening up transmission services and to address the resulting stranded costs.

The FERC directed all public utilities to file a compliance open-access transmission tariff on or before July 9, 1996. Order 888 allows each utility to submit further modifications to its tariff, and allows customers to request modifications to the tariff. The company filed its compliance open-access transmission tariff and a modified open-access transmission tariff on July 9 and July 10, 1996, respectively. The FERC accepted the company's transmission rates filed on July 9, 1996, subject to refund and set the rates for hearing. As required by

the FERC, in February 1997 the company filed a new compliance tariff with respect to non-rate terms and conditions, which became effective retroactively on January 29, 1997.

Under the compliance tariff, the company must offer transmission service to its wholesale customers on terms comparable to those it applies to itself, and it is also required to offer and/or provide certain ancillary services. The company's tariff and tariffs of other utilities could adversely affect the revenues received and payments made by the company in connection with its transmission and wholesale power transactions.

On December 30, 1996, the New York Power Pool (NYPP), of which the company is a member, submitted a compliance filing with the FERC in response to Order 888. This filing indicates the intention to restructure the NYPP using an Independent System Operator (ISO) structure, as endorsed by the FERC. On January 31, 1997, the NYPP submitted an additional restructuring filing, which includes proposals to establish an ISO, a Power Exchange and a New York State Reliability Council. The company is unable to predict the outcome of these filings and their ultimate effect on the company's financial position or results of operations.

Natural Gas Industry

During 1996 the company added nine natural gas franchises and gained approximately 5,000 natural gas customers in both new and existing franchise areas. The company plans to continue to increase its natural gas business through the expansion of natural gas service in existing franchise areas and to acquire new franchises. The company completed two new large pipelines in December 1996. A 25-mile pipeline system was constructed, and natural gas began flowing to large industrial and public authority customers in the Plattsburgh area. A 10-mile pipeline was constructed, and natural gas began flowing to a large industrial customer in Cobleskill.

The natural gas business has experienced a number of regulatory changes, including FERC Order 636, which has been in effect for three years, and recent PSC opinions and orders.

PSC Opinions and Orders: The PSC issued an Opinion and Order in December 1994 (December Order) that set forth the policy framework to guide the transition of New York's gas distribution industry to a more competitive marketplace after the implementation of FERC Order 636. The PSC subsequently issued an Order on Reconsideration in August 1995 addressing petitions for rehearing or clarification of the December Order. In November 1995 the company and other utilities filed restructuring tariffs in compliance with the Order on Reconsideration.

Under the company's natural gas tariffs that were approved by PSC Order in March 1996 (March Order) with certain modifications, all of the company's customers -- residential, small business and commercial, and industrial -- may buy natural gas from other sources under a small customer aggregation program, with the company providing delivery service for a separate fee. The company has been offering unbundled transportation services for a decade. The March Order approving the company's tariffs is not expected to have a material effect on the company's natural gas operations. Consistent with the March Order, the company is implementing new services to compete more effectively for sales to larger, more sophisticated transportation customers as well as smaller customers.

Seneca Lake Natural Gas Storage Project: The company's Seneca Lake storage project was placed in service in December 1996. The project consists of a natural gas storage cavern, a compressor station and two natural gas transmission pipelines. The storage facility, located north of Watkins Glen on the west side of Seneca Lake, includes a depleted salt cavern that has a working capacity of 800 million cubic feet of natural gas.

The project's primary purposes are to ensure an adequate natural gas supply to customers and to support economic growth in southern and central New York. The project also allows the company to increase supply flexibility, retire two inefficient and expensive propane plants and reduce pipeline demand charges.

The company expects to expand the project in 1997, at an estimated cost of $10 million. The expansion will allow for growth in the company's wholesale natural gas business through the sale of storage capacity in interstate commerce. The company submitted a filing to the PSC in December 1996 for approval to expand the project, and submitted a filing to the FERC in January 1997 for approval to provide additional services related to the project expansion.

Economic and Business Climate

For the past few years the sluggish economy in New York State has limited the company's sales growth opportunities and increased the difficulty of retaining and expanding its industrial customer base. There are indications, however, that the state's economic and business climate is improving. When fully implemented, proposed tax cuts in combination with previously legislated tax cuts will reduce business and personal taxes by $5.7 billion a year, and more than 400 burdensome business regulations will have been eliminated or changed.

The company continues to focus on improving sales. The flexible rates the company has developed allow it to negotiate long-term contracts with eligible electric and natural gas customers. The contracts may cover existing or new load, or both.

Accounting Issues (See Note 1.)

The PSC's Competitive Opportunities Proceeding could affect the eligibility of the company to continue applying Statement 71. If the company could no longer meet the criteria of Statement 71 for all or a separable part of its business, the company may have to record as expense or revenue certain previously deferred items (regulatory assets and regulatory liabilities) and may have to record as a loss the amount for power purchase contracts with NUGs that is above the estimated price in a competitive marketplace. These items are currently recovered in rates.

At December 31, 1996 and 1995, the company had $604 million and $690 million, respectively, of regulatory assets, and $269 million and $294 million, respectively, of regulatory liabilities on its balance sheets. At December 31, 1996, the company also had power purchase contracts with NUGs that, on a present value basis, are $1.8 billion above the estimated price in a competitive marketplace. Although the company believes it will continue to meet the criteria of Statement 71 in the near future, it cannot predict what effect a competitive marketplace or future PSC actions will have on its ability to continue to do so.

The company has other costs currently being recovered in rates that may not be fully recoverable in a competitive marketplace, including operating costs for certain generating plants that may be above the market price for electricity. The inability to recover those above-market costs would have an adverse effect on the company's financial position and results of operations.

Energy Services (See Note 10.)

The company has been making investments in energy services companies through its subsidiary, NGE Enterprises, Inc. (NGE). Those companies provide energy, financial and environmental services.

During 1996 NGE determined that EnerSoft Corporation (EnerSoft), a computer software and real-time information and trading systems company, no longer fit NGE's strategic focus. As a result, the company took a $10 million (14 cents per share) charge against earnings in 1996 to write down NGE's investment in EnerSoft, and exited that business in December 1996.

XENERGY, Inc. (XENERGY), acquired in June 1994, is an energy services, information systems and energy-consulting company serving utilities, governmental agencies and end-use energy consumers. XENERGY's revenues were slightly higher in 1996 than in 1995, and are expected to grow in 1997.

XENERGY has been successful in securing customers under pilot programs for retail electricity competition. In Massachusetts, XENERGY was chosen to supply 200 thousand megawatt-hours per year to the Massachusetts High Technology Council, a group of 13 companies participating in the pilot program. In New Hampshire, XENERGY has formed an alliance with Freedom Energy Company, L.L.C. to supply power to customers representing approximately 10% of the 50-megawatt load in the pilot program.

The company's investment as of December 31 and net loss for the year ended December 31 related to NGE are:

	1996	1995	1994
		(Millions)	
Investment	$57	$54	$47
Net Loss*	$21	$12	$6

*Includes net loss from EnerSoft of $16 million, $7 million and $5 million in 1996, 1995 and 1994, respectively. EnerSoft's 1996 net loss includes $10 million related to NGE's decision to exit that business.

The company expects that NGE will continue to incur operating losses at least through 1997, but at a lower level due to the exit from EnerSoft.

Rate Matters

Electric Rate Settlement

The company's current three-year electric rate settlement agreement (electric agreement), approved by the PSC on August 1, 1995, is effective for the period August 1, 1995, through July 31, 1998. Effective August 1 each year, the electric agreement provides for:

	1995	1996	1997
Revenue increase (millions)	$45.1	$45.3	$45.5
Percent increase	2.9%	2.8%	2.7%
Allowed return on equity	11.1%	11.2%	11.2%

The rate increases for years two and three of the electric agreement are primarily to cover increases in the mandated

purchases of power from NUGs, higher taxes and past expenditures whose recovery has been delayed to lessen previous rate increases.

NUG power purchases, including termination costs, totaled $320 million in 1996, and the company estimates that such purchases will total $338 million in 1997, $351 million in 1998 and $352 million in 1999. (See Note 8.)

At the time the electric agreement was approved by the PSC, the rate design for years two and three had yet to be determined. In May 1996 a PSC administrative law judge issued a Recommended Decision (RD) on the rate design for years two and three. In July 1996 the company submitted the draft rate design for year two to the PSC. This rate design was based on the RD and had an effective date of September 1, 1996.

The PSC issued an order in August 1996 that deferred the use of the year-two rates contained in the filing through December 30, 1996, unless otherwise ordered by the PSC. In September 1996 the company filed a petition for rehearing with the PSC requesting that the PSC vacate its August Order and place in effect a tariff containing a revenue allocation and rate design that would increase revenues $45.3 million during year two of the electric agreement. On December 18, 1996, the PSC issued an order that further deferred use of the year-two rates through June 30, 1997. On January 16, 1997, the PSC issued an order denying the petition for rehearing and stated that the petition should be considered in the context of NYSEGPlan. (See Electric Rate and Restructuring Plan.)

On December 23, 1996, the company filed a lawsuit in the New York State Supreme Court, Albany County. Among other things, the lawsuit asks for a judgment directing the PSC to immediately issue an order granting the company rates that include year-two rate increases.

The company is unable to predict the outcome of this matter and its ultimate effect on the company's financial position or results of operations.

Natural Gas Rate Settlement

The company's natural gas rate settlement agreement (gas agreement), which was authorized by the PSC in December 1995, freezes natural gas prices from December 15, 1995, until July 31, 1998. The natural gas rates approved in the gas agreement made permanent, until July 31, 1998, a 3.2% increase, less an adjustment of about $1 million. That increase became effective August 1, 1995, the final year of the gas portion of the previous three-year electric and natural gas rate settlement agreement.

An earnings sharing mechanism in the gas agreement provides that the average of the earned equity returns (exclusive of service quality awards or penalties) will be determined for the three years, and half of the three-year average of net earnings in excess of 14%, if any, will be shared with customers.

The gas agreement eliminated, effective August 1, 1995, the gas adjustment clause and the weather normalization clause, which were used to collect from, or refund to, customers amounts resulting from changes in the cost of purchased natural gas and the effect of unusually warm or cold weather on natural gas sales. The company uses risk management techniques such as natural gas futures and options to manage natural gas commodity prices and to fix margins on sales of natural gas.

Environmental Matters (See Notes 8 and 9.)

The company continually assesses actions needed to comply with changing environmental laws and regulations. Any additional compliance programs will require changes in the company's operations and facilities and increase the cost of electric and natural gas service. Historically, rate recovery has been authorized for environmental compliance costs.

The Clean Air Act Amendments of 1990 (1990 Amendments) limit emissions of sulfur dioxide and nitrogen oxides and require emissions monitoring. The U.S. Environmental Protection Agency (EPA) allocates annual emissions allowances to each of the company's coal-fired generating stations based on statutory emissions limits. An emissions allowance represents an authorization to emit, during or after a specified calendar year, one ton of sulphur dioxide.

The company estimates that it will have allowances in excess of the affected coal-fired generating stations' actual emissions during Phase I, which began on January 1, 1995. The company's present strategy is to bank excess allowances for use in later years. It is estimated that the company will meet Phase II (begins January 1, 2000) emissions requirements through the year 2004, by using allowances banked during Phase I together with the company's Phase II annual emissions allowances. This strategy could be modified should market or business conditions change.

Investing and Financing Activities

Investing Activities

Capital expenditures for the company's electric and natural gas businesses, including nuclear fuel and the allowance for funds used during construction (AFDC), totaled $215 million in 1996, $164 million in 1995 and $248 million in 1994. Expenditures in those three years were primarily for the extension of service, necessary improvements to existing facilities and compliance with environmental requirements. In 1996 and 1995 capital expenditures were financed entirely with internally generated funds.

Capital expenditures projected for 1997, 1998 and 1999 are $141 million, $157 million and $128 million, respectively, and are expected to be financed entirely with internally generated funds. (See Note 8.)

Financing Activities

In September 1996 the company initiated a common stock repurchase program of not to exceed four million shares. As of December 31, 1996, the company had repurchased 1,832,500 shares at an average price of $21.90 per share. Common stock equity was reduced by $40 million as a result of the repurchase. The company plans to purchase shares from time to time as market and other conditions warrant.

The company's other financing activities during 1996, funded through the issuance of commercial paper, consisted of:

- The redemption, at a premium, of $100 million of 8.95% preferred stock.

- The redemption, at par, of $23 million of 9 7/8% Series first mortgage bonds, due February 1, 2020, pursuant to a sinking fund provision in the company's mortgage indenture.

- The redemption, at a premium, of the remaining $37 million of 8 5/8% Series first mortgage bonds due 2007.

- The purchase, at a discount, of $2.60 million of 4.15% preferred stock, $1.98 million of 4.40% preferred stock and $1.48 million of 4.15% (1954) preferred stock.

Since 1987 the company has reduced its debt from 62% to 45% of total capital (includes current maturities) and has raised its common stock equity from 33% to 51% of total capital at December 31, 1996.

The company reduced its embedded cost of long-term debt to 6.9% at the end of 1996, and has refinanced and/or redeemed more than $1.8 billion in long-term debt since the beginning of 1988. The embedded cost of preferred stock, which was reduced significantly due to the redemption of the 8.95% preferred stock, was 6% at December 31, 1996. Annual interest expense and preferred stock dividends have been reduced by nearly $80 million since the beginning of 1988.

The company uses short-term, unsecured notes, usually commercial paper, to finance certain refundings and for other corporate purposes. There was $129 million and $29 million of commercial paper outstanding at December 31, 1996 and 1995, respectively, at weighted average interest rates of 5.8% and 6.1%, respectively.

The company also has a revolving credit agreement with certain banks that provides for borrowing up to $200 million until December 31, 2001. There were no amounts outstanding under this agreement during 1996 or 1995.

Results of Operations

	1996	1995	1994	1996 over 1995 Change	1995 over 1994 Change
	(Thousands, except per share amounts)				
Total Operating Revenues	$2,059,371	$2,009,541	$1,898,855	2%	6%
Operating Income	$457,543	$472,144	$438,575	(3%)	8%
Earnings Available for Common Stock	$168,711	$177,969	$168,698	(5%)	5%
Average Shares Outstanding	71,127	71,503	71,254	(1%)	-
Earnings Per Share	$2.37	$2.49	$2.37	(5%)	5%
Earnings Per Share Excluding Certain Charges	$2.51	$2.49	$2.49	1%	-
Dividends Per Share	$1.40	$1.40	$2.00	-	(30%)

Earnings per Share

Earnings per share for 1996 were 12 cents lower than 1995 earnings per share. Without a charge of 14 cents per share to write down an investment in EnerSoft Corporation by NGE Enterprises, Inc., 1996 earnings per share would have been two cents higher than the prior year.

Higher electric and natural gas retail sales, mainly due to a combination of cold weather in the first quarter of 1996 and additional customers, added five cents per share to earnings. Lower interest charges in 1996 added nine cents per share to earnings and a reduction in preferred stock dividends, primarily due to the redemption of $100 million of 8.95% preferred stock, net of related interest expense on commercial paper, added 10 cents per share to earnings. Earnings per share were reduced 15 cents because of lower electric retail margins, primarily due to increases in mandated purchases of power from NUGs. (See Electric Rate Settlement.) Higher operating costs further decreased earnings six cents per share.

Earnings per share in 1995 were 12 cents higher than in 1994. Excluding a charge for the 1993 production-cost penalty that lowered 1994 earnings by 12 cents per share, earnings per share were unchanged between 1995 and 1994.

Higher electric and natural gas prices added eight cents per share to 1995 earnings and higher profits on wholesale sales of electricity added five cents. The company's efforts to control operating costs increased 1995 earnings two cents per share. Lower interest charges in 1995, primarily due to the refinancing and retirement of debt, added six cents per share to earnings. Those increases were offset by an 11 cent per share decrease in other income and deductions, mostly because of higher losses incurred by NGE, and a nine cent charge to earnings per share for higher maintenance expenses, including storm-related costs.

Interest Expense

Compared to the prior year, interest expense (before the reduction for allowance for borrowed funds used during construction) decreased $6 million and $9 million in 1996 and 1995, respectively. The decreases in both years were primarily the result of the refinancing and retirement of certain issues of long-term debt.

Dividends Per Share

The quarterly common stock dividend for 1996 was unchanged compared to 1995. Dividends per share for 1995 decreased 30% compared to the prior year because the board of directors reduced the quarterly common stock dividend from 55 cents per share to 35 cents per share in October 1994. Future dividend levels will depend on many factors, including the effect of industry restructuring on earnings.

Operating Results for the Electric Business Segment

	1996	1995	1994	1996 over 1995 Change	1995 over 1994 Change
		(Thousands)			
Retail Sales - Megawatt-Hours(mwh)	13,216	13,093	13,148	1%	-
Operating Revenues	$1,723,147	$1,708,297	$1,600,075	1%	7%
Operating Expenses	$1,322,885	$1,286,969	$1,202,328	3%	7%
Operating Income	$400,262	$421,328	$397,747	(5%)	6%

Electric retail sales increased in 1996 primarily because of cold weather in the first quarter of 1996 and additional customers.

The slight decrease in electric retail sales in 1995 resulted from the sluggish economy in the company's service territory. Although there were significant changes in weather during 1995 compared to 1994, the overall effect on sales was minimal.

Operating Revenues: The $15 million increase in electric operating revenues for 1996 was primarily due to higher retail sales, which added $14 million to revenues. An increase in wholesale sales of electricity added $12 million to revenues and changes in prices effective August 1995, net of the effect of eliminating the fuel adjustment clause, added $6 million to revenues. Those increases were partially offset by an increase in regulatory deferrals of $21 million.

Electric operating revenues for 1995 were $108 million higher than 1994 revenues. Revenues rose $87 million because of increases in electric prices, due to changes in rates effective August 1995 and 1994, primarily to accommodate increased mandated purchases of NUG power. An increase in wholesale sales of electricity added $9 million to 1995 revenues. Electric revenues for 1994 were reduced by $13 million because of the 1993 production-cost penalty that was recorded in the second quarter of 1994.

Operating Expenses: Electric operating expenses rose $36 million in 1996. Electricity purchases, mostly required purchases from NUGs, increased operating expenses $42 million. That increase was partially offset by an $8 million decrease in fuel used in electric generation.

The $85 million increase in electric operating expenses in 1995 is primarily attributable to an increase of $76 million in electricity purchased, mostly due to NUG purchases. Maintenance expenses, including storm-related costs, rose $10 million.

Operating Results for the Natural Gas Business Segment

	1996	1995	1994	1996 over 1995 Change	1995 over 1994 Change
		(Thousands)			
Deliveries - Dekatherms (dth)	61,542	58,535	58,624	5%	-
Operating Revenues	$336,224	$301,244	$298,780	12%	1%
Operating Expenses	$278,943	$250,428	$257,952	11%	(3%)
Operating Income	$57,281	$50,816	$40,828	13%	24%

Natural gas deliveries increased in 1996 due to a combination of cold weather in the first quarter of 1996 and additional customers.

Natural gas deliveries for 1995 were almost equal to 1994 deliveries. The sluggish economy in the company's service territory continued to affect sales, which were below expectations. There were significant changes in weather during 1995 compared to 1994, but the overall effect on 1995 sales was minimal.

Operating Revenues: Natural gas operating revenues for 1996 increased $35 million over 1995 revenues. A change in rate structure effective December 1995 and changes in rates effective August 1995 added $20 million to revenues. Higher retail sales added $9 million to revenues and an increase in transportation of customer-owned gas added $4 million to revenues for the year.

In 1995 natural gas operating revenues increased $2 million, primarily as a result of higher natural gas prices that added $3 million to revenues. Changes in rates effective in August 1995 and 1994 were the primary reason for the higher natural gas prices.

Operating Expenses: Comparing 1996 to 1995, natural gas operating expenses rose $29 million. An increase in natural gas purchased, due to higher commodity costs and higher deliveries, added $23 million and an increase in certain operating costs added $5 million to expenses.

The $8 million reduction in natural gas operating expenses in 1995 was due to a combination of factors. Natural gas purchased decreased $12 million mainly because of lower commodity prices. That decrease was partially offset by higher depreciation and distribution operation expenses that each added $1 million to operating expenses.

New York State Electric & Gas Corporation
Consolidated Statements of Income

Year Ended December 31	1996	1995	1994
	(Thousands, except per share amounts)		
Operating Revenues			
Electric	$1,723,147	$1,708,297	$1,600,075
Natural gas	336,224	301,244	298,780
Total Operating Revenues	2,059,371	2,009,541	1,898,855
Operating Expenses			
Fuel used in electric generation	222,102	229,759	231,648
Electricity purchased	360,753	318,440	242,352
Natural gas purchased	172,705	149,789	161,627
Other operating expenses	342,455	326,922	328,961
Maintenance	107,697	116,807	106,637
Depreciation and amortization	189,401	184,770	178,326
Other taxes	206,715	210,910	210,729
Total Operating Expenses	1,601,828	1,537,397	1,460,280
Operating Income	457,543	472,144	438,575
Interest Charges, Net	122,729	129,567	136,092
Other Income and Deductions	48,630	30,023	12,377
Income Before Federal Income Taxes	286,184	312,554	290,106
Federal Income Taxes	107,943	115,864	102,461
Net Income	178,241	196,690	187,645
Preferred Stock Dividends	9,530	18,721	18,947
Earnings Available for Common Stock	$168,711	$177,969	$168,698
Earnings Per Share	$2.37	$2.49	$2.37
Average Shares Outstanding	71,127	71,503	71,254

The notes on pages 40 through 57 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Balance Sheets

December 31	1996	1995
	(Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$ 8,253	$11,433
Special deposits	31,364	5,785
Accounts receivable, net	189,043	195,834
Fuel, at average cost	36,472	33,682
Materials and supplies, at average cost	43,044	44,809
Prepayments	47,169	31,371
Accumulated deferred federal income tax benefits, net	3,424	7,594
Total Current Assets	358,769	330,508
Utility Plant, at Original Cost		
Electric	5,177,365	5,090,044
Natural gas	529,023	445,256
Common	151,290	140,686
	5,857,678	5,675,986
Less accumulated depreciation	1,933,599	1,791,625
Net Utility Plant in Service	3,924,079	3,884,361
Construction work in progress	58,285	79,[illegible]
Total Utility Plant	3,982,364	3,963,[illegible]
Other Property and Investments, Net	99,221	99,633
Regulatory and Other Assets		
Regulatory assets		
Unfunded future federal income taxes	269,767	323,446
Unamortized debt expense	80,745	85,023
Demand-side management program costs	71,425	74,824
Other regulatory assets	181,661	206,736
Total regulatory assets	603,598	690,029
Other assets	15,729	30,571
Total Regulatory and Other Assets	619,327	720,600
Total Assets	$5,059,681	$5,114,331

The notes on pages 40 through 57 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Balance Sheets

December 31	1996	1995
	(Thousands)	
Liabilities		
Current Liabilities		
Current portion of long-term debt	$83,488	$37,003
Commercial paper	129,300	28,620
Accounts payable and accrued liabilities	121,123	117,637
Interest accrued	22,195	24,093
Taxes accrued	-	22,231
Other	71,324	68,027
Total Current Liabilities	427,430	297,611
Regulatory and Other Liabilities		
Regulatory liabilities		
Deferred income taxes - unfunded future federal income taxes	109,065	128,643
Deferred income taxes	94,004	108,605
Other liabilities	65,471	56,729
Total regulatory liabilities	268,540	293,977
Other liabilities		
Deferred income taxes	751,553	743,484
Other postretirement benefits	95,195	75,683
Liability for environmental restoration	32,100	31,800
Other	74,627	81,288
Total other liabilities	953,475	932,255
Long-term debt	1,480,814	1,581,448
Total Liabilities	3,130,259	3,105,291
Commitments	-	-
Preferred Stock Redeemable Solely at the Option of the Company	134,440	140,500
Preferred Stock Subject to Mandatory Redemption Requirements	25,000	125,000
Common Stock Equity		
Common stock ($6.66 2/3 par value, 90,000,000 shares authorized and 69,670,327 and 71,502,827 shares issued and outstanding at December 31, 1996 and 1995, respectively)	464,469	476,686
Capital in excess of par value	816,384	842,442
Retained earnings	489,129	424,412
Total Common Stock Equity	1,769,982	1,743,540
Total Liabilities and Stockholders' Equity	$5,059,681	$5,114,331

The notes on pages 40 through 57 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Statements of Cash Flows

Year Ended December 31	1996	1995	1994
		(Thousands)	
Operating Activities			
Net income	$178,241	$196,690	$187,645
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	189,401	184,770	178,326
Deferred fuel and purchased gas	1,066	15,022	(1,944)
Federal income taxes and investment tax credits deferred, net	28,928	52,362	37,910
Changes in current operating assets and liabilities			
Accounts receivable	6,791	(40,169)	25,921
Inventory	(1,025)	19,286	5,924
Accounts payable and accrued liabilities	3,486	10,281	(4,125)
Other, net	52,144	13,589	20,721
Net Cash Provided by Operating Activities	459,032	451,831	450,378
Investing Activities			
Utility plant capital expenditures	(214,373)	(163,401)	(246,536)
Proceeds from governmental and other sources	2,977	5,621	23,915
Expenditures for other property and investments	(916)	(3,145)	(34,482)
Funds restricted for capital expenditures	-	1,324	41,113
Net Cash Used in Investing Activities	(212,312)	(159,601)	(215,990)
Financing Activities			
Issuance of pollution control notes and first mortgage bonds	-	37,000	275,[illegible]
(Repurchase) sale of common stock	(40,198)	-	23,386
Revolving credit agreement, net	-	-	(50,000)
Repayments of preferred stock, first mortgage bonds and pollution control notes, including net premiums	(171,478)	(92,395)	(497,450)
Changes in funds set aside for first mortgage bond and preferred stock repayments	(25,000)	-	95,000
Long-term notes, net	(2,581)	(5,504)	(2,290)
Commercial paper, net	100,680	(123,280)	101,700
Dividends on common and preferred stock	(111,323)	(118,940)	(161,676)
Net Cash Used in Financing Activities	(249,900)	(303,119)	(216,330)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,180)	(10,889)	18,058
Cash and Cash Equivalents, Beginning of Year	11,433	22,322	4,264
Cash and Cash Equivalents, End of Year	$8,253	$11,433	$22,322

The notes on pages 40 through 57 are an integral part of the financial statements.

New York State El[illegible]ic & Gas Corporation
Consolidated Statements of Changes in Common Stock Equity
(Thousands, except shares and per share amounts)

	Common Stock $6.66 2/3 Par Value Shares	Amount	Capital in Excess of Par Value	Retained Earnings	Total
Balance, January 1, 1994	70,595,985	$470,640	$824,943	$320,114	$1,615,697
Net income				187,645	187,645
Cash dividends declared					
Preferred stock (at serial rates)					
Redeemable - optional				(8,419)	(8,419)
- mandatory				(10,528)	(10,528)
Common stock ($2.00 per share)				(142,265)	(142,265)
Issuance of stock					
Dividend reinvestment and stock purchase plan	906,842	6,046	17,450		23,496
Amortization of capital stock issue expense			(769)		(769)
Balance, December 31, 1994	71,502,827	476,686	841,624	346,547	1,664,857
Net income				196,690	196,690
Cash dividends declared					
Preferred stock (at serial rates)					
Redeemable - optional				(8,196)	(8,196)
- mandatory				(10,525)	(10,525)
Common stock ($1.40 per share)				(100,104)	(100,104)
Amortization of capital stock issue expense			818		818
Balance, December 31, 1995	71,502,827	476,686	842,442	424,412	1,743,540
Net income				178,241	178,241
Cash dividends declared					
Preferred stock (at serial rates)					
Redeemable - optional				(7,955)	(7,955)
- mandatory				(1,575)	(1,575)
Common stock ($1.40 per share)				(99,611)	(99,611)
Common stock repurchase	(1,832,500)	(12,217)	(27,981)		(40,198)
Premium paid on preferred stock redemption, net				(4,383)	(4,383)
Amortization of capital stock issue expense			1,923		1,923
Balance, December 31, 1996	69,670,327	$464,469	$816,384	$489,129	$1,769,982

The notes on pages 40 through 57 are an integral part of the financial statements.

Notes to Consolidated Financial Statements

1 Significant Accounting Policies

Principles of consolidation

The consolidated financial statements include the company's subsidiaries, Somerset Railroad Corporation (SRC) and NGE Enterprises, Inc. (NGE).

Utility plant

The cost of repairs and minor replacements is charged to the appropriate operating expense accounts. The cost of renewals and betterments, including indirect costs, is capitalized. The original cost of utility plant retired or otherwise disposed of and the cost of removal less salvage are charged to accumulated depreciation.

Depreciation and amortization

Depreciation expense is determined using straight-line rates, based on the average service lives of groups of depreciable property in service. Depreciation accruals were equivalent to 3.5% of average depreciable property for 1996, 1995 and 1994. Amortization expense includes the amortization of certain regulatory assets authorized by the Public Service Commission of the State of New York (PSC).

Accounts receivable

The company has an agreement that expires in November 2000 to sell, w limited recourse, undivided percentage interests in certain of its accounts receivable from customers. The agreement allows the company to receive up to $152 million from the sale of such interests. At December 31, 1996 and 1995, accounts receivable on the consolidated balance sheets are shown net of $152 million of interests in accounts receivable sold. All fees associated with the program are included in other income and deductions on the consolidated statements of income and amounted to approximately $9 million, $10 million and $7 million in 1996, 1995 and 1994, respectively. Accounts receivable on the consolidated balance sheets are also shown net of an allowance for doubtful accounts of $7 million at December 31, 1996 and 1995. Bad debt expense was $19 million, $18 million and $20 million in 1996, 1995 and 1994, respectively.

In June 1996 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 125 (Statement 125), Accounting for the Transfer and Servicing of Financial Assets and Extinguishment of Liabilities, effective for transactions occurring after December 31, 1996. The company's accounting complies with the provisions of Statement 125.

Income taxes

The company files a consolidated federal income tax return with SRC and GE. Deferred income taxes are provided on all temporary differences between financial statement basis and taxable income in accordance with Statement of Financial Accounting Standards No. 109 (Statement 109), Accounting for Income Taxes. Investment tax credits, which reduce federal income taxes currently payable, were deferred and are being amortized over the estimated lives of the applicable property.

Regulatory assets and liabilities

Pursuant to Statement of Financial Accounting Standards No. 71 (Statement 71), Accounting for the Effects of Certain Types of Regulation, the company capitalizes, as regulatory assets, incurred costs that are probable of recovery in future electric and natural gas rates. In accordance with the company's current electric and natural gas rate settlement agreements, the company is no longer deferring certain costs that were previously subject to deferral accounting, such as fuel and natural gas purchased. The company also records as regulatory liabilities, obligations to customers to refund previously collected revenue or to spend revenue collected from customers on future costs.

The company's regulatory assets and liabilities consisted of the following:

December 31	1996 Assets	1996 Liabilities	1995 Assets	1995 Liabilities
		(Thousands)		
Unfunded future federal income taxes	$269,767	-	$323,446	-
Deferred income taxes - unfunded future federal income taxes	-	$109,065	-	$128,643
Deferred income taxes	-	94,004	-	108,605
Unamortized debt expense	80,745	-	85,023	-
Demand-side management (DSM) program costs	71,425	-	74,824	-
Nonutility generator (NUG) termination agreements	43,991	-	43,847	-
Environmental remediation costs	32,100	-	31,763	-
Other postretirement benefits	18,417	-	21,179	-
Other	87,153	65,471	109,947	56,729
Total	$603,598	$268,540	$690,029	$293,977

Unfunded future federal income taxes and deferred income taxes are amortized as the related temporary differences reverse. Unamortized debt expense is amortized over the lives of the related debt issues. DSM program costs, other regulatory assets and other regulatory liabilities are amortized over various periods in accordance with the company's rate settlement agreements. The company is earning a return on all regulatory assets for which the company has spent funds.

If the company could no longer meet the criteria of Statement 71 for all or a separable part of its business, the company may have to record as expense or revenue all or a portion of its regulatory assets and liabilities and may have to record as a loss the amount for power purchase contracts with NUGs that is above the estimated price in a competitive marketplace.

Consolidated Statements of Cash Flows

The company considers all highly liquid investments with a maturity or put date of three months or less when acquired to be cash equivalents. Those investments are included in cash and cash equivalents on the consolidated balance sheets.

Total income taxes paid were $98 million, $55 million and $69 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Interest paid, net of amounts capitalized, was $112 million, $118 million and $132 million for the years ended December 31, 1996, 1995 and 1994, respectively.

Estimates

Preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts have been reclassified on the consolidated financial statements to conform with the 1996 presentation.

2 Income Taxes

Year ended December 31	1996	1995	1994
		(Thousands)	
Charged to operations			
Current	$79,015	$63,502	$64,551
Deferred, net			
Accelerated depreciation	52,572	55,493	57,564
Revenue decoupling mechanism	(2,153)	(4,608)	6,870
Alternative minimum tax (AMT) credit	310	18,009	6,076
Demand-side management	(1,267)	21	(9,048)
Miscellaneous	(14,197)	(10,339)	(17,514)
Investment tax credit (ITC)	(6,337)	(6,214)	(6,038)
Total	$107,943	$115,864	$102,461

The company's effective tax rate differed from the statutory rate of 35% due to the following:

Year ended December 31	1996	1995	1994
		(Thousands)	
Tax expense at statutory rate	$100,165	$109,396	$101,537
Depreciation not normalized	20,542	19,774	18,552
ITC amortization	(6,337)	(6,214)	(6,038)
Research & Development credit	83	(5,547)	(1,352)
Cost of removal	(2,825)	(3,772)	(5,462)
Other, net	(3,685)	2,227	(4,776)
Total	$107,943	$115,864	$102,461

The company's deferred tax assets and liabilities consisted of the following:

December 31	1996	1995
	(Thousands)	
Current Deferred Tax Assets	$3,424	$7,594
Noncurrent Deferred Taxes		
Depreciation	$761,794	$727,630
Unfunded future federal income taxes	109,065	128,643
Accumulated deferred ITC	119,696	126,032
Future income tax benefit - ITC	(41,847)	(44,488)
Other	4,529	40,063
Total Noncurrent Deferred Tax Liabilities	953,237	977,880
Valuation allowance	1,385	2,852
Less amounts classified as regulatory liabilities		
Deferred income taxes - unfunded future federal income taxes	109,065	128,643
Deferred income taxes	94,004	108,605
Noncurrent Deferred Income Taxes	$751,553	$743,484

3 Long-Term Debt

At December 31, 1996 and 1995, long-term debt was:

	Maturity Dates	Interest Rates	Amount 1996	Amount 1995
			(Thousands)	
First mortgage bonds (1)	1997 to 2023	5 5/8% to 9 7/8%	$903,000	$963,000
Pollution control notes (2)	2006 to 2034	3.30% to 6.15%	613,000	613,000
Long-term notes	12/31/99		29,900	31,000
Various long-term notes			15,809	5,501
Obligations under capital leases			10,699	14,799
Unamortized premium and discount on debt, net			(8,106)	(8,849)
			1,564,302	1,618,451
Less debt due within one year - included in current liabilities			83,488	37,003
Total			$1,480,814	$1,581,448

At December 31, 1996, long-term debt and capital lease payments that will become due during the next five years are:

1997	1998	1999	2000	2001
		(Thousands)		
$83,488	$35,634	$33,906	$1,899	$51,641

(1) The company's first mortgage bond indenture constitutes a direct first mortgage lien on substantially all utility plant. The mortgage also provides for a sinking and improvement fund. This provision requires the company to make an annual cash deposit with the Trustee equivalent to 1% of the principal amount of all bonds delivered and authenticated by the Trustee prior to January 1 of that year (excluding any bonds issued on the basis of the retirement of bonds). The company satisfied the requirement by depositing $23 million in cash in 1996 and 1997. The funds were used to redeem, at par, $23 million of 9 7/8% Series first mortgage bonds, due February 2020, in both February 1996 and February 1997.

(2) Fixed-rate pollution control notes totaling $306 million were issued to secure the same amount of tax-exempt pollution control revenue bonds issued by a governmental authority. The interest rates range from 5.70% to 6.15%.

Adjustable-rate pollution control notes totaling $132 million were issued to secure the same amount of tax-exempt adjustable-rate pollution control revenue bonds (Adjustable-rate Revenue Bonds) issued by a governmental authority. The Adjustable-rate Revenue Bonds bear interest at rates ranging from 3.30% to 3.85% through dates preceding various annual interest rate adjustment dates. On the annual interest rate adjustment dates the interest rates will be adjusted, or at the option of the company, subject to certain conditions, a fixed rate of interest may become effective. Bond owners may elect, subject to certain conditions, to have their Adjustable-rate Revenue Bonds purchased by the Trustee.

Multi-mode pollution control notes totaling $175 million were issued to secure the same amount of tax-exempt multi-mode pollution control refunding revenue bonds (Multi-mode Revenue Bonds) issued by a governmental authority. The Multi-mode Revenue Bonds have a structure that allows the interest rates to be based on a daily rate, a weekly rate, a commercial paper rate, an auction rate, a term rate or a fixed rate. Bond owners may elect, while the Multi-mode Revenue Bonds bear interest at a daily or weekly rate, to have their bonds purchased by the Registrar and Paying Agent. The maturity dates of the Multi-mode Revenue Bonds are February 1, 2029, June 1, 2029, and October 1, 2029, and can be extended subject to certain conditions. At December 31, 1996, the multi-mode pollution control notes bore interest at the daily rate. The weighted average interest rate for all three series was 3.2%, excluding letter of credit fees, for the year ended December 31, 1996.

The company has irrevocable letters of credit that support certain payments required to be made on the Adjustable-rate Revenue Bonds and Multi-mode Revenue Bonds, and that expire on various letter of credit expiration dates. If the company is unable to extend the letter of credit that is related to a particular series of Adjustable-rate Revenue Bonds, that series will have to be redeemed unless a fixed rate of interest becomes effective. Multi-mode Revenue Bonds are subject to mandatory purchase upon any change in the interest rate mode and in certain other circumstances. Payments made under the letters of credit in connection with purchases of Adjustable-rate Revenue Bonds and Multi-mode Revenue Bonds are repaid with the proceeds from the remarketing of those Bonds. To the extent the proceeds are not sufficient, the company is required to reimburse the bank that issued the letter of credit.

4 Preferred Stock

At December 31, 1996 and 1995, serial cumulative preferred stock was:

Series	Par Value Per Share	Redeemable Prior to	Redeemable Per Share	Shares Authorized and Outstanding(1)	Amount 1996	Amount 1995
					(Thousands)	
Redeemable solely at the option of the company:						
3.75%	$100		$104.00	150,000	$15,000	$15,000
4 1/2%(1949)	100		103.75	40,000	4,000	4,000
4.15% (2)	100		101.00	14,000	1,400	4,000
4.40% (2)	100		102.00	55,200	5,520	7,500
4.15% (1954)(2)	100		102.00	35,200	3,520	5,000
6.48%	100		102.00	300,000	30,000	30,000
7.40% (3)	25	12/1/98	26.85	1,000,000	25,000	25,000
		Thereafter	25.00			
Adjustable Rate (4)	25	12/1/98	27.50	2,000,000	50,000	50,000
		Thereafter	25.00			
Total					$134,440	$140,500
Subject to mandatory redemption requirements:						
6.30% (5)	100	1/1/98	103.78	250,000	$25,000	$25,000
8.95% (6)	25			-	-	100,000
Total					$25,000	$125,000

At December 31, 1996, there were no preferred stock redemptions or annual redeemable preferred stock sinking fund requirements for the next five years.

(1) At December 31, 1996, there were 1,610,600 shares of $100 par value preferred stock, 7,800,000 shares of $25 par value preferred stock and 1,000,000 shares of $100 par value preference stock authorized but unissued.

(2) In 1996 the company purchased the following, at a discount, through the issuance of commercial paper: $2.60 million of 4.15% preferred stock, $1.98 million of 4.40% preferred stock and $1.48 million of 4.15% (1954) preferred stock.

(3) The company is restricted in its ability to redeem this Series prior to December 1, 1998.

(4) The payment on this Series, for April 1, 1997, is at an annual rate of 5.40% and subsequent payments can vary from an annual rate of 4% to 10%, based on a formula included in the company's Certificate of Incorporation. The company is restricted in its ability to redeem this Series prior to December 1, 1998.

(5) On January 1 in each year 2004 through 2008, the company must redeem 12,500 shares at par, and on January 1, 2009, the company must redeem the balance of the shares at par. This Series is redeemable at the option of the company at $103.78 per share prior to January 1, 1998. The $103.78 price will be reduced annually by 63 cents for the years ending 1998 through 2002; thereafter, the redemption price is $100.00. The company is restricted in its ability to redeem this Series prior to January 1, 2004.

(6) Redeemed January 1, 1996.

Dividend Limitations: After dividends on all outstanding preferred stock have been paid, or declared, and funds set apart for their payment, the common stock is entitled to cash dividends as may be declared by the board of directors out of retained earnings accumulated since December 31, 1946. Common stock dividends are limited if common stock equity (52% at December 31, 1996) falls below 25% of total capitalization, as defined in the company's Certificate of Incorporation. Dividends on common stock cannot be paid unless sinking fund requirements of the preferred stock are met. The company has not been restricted in the payment of dividends on common stock by these provisions. Retained earnings accumulated since December 31, 1946, were approximately $489 million and $424 million as of December 31, 1996 and 1995, respectively.

5 Bank Loans and Other Borrowings

The company has a revolving credit agreement with certain banks that provides for borrowing up to $200 million to December 31, 2001. At the option of the company, the interest rate on borrowings is related to the prime rate, the London Interbank Offered Rate or the interest rate applicable to certain certificates of deposit. The agreement also provides for the payment of a commitment fee that can fluctuate from .10% to .25% depending on the credit ratings of the company's first mortgage bonds. The commitment fee was .125% at December 31, 1996 and 1995, and .1875% at December 31, 1994.

The revolving credit agreement does not require compensating balances. The company had no outstanding loans under the revolving credit agreement at December 31, 1996 or 1995.

The company uses short-term unsecured notes, usually commercial paper, to finance certain refundings and for other corporate purposes. The weighted average interest rates on commercial paper balances at December 31, 1996, 1995 and 1994 were 5.8%, 6.1% and 5.8%, respectively.

6 Retirement Benefits

Pensions

The company has a noncontributory retirement annuity plan that covers substantially all employees. Benefits are based principally on the employee's length of service and compensation for the five highest paid consecutive years during the last 10 years of service. It is the company's policy to fund pension costs accrued each year to the extent deductible for federal income tax purposes.

Net pension benefit included the following components:

Year ended December 31	1996	1995	1994
		(Thousands)	
Service cost: Benefits earned during the year	$18,593	$16,391	$17,637
Interest cost on projected benefit obligation	46,070	45,400	43,328
Actual return on plan assets	(138,957)	(185,816)	(17,409)
Net amortization and deferral	58,162	111,209	(48,824)
Net pension (benefit)	$(16,132)	$(12,816)	$(5,268)

The funded status of the plan was:

December 31	1996	1995
	(Thousands)	
Actuarial present value of accumulated benefit obligation		
Vested	$472,786	$450,857
Nonvested	52,272	53,837
Total	$525,058	$504,694
Fair value of plan assets	$(995,795)	$(888,190)
Actuarial present value of projected benefit obligation (PBO)	679,778	661,138
Plan assets in excess of PBO	(316,017)	(227,052)
Unrecognized net transition asset	51,898	59,136
Unrecognized net gain	275,531	178,927
Unrecognized prior service cost	(26,464)	(9,931)
Net pension (asset) liability	$(15,052)	$1,080

Assumptions used to determine actuarial valuations		
Discount rate used to determine PBO	7.25%	7.0%
Rate of compensation increase used to determine PBO	4.75%	4.75%
Long-term rate of return on plan assets for net pension benefit	8.0%	8.0%

Plan assets primarily consist of domestic and international equity securities; U.S. agency, corporate and Treasury bonds; and cash equivalents.

Postretirement benefits other than pensions

The company has postretirement benefit plans, such as a comprehensive health insurance plan and a prescription drug plan, that provide certain benefits for retired employees and their dependents. Substantially all of the company's employees who retire under the company's pension plan may become eligible for those benefits at retirement. The postretirement benefit plans were unfunded as of December 31, 1996 and 1995.

The net periodic postretirement benefits cost other than pensions recognized on the income statements for 1996, 1995 and 1994 (below) represent the portion of costs related to Statement of Financial Accounting Standards No. 106 (Statement 106), Employers' Accounting for Postretirement Benefits Other Than Pensions, that the company has been allowed to collect from its customers. The company has deferred $18 million and $21 million of Statement 106 costs as of December 31, 1996 and 1995, respectively. The company expects to recover any deferred Statement 106 amounts by the year 2000.

Net postretirement benefits cost other than pensions included the following components:

Year ended December 31	1996	1995	1994
		(Thousands)	
Service cost: Benefits accumulated during the year	$6,436	$5,412	$7,050
Interest cost on accumulated postretirement benefit obligation	15,795	15,228	15,903
Amortization of transition obligation over 20 years	10,330	10,330	10,330
Amortization of (gain) loss	(3,246)	(4,575)	2
Deferral for future recovery	(8,950)	(7,742)	(18,757)
Net periodic postretirement benefits cost	$20,365	$18,653	$14,528

The status of the plans for postretirement benefits other than pensions, as reflected in the company's consolidated balance sheets, was as follows:

December 31	1996	1995
	(Thousands)	
Accumulated postretirement benefit obligation (APBO)		
Retired employees	$103,912	$114,383
Fully eligible active plan participants	15,259	15,214
Other active plan employees	107,022	106,689
Total APBO	226,193	236,286
Less unrecognized transition obligation	165,278	175,608
Less unrecognized net gain	(34,280)	(15,005)
Accrued postretirement liability	$95,195	$75,683

A 9% annual rate of increase in the per capita costs of covered health care benefits was assumed for 1997, gradually decreasing to 5% by the year 2003. Increasing the assumed health care cost trend rates by 1% in each year would increase the APBO as of January 1, 1997, by $39 million and increase the aggregate of the service cost and interest cost components of the net postretirement benefits cost for 1996 by $5 million. Discount rates of 7.25% and 7% were used to determine the APBO in 1996 and 1995, respectively.

7 Jointly-Owned Generating Stations

Nine Mile Point Unit 2

The company has an undivided 18% interest in the output and costs of the Nine Mile Point nuclear generating unit No. 2 (NMP2), which is operated by Niagara Mohawk Power Corporation (Niagara Mohawk). Ownership of NMP2 is shared with Niagara Mohawk 41%, Long Island Lighting Company 18%, Rochester Gas and Electric Corporation 14% and Central Hudson Gas & Electric Corporation 9%. The company's share of the rated capability is 206 megawatts. The company's share of net utility plant investment, excluding nuclear fuel, was approximately $610 million and $625 million, at December 31, 1996 and 1995, respectively. The accumulated provision for depreciation was approximately $144 million and $129 million, at December 31, 1996 and 1995, respectively. The company's share of operating expenses is included in the consolidated statements of income.

Nuclear insurance

Niagara Mohawk maintains public liability and property insurance for NMP2. The company reimburses Niagara Mohawk for its 18% share of those costs.

The public liability limit for a nuclear incident is approximately $8.3 billion. Should losses stemming from a nuclear incident exceed the commercially available public liability insurance, each licensee of a nuclear facility would be liable for up to $76 million per incident, payable at a rate not to exceed $10 million per year. The company's maximum liability for its 18% interest in NMP2 would be approximately $14 million per incident. The $76 million assessment is subject to periodic inflation indexing and a 5% surcharge should funds prove insufficient to pay claims associated with a nuclear incident. The Price-Anderson Act also requires indemnification for precautionary evacuations whether or not a nuclear incident actually occurs.

Niagara Mohawk has procured property insurance for NMP2 aggregating approximately $2.8 billion through the Nuclear Insurance Pools and the Nuclear Electric Insurance Limited (NEIL). In addition, the company has purchased NEIL insurance coverage for the extra expense that would be incurred by purchasing replacement power during prolonged accidental outages. Under NEIL programs, should losses resulting from an incident at a member facility exceed the accumulated reserves of NEIL, each member, including the company, would be liable for its share of the deficiency. The company's maximum liability per incident under the property damage and replacement power coverages is approximately $3 million.

Nuclear plant decommissioning costs

Based on the results of a 1995 decommissioning study, the company's 18% share of the cost to decommission NMP2 is $150 million in 1997 dollars ($422 million in 2026 when NMP2's operating license will expire). The estimated annual contribution needed to cover the company's share of costs as outlined in the study is approximately $4 million.

The company's estimated liability for decommissioning NMP2 using the Nuclear Regulatory Commission's (NRC) minimum funding requirement is approximately $82 million in 1997 dollars. The company's electric rates currently include an annual allowance for decommissioning of $2 million, which approximates the NRC's minimum funding requirement. Decommissioning costs are charged to depreciation and amortization expense and are recovered over the expected life of the plant. In its five-year electric rate and restructuring plan submitted in the PSC's Competitive Opportunities Proceeding, the company used the 1995 decommissioning study as a basis for increasing the amount proposed to be recovered in rates for decommissioning. The company believes that any increase in decommissioning costs will ultimately be recovered in rates.

The company has established a Qualified Fund under applicable provisions of the federal tax law and to comply with NRC funding regulations. The balance in the fund, including reinvested earnings, was approximately $11 million and $9 million at December 31, 1996 and 1995, respectively. Those amounts are included on the consolidated balance sheets in other property and investments, net. The related liability for decommissioning is included in other liabilities - other. At December 31, 1996, the external trust fund investments were classified as available-for-sale, and their carrying value approximated fair value.

In early 1996 the Financial Accounting Standards Board issued an exposure draft, Accounting for Certain Liabilities Related to Closure and Removal of Long-Lived Assets. The exposure draft proposes that companies recognize the present value of estimated decommissioning costs. If the final statement includes that requirement, the estimated liability the company would have to recognize on its balance sheet related to decommissioning NMP2 is approximately $61 million, based on the 1995 decommissioning study.

Homer City

The company has an undivided 50% interest in the output and costs of the Homer City Generating Station, which comprises three generating units. The station is owned with Pennsylvania Electric Company and is operated by its affiliate, GPU Generation, Inc. The company's share of the rated capability is 959 megawatts, and its net utility plant investment was approximately $269 million and $276 million at December 31, 1996 and 1995, respectively. The accumulated provision for depreciation was approximately $181 million and $168 million, at December 31, 1996 and 1995, respectively. The company's share of operating expenses is included in the consolidated statements of income.

8 Commitments

Capital expenditures

The company has substantial commitments in connection with its capital expenditure program and estimates that expenditures for 1997, 1998 and 1999 will approximate $141 million, $157 million and $128 million, respectively, and are expected to be financed entirely with internally generated funds. The program is subject to periodic review and revision. Actual capital expenditures may change to reflect additional regulatory requirements and the company's continued focus on minimizing capital expenditures. Capital expenditures will be primarily for the extension of service, necessary improvements to existing facilities and compliance with environmental requirements.

Nonutility generator power purchase contracts

During 1996, 1995 and 1994 the company expensed approximately $320 million, $284 million and $214 million, respectively, for NUG power, including termination costs. The company estimates that NUG power purchases, including termination costs, will total $338 million in 1997, $351 million in 1998 and $352 million in 1999.

9 Environmental Liability

The company has been notified by the U. S. Environmental Protection Agency (EPA) and the New York State Department of Environmental Conservation (NYSDEC), as appropriate, that it is among the potentially responsible parties (PRPs) who may be liable to pay for costs incurred to remediate certain hazardous substances at nine waste sites, not including the company's inactive gas manufacturing sites, which are discussed below. With respect to the nine sites, seven sites are included in the New York State Registry of Inactive Hazardous Waste Sites (New York State Registry) and two of the sites are also included on the National Priorities list.

Any liability may be joint and several for certain of those sites. The company has recorded an estimated liability of $1 million related to six of the nine sites, which is reflected in the company's consolidated balance sheets at December 31, 1996. The ultimate cost to remediate the sites may be significantly more than the estimated amount and will be dependent on such factors as the remedial action plan selected, the extent of site contamination and the portion attributed to the company.

The company has a program to investigate and perform necessary remediation at its known inactive gas manufacturing sites. In March 1994 and October 1996 the company entered into Orders on Consent with the NYSDEC requiring the company to investigate and, where necessary, remediate 34 of the company's 38 known inactive gas manufacturing sites. With respect to the 38 sites, eight sites are included in the New York State Registry.

Expenditures through the year 2009 are estimated at $31 million, including the impact of the Orders on Consent. That estimate was determined by using the company's experience and knowledge related to the sites as a result of the investigation and remediation that the company has performed to date. It could change materially, based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes in presently enacted laws and regulations. The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites, is reflected in the company's consolidated balance sheets at December 31, 1996 and 1995, in the amount of $31 million. The company has recorded a corresponding regulatory asset, since it expects to recover such expenditures in rates, as the company has previously been allowed by the PSC to recover such costs in rates. The company has notified its former and current insurance carriers that it seeks to recover from them certain of the cleanup costs. The company is unable to predict the amount of insurance recoveries, if any, that it may obtain.

10 Energy Services

The company, pursuant to a PSC Order, is allowed to invest up to 5% of its consolidated capitalization (approximately $171 million at December 31, 1996) in one or more subsidiaries that may engage or invest in energy-related or environmental-services businesses and provide related services.

The company has been making investments in energy services companies through NGE Enterprises, Inc. (NGE). Those companies provide energy, financial and environmental services.

The company's investment as of December 31 and net loss for the year ended December 31 related to NGE are:

	1996	1995	1994
		(Millions)	
Investment	$57	$54	$47
Net Loss*	$21	$12	$6

*Includes net loss from EnerSoft Corporation (EnerSoft) of $16 million, $7 million and $5 million in 1996, 1995 and 1994, respectively. EnerSoft's 1996 net loss includes $10 million related to NGE's decision to exit that business.

The majority of the company's investment is included in other property and investments, net on the consolidated balance sheets. NGE's total liabilities and capitalization at December 31, 1996 and 1995, was approximately $45 million and $48 million, respectively. NGE's net loss is included in other income and deductions on the consolidated statements of income.

11 Fair Value of Financial Instruments

Certain of the company's financial instruments had carrying amounts and estimated fair values (based on the quoted market prices for the same or similar issues of the same remaining maturities) as follows:

December 31	1996 Carrying Amount	1996 Estimated Fair Value	1995 Carrying Amount	1995 Estimated Fair Value
			(Thousands)	
Preferred stock subject to mandatory redemption requirements	$25,000	$22,531	$125,000	$130,085
First mortgage bonds	$894,894	$938,873	$954,151	$1,025,696
Pollution control notes	$613,000	$623,666	$613,000	$617,446

The carrying amount for the following items approximates estimated fair value because of the short maturity (within one year) of those instruments: cash and cash equivalents, commercial paper and interest accrued.

Special deposits include restricted funds that are set aside for preferred stock and long-term debt redemptions. The carrying amount approximates fair value because the special deposits have been invested in securities with a short-term maturity (within one year).

12 Industry Segment Information

Certain information pertaining to the electric and natural gas operations of the company follows:

	1996 Electric	1996 Natural Gas	1995 Electric	1995 Natural Gas	1994 Electric	1994 Natural Gas
			(Thousands)			
Operating Revenues	$1,723,147	$336,224	$1,708,297	$301,244	$1,600,075	$298,780
Income	$400,262	$57,281	$421,328	$50,816	$397,747	$40,828
Depreciation and amortization	$176,906	$12,495	$172,831	$11,939	$167,484	$10,842
Capital expenditures	$129,212	$82,625	$113,539	$45,142	$183,910	$40,396
Identifiable assets*	$4,376,814	$550,196	$4,525,541	$493,537	$4,631,511	$486,075

* Assets used in electric, natural gas and energy services operations not included above were $132,671, $95,253 and $113,099 at December 31, 1996, 1995 and 1994, respectively. They consist primarily of cash and cash equivalents, special deposits, prepayments and subsidiaries' assets.

13 Quarterly Financial Information (Unaudited)

Quarter ended	March 31	June 30	Sept. 30	Dec. 31
	(Thousands, except per share amounts)			
1996				
Operating revenues	$618,764	$452,933	$456,568	$531,106
Operating income	$196,353	$74,924	$74,285	$111,981
Net income	$98,676	$20,882	$11,052*	$47,631
Earnings available for common stock	$96,343	$18,496	$8,616	$45,256
Earnings per share	$1.35	$.26	$.12*	$.65
Dividends per share	$.35	$.35	$.35	$.35
Average shares outstanding	71,503	71,503	71,416	70,096
Common stock price**				
High	$26.38	$24.50	$24.88	$22.63
Low	$21.88	$22.00	$21.13	$20.38
1995				
Operating revenues	$571,910	$439,916	$464,694	$533,021
Operating income	$157,323	$81,035	$106,638	$127,148
Net income	$75,584	$24,630	$43,503	$52,973
Earnings available for common stock	$70,825	$19,914	$38,878	$48,352
Earnings per share	$.99	$.28	$.54	$.68
Dividends per share	$.35	$.35	$.35	$.35
Average shares outstanding	71,503	71,503	71,503	71,503
Common stock price**				
High	$21.75	$24.00	$26.75	$26.38
Low	$19.00	$21.25	$22.50	$24.75

* Includes the effect of the writedown of the investment in EnerSoft Corporation that decreased net income and earnings available for common stock by $10 million and decreased earnings per share by 14 cents.

** The company's common stock is listed on the New York Stock Exchange. The number of shareholders of record at December 31, 1996, was 45,608.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors,
New York State Electric & Gas Corporation and Subsidiaries
Ithaca, New York

We have audited the consolidated financial statements and the financial statement schedule of New York State Electric & Gas Corporation and Subsidiaries listed in Item 14(a) of this Form 10-K. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of New York State Electric & Gas Corporation and Subsidiaries as of December 31, 1996 and 1995, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

COOPERS & LYBRAND L.L.P.

New York, New York
January 31, 1997

NEW YORK STATE ELECTRIC & GAS CORPORATION

SCHEDULE II - Consolidated Valuation and Qualifying Accounts
(Thousands of Dollars)

Years Ended December 31, 1996, 1995 and 1994

Classification	Beginning of Year	Additions	Write-offs (a)	Adjustments	End of Year (b)
1996					
Allowance for Doubtful Accounts - Accounts Receivable	$6,785	$18,858	$(18,937)	$100(c)	$6,806
Deferred Tax Asset Valuation Allowance	$2,852	$158	$(1,625)	-	$1,385
1995					
Allowance for Doubtful Accounts - Accounts Receivable	$7,198	$17,891	$(18,304)	-	$6,785
Deferred Tax Asset Valuation Allowance	$2,211	$641	-	-	$2,852
1994					
Allowance for Doubtful Accounts - Accounts Receivable	$4,000	$19,594	$(16,894)	$498 (c)	$7,198
Deferred Tax Asset Valuation Allowance	$663	$1,548	-	-	$2,211

(a) Uncollectible accounts charged against the allowance, net of recoveries.
(b) Represents an estimate of the write-offs that will not be recovered in rates.
(c) Due to acquisition of XENERGY, Inc. in 1994 and KENETECH Energy Management, Inc. in 1996.

Item 9. Changes in and disagreements with accountants on accounting and financial disclosure - None

PART III

Item 10. Directors and executive officers of the Registrant

Incorporated herein by reference to the information under the caption "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Proxy Statement dated April 11, 1997. The information regarding executive officers is on pages 16 - 17 of this report.

Item 11. Executive compensation

Incorporated herein by reference to the information under the captions "Executive Compensation," "Employment and Change in Control Arrangements," "Directors' Compensation," "Compensation Committee Interlocks and Insider Participation," "Report of Executive Compensation and Succession Committee" and "Stock Performance Graph" in the Company's Proxy Statement dated April 11, 1997.

Item 12. Security ownership of certain beneficial owners and management

Incorporated herein by reference to the information under the caption "Security Ownership of Management" in the Company's Proxy Statement dated April 11, 1997.

Item 13. Certain relationships and related transactions

Incorporated herein by reference to the information under the caption "Election of Directors" in the Company's Proxy Statement dated April 11, 1

PART IV

Item 14. Exhibits, financial statement schedules, and reports on Form 8-K

(a) The following documents are filed as part of this report:

1. Financial statements
   Included in Part II of this report:
   a) Consolidated Balance Sheets as of December 31, 1996 and 1995
   b) For the three years ended December 31, 1996:
      Consolidated Statements of Income
      Consolidated Statements of Cash Flows
      Consolidated Statements of Changes in Common Stock Equity
   c) Notes to Consolidated Financial Statements
   d) Report of Independent Accountants

2. Financial statement schedule
   Included in Part II of this report:
   For the three years ended December 31, 1996:
   II. Consolidated Valuation and Qualifying Accounts

Schedules other than those listed above have been omitted since they are not required, are inapplicable or the required information is presented in Consolidated Financial Statements or notes thereto.

3. Exhibits

(a)(1) The following exhibits are delivered with this report:

Exhibit No.	
3-15	- By-Laws of the company as amended January 10, 1997.
(A) 10-16	- Retirement Plan for Directors Amendment No. 3.
(A) 10-19	- Director Share Plan.
(A) 10-20	- Deferred Compensation Plan for the Director Share Plan.
(A) 10-21	- Supplemental Executive Retirement Plan as amended through Amendment No. 11.
(A) 10-22	- Amended and Restated Annual Executive Incentive Plan.
12	- Computation of Ratio of Earnings to Fixed Charges.
21	- Subsidiaries.
23	- Consent of Coopers & Lybrand L.L.P. to incorporation by reference into certain registration statements.
27	- Financial Data Schedule.
99-1	- Form 11-K for New York State Electric & Gas Corporation Tax Deferred Savings Plan for Salaried Employees.
99-2	- Form 11-K for New York State Electric & Gas Corporation Tax Deferred Savings Plan for Hourly Paid Employees.

(a)(2) The following exhibits are incorporated herein by reference:

Exhibit No.	Filed in	As Exhibit No.
3-1	- Restated Certificate of Incorporation of the Company pursuant to Section 807 of the Business Corporation Law filed in the Office of the Secretary of State of the State of New York on October 25, 1988 - Registration No. 33-50719 . . .	4-11
3-2	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on October 17, 1989 - Registration No. 33-50719 . .	4-12
3-3	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on May 22, 1990 - Registration No. 33-50719	4-13
3-4	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on October 31, 1990 - Registration No. 33-50719 . .	4-14
3-5	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on February 6, 1991 - Registration No. 33-50719 . .	4-15
3-6	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on October 15, 1991 - Registration No. 33-50719 . .	4-16
3-7	- Certificate of Merger of Columbia Gas of New York, Inc. into the Company filed in the Office of the Secretary of State of the State of New York on April 8, 1991 - Registration No. 33-50719	4-20
3-8	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on May 28, 1992 - Registration No. 33-50719	4-17

(A) Management contract or compensatory plan or arrangement.

Exhibit No.	Filed in	As Exhibit No.
3-9	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on October 20, 1992 - Registration No. 33-50719	4-18
3-10	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on October 14, 1993 Registration No. 33-50719	4-19
3-11	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on December 10, 1993 - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2	3-11
3-12	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on December 20, 1993 - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2	3-12
3-13	- Certificate of Amendment of the Certificate of Incorporation filed in the Office of the Secretary of State of the State of New York on December 20, 1993 - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2	3-13
3-14	- Certificates of the Secretary of the Company concerning consents dated March 20, 1957 and May 9, 1975 of holders of Serial Preferred Stock with respect to issuance of certain unsecured indebtedness - Registration No. 2-69988.	4-7
4-1	- First Mortgage dated as of July 1, 1921 executed by the Company under its then name of "New York State Gas and Electric Corporation" to The Equitable Trust Company of New York, as Trustee (The Chase Manhattan Bank is Successor Trustee) - Registration No. 33-4186.	4-1
Supplemental Indentures to First Mortgage dated as of July 1, 1921:		
4-2	- No. 37 - Registration No. 33-31297.	4-2
4-3	- No. 39 - Registration No. 33-31297.	4-3
4-4	- No. 43 - Registration No. 33-31297.	4-4
4-5	- No. 51 - Registration No. 2-59840	2-B(46)
4-6	- No. 69 - Registration No. 2-59840	2-B(64)
4-7	- No. 71 - Registration No. 2-59840	2-B(66)
4-8	- No. 74 - Registration No. 2-59840	2-B(69)
4-9	- No. 75 - Registration No. 2-59840	2-B(70)
4-10	- No. 80 - Registration No. 2-59840	2-B(75)
4-11	- No. 81 - Registration No. 2-59840	2-B(76)
4-12	- No. 103- Registration No. 33-43458.	4-8
4-13	- No. 104- Registration No. 33-43458.	4-9
4-14	- No. 105- Registration No. 33-52040.	4-8
4-15	- No. 106- Company's 10-K for year ended December 31, 1992 - File No. 1-3103-2. . .	4-23
4-16	- No. 107- Company's 10-K for year ended December 31, 1992 - File No. 1-3103-2. . .	4-24
4-17	- No. 108- Registration No. 33-50719.	4-8
4-18	- No. 109- Registration No. 33-50719.	4-9

Agreements and amendments with the Power Authority of the State of New York:

Exhibit No.	Filed in	As Exhibit No.
10-1	- Letter Agreement dated February 3, 1982 relating to transmission services - Registration No. 2-82192. .	10-1
10-2	- Amendment dated December 21, 1989 to the Letter Agreement dated February 3, 1982 relating to transmission services - Company's 10-K for year ended December 31, 1989 - File No. 1-3103-2	10-4
10-3	- Transmission Agreement dated December 12, 1983, with respect to connection of the Company's Kintigh (Somerset) Generating Station to the Niagara-Edic 345 kv transmission system - Company's 10-K for year ended December 31, 1988 - File No. 1-3103-2	10-6
10-4	- Amendment dated December 21, 1989 to the Transmission Agreement dated December 12, 1983 with respect to connection of the Company's Kintigh (Somerset) Generating Station to the Niagara-Edic 345 kv transmission system - Company's 10-K for the year ended December 31, 1989 File No. 1-3103-2.	10-7

* * * * * * * * * *

10-5	- New York Power Pool Agreement dated July 11, 1985 - Company's 10-K for year ended December 31, 1988 - File No. 1-3103-2	10-7
10-6	- Transmission Agreement dated January 10, 1990 between New York State Electric & Gas Corporation and Niagara Mohawk Power Corporation, with respect to remote load and generation wheeling service for the Company - Company's 10-K for year ended December 31, 1990 - File No. 1-3103-2	10-17
10-7	- Coal Sales Agreement dated December 21, 1983 between the Company and Consolidation Coal Company - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2	10-14
10-8	- Amendment No. 1 dated as of October 1, 1985 to the Coal Sales Agreement dated December 21, 1983 between the Company and Consolidation Coal Company - Company's 10-K for year ended December 31, 1986 - File No. 1-3103-2	10-11
10-9	- Amendment No. 2 dated as of August 28, 1986 to the Coal Sales Agreement dated December 21, 1983 between the Company and Consolidation Coal Company - Company's 10-K for year ended December 31, 1986 - File No. 1-3103-2	10-12
10-10	- Basic Agreement dated as of September 22, 1975 between New York State Electric & Gas Corporation and others concerning Nine Mile Point Nuclear Station, Unit No. 2 - Registration No. 2-54903. . .	5-0
10-11	- Nine Mile Point Nuclear Station Unit 2 Operating Agreement effective as of January 1, 1993 among New York State Electric & Gas Corporation and others - Company's 10-K for the year ended December 31, 1992 - File No. 1-3103-2	10-18

Exhibit No.	Filed in	As Exhibit No.
10-12	- Coal Hauling Agreement dated as of March 9, 1983 between Somerset Railroad Corporation and New York State Electric & Gas Corporation - Registration No. 2-82352.	10
(A)10-13	- Retirement Plan for Directors - Company's 10-K for the year ended December 31, 1991 - File No. 1-3103-2	10-26
(A)10-14	- Retirement Plan for Directors Amendment No. 1 - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2	10-21
(A)10-15	- Retirement Plan for Directors Amendment No. 2 - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2	10-15
(A)10-17	- Form of Deferred Compensation Plan for Directors - Company's 10-K for year ended December 31, 1989 - File No. 1-3103-2	10-22
(A)10-18	- Deferred Compensation Plan for Directors Amendment No. 1 - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2.	10-23
(A)10-23	- Long-term Executive Incentive Share Plan - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2	10-43
(A)10-24	- Long-Term Executive Incentive Share Plan Deferred Compensation Agreement - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2	10-44
(A)10-25	- Employment Contract for A. E. Kintigh - Company's 10-K for year ended December 31, 1988 - File No. 1-3103-2.	10-26
(A)10-26	- Agreement with M.I. German - Company's 10-K for the year ended December 31, 1994 - File No. 1-2103-2. .	10-41
(A)10-27	- Employment Agreement for J. A. Carrigg - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2.	10-46
(A)10-28	- Employment Agreement for J. A. Carrigg Amendment No. 1 - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2.	10-48
(A)10-29	- Form of Severance Agreement for Senior Vice Presidents - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2.	10-47
(A)10-30	- Form of Severance Agreement for Senior Vice Presidents Amendment No. 1 - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2	10-50
(A)10-31	- Form of Severance Agreement for Vice Presidents - Company's 10-K for year ended December 31, 1993 - File No. 1-3103-2	10-48
(A)10-32	- Form of Severance Agreement for Vice Presidents Amendment No. 1 - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2	10-52
(A)10-33	- Deferred Compensation Plan for Salaried Employees - Company's 10-K for year ended December 31, 1995 - File No. 1-3103-2	10-53

(A) Management contract or compensatory plan or arrangement.

Exhibit No.	Filed in	As Exhibit No.
(A)10-34	- Employment Agreement for W. W. von Schack - Company's 10-Q for quarter ended September 30, 1996 - File No. 1-3103-2.	10-54
(A)10-35	- Employment agreement for W. W. von Schack Amendment No. 1 - Company's 10-Q for quarter ended September 30, 1996 - File No. 1-3103-2.	10-55

The company agrees to furnish to the Commission, upon request, a copy of the Revolving Credit Agreement dated as of July 31, 1992, as amended, between the company, The Chase Manhattan Bank, as Agent, and certain banks; a copy of the Participation Agreements dated as of June 1, 1987 and December 1, 1988 between the company and New York State Energy Research and Development Authority (NYSERDA) relating to Adjustable Rate Pollution Control Revenue Bonds (1987 Series A), and (1988 Series A), respectively; a copy of the Participation Agreements dated as of March 1, 1985, October 15, 1985, and December 1, 1985 between the company and NYSERDA relating to Annual Tender Pollution Control Revenue Bonds (1985 Series A), (1985 Series B), and (1985 Series D), respectively; a copy of the Participation Agreements dated as of February 1, 1993, February 1, 1994, June 1, 1994, October 1, 1994 and December 1, 1994 between the company and NYSERDA relating to Pollution Control Refunding Revenue Bonds (1994 Series A), (1994 Series B), (1994 Series C), (1994 Series D), and (1994 Series E), respectively; a copy of the Participation Agreement dated as of December 1, 1993 between the company and NYSERDA relating to Solid Waste Disposal Revenue Bonds (1993 Series A); a copy of the Participation Agreement dated as of December 1, 1994 between the company and the Indiana County ndustrial Development Authority relating to Pollution Control Refunding evenue Bonds (1994 Series A); a copy of the Credit Agreement dated as of March 1983, as amended, between Somerset Railroad Corporation and The Chase nhattan Bank, and a copy of the Revolving Credit Agreement dated as of June 30, 1994, as amended, between XENERGY Inc. and The First National Bank of Boston. The total amount of securities authorized under each of such agreements does not exceed 10% of the total assets of the company and its subsidiaries on a consolidated basis.

(b) Reports on Form 8-K

None

Management contract or compensatory plan or arrangement.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NEW YORK STATE ELECTRIC & GAS CORPORATION

Date: March 14, 1997

By Gary J. Turton
Gary J. Turton
Vice President and Controller
Chief Accounting Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

PRINCIPAL EXECUTIVE OFFICER

Date: March 14, 1997

By Wesley W. von Schack
Wesley W. von Schack
Chairman, President,
Chief Executive Officer and
Director

PRINCIPAL FINANCIAL OFFICER

Date: March 14, 1997

By Sherwood J. Rafferty
Sherwood J. Rafferty
Senior Vice President and
Chief Financial Officer

PRINCIPAL ACCOUNTING OFFICER

Date: March 14, 1997

By Gary J. Turton
Gary J. Turton
Vice President and Controller

Signatures (Cont'd)

Date: March 14, 1997 By James A. Carrigg
James A. Carrigg
Director

Date: March 14, 1997 By Alison P. Casarett
Alison P. Casarett
Director

Date: March 14, 1997 By Joseph J. Castiglia
Joseph J. Castiglia
Director

Date: March 14, 1997 By Lois B. DeFleur
Lois B. DeFleur
Director

Date: March 14, 1997 By Everett A. Gilmour
Everett A. Gilmour
Director

Date: March 14, 1997 By Paul L. Gioia
Paul L. Gioia
Director

Date: March 14, 1997 By John M. Keeler
John M. Keeler
Director

Date: March 14, 1997 By Allen E. Kintigh
Allen E. Kintigh
Director

Date: March 14, 1997 By Ben E. Lynch
Ben E. Lynch
Director

Date: March 14, 1997 By Alton G. Marshall
Alton G. Marshall
Director

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from . . . . . to . . . . . .

Commission file number 1-3103-2

New York State Electric & Gas Corporation
(Exact name of registrant as specified in its charter)

New York	15-0398550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O. Box 3287, Ithaca, New York	14852-3287
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 607 347-4131

N/A
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

The number of shares of common stock (par value $6.66 2/3 per share) outstanding as of April 30, 1997 was 68,502,727.

TABLE OF CONTENTS

PART I

PART II

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

New York State Electric & Gas Corporation
Consolidated Statements of Income - (Unaudited)

Periods Ended March 31	Three Months 1997	Three Months 1996
	(Thousands, except per share amounts)	
Operating Revenues		
Electric	$451,270	$472,352
Natural gas	136,867	149,704
Total Operating Revenues	588,137	622,056
Operating Expenses		
Fuel used in electric generation	59,983	59,581
Electricity purchased	93,212	90,626
Natural gas purchased	60,407	69,043
Other operating expenses	79,561	76,123
Maintenance	23,917	25,116
Depreciation and amortization	48,289	47,091
Other taxes	55,241	58,123
Total Operating Expenses	420,610	425,703
Operating Income	167,527	196,353
Interest Charges, Net	30,626	32,112
Other Income and Deductions	4,768	8,691
Income Before Federal Income Taxes	132,133	155,550
Federal Income Taxes	50,156	56,874
Net Income	81,977	98,676
Preferred Stock Dividends	2,315	2,333
Earnings Available for Common Stock	$79,662	$96,343
Earnings Per Share	$1.15	$1.35
Dividends Per Share	$.35	$.35
Average Shares Outstanding	69,353	71,503

The notes on pages 6 and 7 are an integral part of the financial statements.

Item 1. Financial Statements (Cont'd)

New York State Electric & Gas Corporation
Consolidated Balance Sheets - (Unaudited)

	March 31, 1997	Dec. 31, 1996
	(Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$12,533	$8,253
Special deposits	2,277	31,364
Accounts receivable, net	199,171	189,043
Fuel, at average cost	24,966	36,472
Materials and supplies, at average cost	43,238	43,044
Prepayments	65,678	47,169
Accumulated deferred federal income tax benefits, net	12,222	3,424
Total Current Assets	360,085	358,769
Utility Plant, at Original Cost		
Electric	5,192,738	5,177,365
Natural gas	540,251	529,023
Common	152,859	151,290
	5,885,848	5,857,678
Less accumulated depreciation	1,973,522	1,933[illegible]
Net Utility Plant in Service	3,912,326	3,92[illegible]9
Construction work in progress	50,462	58,285
Total Utility Plant	3,962,788	3,982,364
Other Property and Investments, Net	97,668	99,221
Regulatory and Other Assets		
Regulatory assets		
Unfunded future federal income taxes	268,746	269,767
Environmental remediation costs	84,600	32,100
Unamortized debt expense	80,088	80,745
Demand-side management program costs	70,500	71,425
Other	132,146	149,561
Total regulatory assets	636,080	603,598
Other assets	24,762	15,729
Total Regulatory and Other Assets	660,842	619,327
Total Assets	$5,081,383	$5,059,681

The notes on pages 6 and 7 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Balance Sheets - (Unaudited)

	March 31, 1997	Dec. 31, 1996
	(Thousands)	
Liabilities		
Current Liabilities		
Current portion of long-term debt	$34,843	$83,488
Commercial paper	62,500	129,300
Accounts payable and accrued liabilities	96,194	121,123
Interest accrued	35,380	22,195
Taxes accrued	62,884	-
Other	49,976	71,324
Total Current Liabilities	341,777	427,430
Regulatory and Other Liabilities		
Regulatory liabilities		
Deferred income taxes - unfunded future federal income taxes	108,519	109,065
Deferred income taxes	93,742	94,004
Other	71,458	65,471
Total regulatory liabilities	273,719	268,540
Other liabilities		
Deferred income taxes	749,896	751,553
Other postretirement benefits	101,104	95,195
Environmental remediation costs	84,600	32,100
Other	71,139	74,627
Total other liabilities	1,006,739	953,475
Long-term debt	1,481,360	1,480,814
Total Liabilities	3,103,595	3,130,259
Commitments	-	-
Preferred Stock Redeemable Solely at the Option of the Company	134,440	134,440
Preferred Stock Subject to Mandatory Redemption Requirements	25,000	25,000
Common Stock Equity		
Common stock	462,250	464,469
Capital in excess of par value	811,576	816,384
Retained earnings	544,522	489,129
Total Common Stock Equity	1,818,348	1,769,982
Total Liabilities and Stockholders' Equity	$5,081,383	$5,059,681

The notes on pages 6 and 7 are an integral part of the financial statements.

Item 1. Financial Statements (Cont'd)

New York State Electric & Gas Corporation
Consolidated Statements of Cash Flows - (Unaudited)

Periods Ended March 31	Three Months 1997	Three Months 1996
	(Thousands)	
Operating Activities		
Net income	$81,977	$98,676
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	48,289	47,091
Federal income taxes and investment tax credits deferred, net	(11,038)	581
Changes in current operating assets and liabilities		
Accounts receivable	(10,128)	(48,945)
Prepayments	(18,509)	(19,929)
Inventory	11,312	16,403
Accounts payable and accrued liabilities	(24,929)	(9,786)
Taxes accrued	62,884	58,822
Other, net	14,982	15,040
Net Cash Provided by Operating Activities	154,840	157,953
Investing Activities		
Utility plant capital expenditures	(25,995)	(45,966)
Proceeds from governmental and other sources	131	31
Expenditures for other property and investments	(551)	(552)
Net Cash Used in Investing Activities	(26,415)	(46,487)
Financing Activities		
Repurchase of common stock	(7,246)	-
Repayments of first mortgage bonds and preferred stock, including net premiums	(48,000)	(128,960)
Changes in funds set aside for first mortgage bond repayments	25,000	-
Long-term notes, net	(456)	2,234
Commercial paper, net	(66,800)	39,680
Dividends on common and preferred stock	(26,643)	(29,647)
Net Cash Used in Financing Activities	(124,145)	(116,693)
Net Increase (Decrease) in Cash and Cash Equivalents	4,280	(5,227)
Cash and Cash Equivalents, Beginning of Period	8,253	11,433
Cash and Cash Equivalents, End of Period	$12,533	$6,206
Supplemental Disclosure of Cash Flows Information		
Cash paid during the period		
Interest, net of amounts capitalized	$14,216	$15,362
Income taxes	-	$1,770

The notes on pages 6 and 7 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Statements of Retained Earnings - (Unaudited)

Periods ended March 31	Three Months 1997	Three Months 1996
	(Thousands)	
Balance, beginning of period	$489,129	$424,412
Add net income	81,977	98,676
	571,106	523,088
Deduct dividends on capital stock		
Preferred	2,315	2,333
Common	24,269	25,026
	26,584	27,359
Deduct premium paid on preferred stock redemption	-	5,960
Balance, end of period	$544,522	$489,769

The notes on pages 6 and 7 are an integral part of the financial statements.

Note 1. Unaudited Consolidated Financial Statements

The accompanying unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of New York State Electric & Gas Corporation's (company) consolidated results for the interim periods. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the company's annual report for the year ended December 31, 1996. Due to the seasonal nature of the company's operations, financial results for interim periods are not necessarily indicative of trends for a twelve-month period.

Note 2. Reclassification

Certain items have been reclassified on the consolidated financial statements to conform to the 1997 presentation.

Note 3. Environmental Liability

The company has a program to investigate and perform necessary remediation at its known inactive gas manufacturing sites. In March 1994 and October 1996 the company entered into Orders on Consent with the New York State Department of Environmental Conservation requiring the company to investigate and, where necessary, remediate 34 of the company's 38 known inactive gas manufacturing sites. With respect to the 38 sites, eight sites are included in the New York State Registry of Inactive Hazardous Waste Sites.

The company revised its estimate for all costs related to investigation and remediation of the 38 sites, from $31 million at December 31, 1996, to a range of $83 million to $186 million at March 31, 1997. The company's previous estimate of $31 million was based on known conditions and only one remedial alternative for each site. The new estimate is based on both known and potential site conditions and multiple remediation alternatives for each of the sites. The estimate was not revised as a result of any new obligations. The new estimate has not been discounted and is based on costs in 1996 dollars that the company expects to incur through the year 2017. The estimate could change materially, based on facts and circumstances derived from site investigations, changes in required remedial action, changes in technology relating to remedial alternatives and changes to current laws and regulations.

The liability to investigate and perform remediation, as necessary, at the known inactive gas manufacturing sites, is reflected in the company's consolidated balance sheets at March 31, 1997 and December 31, 1996, in the amounts of $83 million and $31 million, respectively. The company has recorded a corresponding regulatory asset, since it expects to recover such expenditures in rates, as the company has previously been allowed by the Public Service Commission of the State of New York (PSC) to recover such costs. The company has notified its former and current insurance carriers that it seeks to recover from them certain of the cleanup costs. The company is unable to predict the amount of insurance recoveries, if any, that it may obtain.

Item 2. Management's discussion and analysis of financial condition and results of operations

(a) Liquidity and Capital Resources

Competitive Conditions (See Form 10-K for fiscal year ended December 31, 1996, Item 7 - Liquidity and Capital Resources - Competitive Conditions - Electric Industry, Accounting Issues, and Rate Matters - Electric Rate Settlement.)

Electric Rate and Restructuring Plan

On September 27, 1996, the company submitted a five-year rate and restructuring plan (NYSEGPlan) in response to the PSC's Order dated May 20, 1996, in the Competitive Opportunities Proceeding.

On October 9, 1996, the PSC issued a procedural order allowing until January 7, 1997, (subsequently extended for the company until March 25, 1997) to complete the discovery and settlement negotiations regarding the utilities' submissions.

The company was unable to reach a settlement with the PSC Staff regarding NYSEGPlan. As a result, the company filed testimony on March 25, 1997, to litigate the issues, and hearings before the PSC are scheduled to begin May 15, 1997. The company also filed a proposed settlement that includes the following key elements:

- All eligible customers would be able to choose their electricity supplier by August 1, 1999. This would be one of the nation's most aggressive programs for achieving full retail competition.

- The company would forgo the $45.5 million electric price increase the PSC approved for the third and final year of its current electric rate settlement. The company would also pass along to its customers any net savings that result from gross receipts tax or special financing legislation.

- The company would stabilize electric prices for five years. During that period many large customers would see their prices reduced 25%, while others would receive discounts for growth or increased electricity usage.

- The company would provide customers and suppliers with more detailed price information through a rate unbundling proposal during the five-year transition period.

- The current freeze of natural gas prices would be extended four more years through July 31, 2002.

- The company would be authorized to form a holding company and to transfer designated coal-fired generation assets to one or more generation companies within the holding company structure.

- The company continues to insist on the opportunity to recover past investments that were prudently incurred as a result of government mandates and the company's obligation to serve all customers.

The company is unable to predict the outcome of this proceeding and its ultimate effect on the company's financial position, results of operations or its eligibility to continue applying Statement of Financial Accounting Standards No. 71 (Statement 71), Accounting for the Effects of Certain Types of Regulation. Continued application of Statement 71 requires that the company's regulated operations meet the following three criteria:

- rates for regulated services or products provided to customers are subject to approval by an independent, third party regulator,

- the regulated rates are designed to recover the company's costs of providing regulated services or products and

- it is reasonable to assume that rates set at levels that will recover the company's costs can be charged to and collected from customers.

Although the company believes that it will continue to meet those criteria in the near future, it cannot predict what effect the following two matters will have on its ability to do so: 1) recent inquiries by the Securities and Exchange Commission's Chief Accountant regarding the continued application of Statement 71 for generation operations of electric utilities facing restructuring or 2) discussions the Financial Accounting Standards Board's Emerging Issues Task Force is expected to have in the near future related to the continued application of Statement 71 during the transition to competition. If the company no longer met the criteria of Statement 71 for all or a separable part of its business, it may have to record as expense or revenue certain previously deferred items (regulatory assets and regulatory liabilities) and may have to record as a loss the amount for power purchase contracts with nonutility generators that is above the estimated price in a competitive marketplace.

FERC Orders 888 and 889

In April 1996 the Federal Energy Regulatory Commission (FERC) issued Orders 888 and 889 adopting final rules to facilitate the development of competitive wholesale electric markets by opening up transmission services and to address the resulting stranded costs. In March 1997 the FERC issued Orders 888-A and 889-A, which generally affirmed Orders 888 and 889. Various parties, including the company, have filed petitions for review of these orders with the U.S. Courts of Appeals in various circuits.

In Orders 888 and 889, the FERC directed all public utilities to file a compliance open-access transmission tariff on or before July 9, 1996. Order 888 allows each utility to submit further modifications to its tariff and allows customers to request modifications to the tariff. The company filed its compliance open-access transmission tariff and a modified open-access transmission tariff on July 9 and July 10, 1996, respectively. The FERC accepted the company's transmission rates filed on July 9, 1996, subject to refund and set the rates for hearing. As required by the FERC, in February 1997 the company filed a new compliance tariff with respect to non-rate terms and conditions, which became effective retroactively on January 29, 1997.

On March 28, 1997, the company submitted to FERC a request for a modification of its transmission rate. The company requested an increase in its transmission rate, effective May 28, 1997, to ensure that it is adequately compensated by customers who use its transmission services. To date, the FERC has not acted on the company's request.

Investing Activities

Capital expenditures for the first quarter of 1997 were $26 million, primarily for the extension of service and necessary improvements to existing facilities. The company estimates its capital expenditures for 1997 will total $141 million and will be financed entirely with internally generated funds.

Financing Activities

During the first quarter of 1997, the company repaid $25 million of 5 5/8% Series first mortgage bonds that matured on January 1, 1997; redeemed, at par, the remaining $23 million of its 9 7/8% Series first mortgage bonds, due February 1, 2020; and repaid approximately $67 million of commercial paper.

The company initiated a common stock repurchase program of not to exceed 4,000,000 shares in September 1996. The company repurchased 3,000,100 shares as of April 30, 1997.

(b) Results of Operations

Three months ended March 31, 1997 compared with three months ended March 31, 1996:

	1997	1996	Change
	(Thousands, except per share amounts)		
Total Operating Revenues	$588,137	$622,056	(5%)
Operating Income	$167,527	$196,353	(15%)
Earnings Available for Common Stock	$79,662	$96,343	(17%)
Average Shares Outstanding	69,353	71,503	(3%)
Earnings Per Share	$1.15	$1.35	(15%)
Dividends Per Share	$.35	$.35	-

Earnings per share for the three months ended March 31, 1997, decreased 20 cents compared to the prior year period. Lower electric and natural gas retail sales, due to a very mild winter this year compared to 1996, reduced earnings per share 18 cents. A less favorable electric sales mix, due to lower residential and commercial sales but higher industrial sales, and increases in the price of mandated purchases of power from nonutility generators (NUGs) reduced earnings 14 cents per share.

The above decreases were partially offset by several items that increased earnings per share. A reduction in average shares outstanding due to the repurchase of common stock added three cents; a decrease in losses incurred by NGE Enterprises, Inc. added three cents; a decrease in the price of natural gas purchased added two cents; and lower interest charges, due to the redemption of first mortgage bonds, also added two cents to earnings per share.

Operating Results by Business Segment

Electric	Three Months ended March 31,		
	1997	1996	Change
	(Thousands)		
Retail Sales - Megawatt-Hours(mwh)	3,492	3,643	(4%)
Operating Revenues	$451,270	$472,352	(4%)
Operating Expenses	$331,969	$326,965	2%
Operating Income	$119,301	$145,387	(18%)

Electric retail sales decreased 4% for the quarter ended March 31, 1997, primarily because of a very mild winter this year compared to 1996.

The $21 million decrease in electric operating revenues for the quarter was primarily due to lower retail sales, which reduced revenues $18 million.

The $5 million increase in electric operating expenses for the three months is primarily due to a $4 million increase in other operating expenses and a $3 million increase in electricity purchased, mostly due to increases in the price of mandated purchases of power from NUGs. Those increases were partially offset by decreases in other taxes and maintenance of $2 million and $1 million, respectively.

Natural Gas	Three Months ended March 31,		
	1997	1996	Change
	(Thousands)		
Retail Deliveries - Dekatherms(dth)	23,419	25,337	(8%)
Operating Revenues	$136,867	$149,704	(9%)
Operating Expenses	$88,641	$98,738	(10%)
Operating Income	$48,226	$50,966	(5%)

Natural gas retail deliveries decreased 8% for the three months ended March 31, 1997, primarily because of a very mild winter this year compared to 1996.

The $13 million decrease in natural gas operating revenues for the quarter is primarily due to lower retail deliveries, which reduced revenues $11 million.

Natural gas operating expenses decreased $10 million due to a $9 million decrease in natural gas purchased, mainly due to lower volume, and a $1 million decrease in other taxes.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - See Exhibit Index.

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW YORK STATE ELECTRIC & GAS CORPORATION
(Registrant)

By Gary J. Turton
GARY J. TURTON
Vice President and Controller
(Chief Accounting Officer)

Date: May 14, 1997

EXHIBIT INDEX

27 -- Financial Data Schedule.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from . . . . . to . . . . . .

Commission file number 1-3103-2

New York State Electric & Gas Corporation
(Exact name of registrant as specified in its charter)

New York	15-0398550
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
P.O. Box 3287, Ithaca, New York	14852-3287
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 607 347-4131

N/A
Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

The number of shares of common stock (par value $6.66 2/3 per share) outstanding as of July 31, 1997 was 67,502,827.

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PART I

PART II

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

New York State Electric & Gas Corporation
Consolidated Statements of Income - (Unaudited)

Periods Ended June 30	Three Months 1997	Three Months 1996	Six Months 1997	Six Months 1996
	(Thousands, except per share amounts)			
Operating Revenues				
Electric	$411,453	$397,088	$862,723	$869,440
Natural gas	58,917	57,579	195,784	207,283
Total Operating Revenues	470,370	454,667	1,058,507	1,076,723
Operating Expenses				
Fuel used in electric generation	52,706	46,699	112,689	106,280
Electricity purchased	98,247	90,062	191,459	180,688
Natural gas purchased	28,462	34,091	88,869	103,134
Other operating expenses	80,967	84,411	160,528	160,534
Maintenance	30,550	28,411	54,467	53,527
Depreciation and amortization	48,027	47,052	96,316	94,143
Other taxes	48,668	49,017	103,909	107,140
Total Operating Expenses	387,627	379,743	808,237	805,446
Operating Income	82,743	74,924	250,270	271,277
Interest Charges, Net	29,882	30,202	60,508	62,314
Other Income and Deductions	4,578	9,146	9,346	17,837
Income Before Federal Income Taxes	48,283	35,576	180,416	191,126
Federal Income Taxes	22,008	14,694	72,164	71,568
Net Income	26,275	20,882	108,252	119,558
Preferred Stock Dividends	2,352	2,386	4,667	4,719
Earnings Available for Common Stock	$23,923	$18,496	$103,585	$114,839
Earnings Per Share	$.35	$.26	$1.51	$1.61
Dividends Per Share	$.35	$.35	$.70	$.70
Average Shares Outstanding	68,279	71,503	68,813	71,503

The notes on pages 6 and 7 are an integral part of the financial statements.

Item 1. Financial Statements (Cont'd)

New York State Electric & Gas Corporation
Consolidated Balance Sheets - (Unaudited)

	June 30, 1997	Dec. 1996
	(Thousands)	
Assets		
Current Assets		
Cash and cash equivalents	$13,422	$8,253
Special deposits	2,694	31,364
Accounts receivable, net	135,558	189,043
Fuel, at average cost	34,274	36,472
Materials and supplies, at average cost	44,285	43,044
Prepayments	46,893	47,169
Accumulated deferred federal income tax benefits, net	23,404	3,424
Total Current Assets	300,530	358,769
Utility Plant, at Original Cost		
Electric	5,200,018	5,177,365
Natural gas	548,186	529,023
Common	155,218	151,290
	5,903,422	5,857,678
Less accumulated depreciation	2,010,945	1,933,599
Net Utility Plant in Service	3,892,477	3,924[illegible]
Construction work in progress	58,082	58[illegible]
Total Utility Plant	3,950,559	3,982,364
Other Property and Investments, Net	95,947	99,221
Regulatory and Other Assets		
Regulatory assets		
Unfunded future federal income taxes	267,711	269,767
Environmental remediation costs	84,600	32,100
Unamortized debt expense	78,862	80,745
Demand-side management program costs	69,576	71,425
Other	125,768	149,561
Total regulatory assets	626,517	603,598
Other assets	22,242	15,729
Total Regulatory and Other Assets	648,759	619,327
Total Assets	$4,995,795	$5,059,681

The notes on pages 6 and 7 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Balance Sheets - (Unaudited)

	June 30, 1997	Dec. 31, 1996
	(Thousands)	
Liabilities		
Current Liabilities		
Current portion of long-term debt	$32,972	$83,488
Commercial paper	37,800	129,300
Accounts payable and accrued liabilities	92,465	121,123
Interest accrued	20,814	22,195
Taxes accrued	42,825	-
Other	53,036	71,324
Total Current Liabilities	279,912	427,430
Regulatory and Other Liabilities		
Regulatory liabilities		
Deferred income taxes - unfunded future federal income taxes	107,967	109,065
Deferred income taxes	88,280	94,004
Other	78,535	65,471
Total regulatory liabilities	274,782	268,540
Other liabilities		
Deferred income taxes	754,449	751,553
Other postretirement benefits	106,509	95,195
Environmental remediation costs	84,600	32,100
Other	70,535	74,627
Total other liabilities	1,016,093	953,475
Long-term debt	1,486,620	1,480,814
Total Liabilities	3,057,407	3,130,259
Commitments	-	-
Preferred Stock Redeemable Solely at the Option of the Company	134,440	134,440
Preferred Stock Subject to Mandatory Redemption Requirements	25,000	25,000
Common Stock Equity		
Common stock	462,250	464,469
Capital in excess of par value	811,793	816,384
Retained earnings	544,470	489,129
Treasury stock	(39,565)	-
Total Common Stock Equity	1,778,948	1,769,982
Total Liabilities and Stockholders' Equity	$4,995,795	$5,059,681

The notes on pages 6 and 7 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Statements of Cash Flows - (Unaudited)

Periods Ended June 30	Six Months 1997	Six Months 1996
	(Thousands)	
Operating Activities		
Net income	$108,252	$119,558
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	96,316	94,143
Federal income taxes and investment tax credits deferred, net	(23,381)	(10,192)
Changes in current operating assets and liabilities		
Accounts receivable	53,485	15,343
Inventory	957	(2,455)
Accounts payable and accrued liabilities	(28,658)	(12,758)
Taxes accrued	42,825	29,734
Other, net	27,146	27,760
Net Cash Provided by Operating Activities	276,942	261,133
Investing Activities		
Utility plant capital expenditures	(55,842)	(94,075)
Proceeds from governmental and other sources	911	1,131
Expenditures for other property and investments	(804)	(1,454)
Net Cash Used in Investing Activities	(55,735)	(94,398)
Financing Activities		
Repurchase of common stock	(7,254)	-
Purchase of treasury stock	(39,565)	-
Repayments of first mortgage bonds and preferred stock, including net premiums	(48,000)	(168,076)
Changes in funds set aside for first mortgage bond repayments	25,000	-
Long-term notes, net	(1,667)	1,099
Commercial paper, net	(91,500)	53,780
Dividends on common and preferred stock	(53,052)	(57,006)
Net Cash Used in Financing Activities	(216,038)	(170,203)
Net Increase (Decrease) in Cash and Cash Equivalents	5,169	(3,468)
Cash and Cash Equivalents, Beginning of Period	8,253	11,433
Cash and Cash Equivalents, End of Period	$13,422	$7,965
Supplemental Disclosure of Cash Flows Information		
Cash paid during the period		
Interest, net of amounts capitalized	$55,230	$57,866
Income taxes	$65,252	$49,581

The notes on pages 6 and 7 are an integral part of the financial statements.

New York State Electric & Gas Corporation
Consolidated Statements of Retained Earnings - (Unaudited)

Periods ended June 30	Six Months 1997	Six Months 1996
	(Thousands)	
Balance, beginning of period	$489,129	$424,412
Add net income	108,252	119,558
	597,381	543,970
Deduct dividends on capital stock		
Preferred	4,667	4,719
Common	48,244	50,052
	52,911	54,771
Deduct premium paid on preferred stock redemption	-	7,010
Balance, end of period	$544,470	$482,189

The notes on pages 6 and 7 are an integral part of the financial statements.

Note 1. Unaudited Consolidated Financial Statements

The accompanying unaudited consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of New York State Electric & Gas Corporation's (company) consolidated results for the interim periods. All such adjustments are of a normal recurring nature. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and notes contained in the company's annual report for the year ended December 31, 1996. Due to the seasonal nature of the company's operations, financial results for interim periods are not necessarily indicative of trends for a twelve-month period.

Note 2. Reclassification

Certain items have been reclassified on the consolidated financial statements to conform to the 1997 presentation.

Note 3. Stock-Based Compensation Plans

The shareholders of the company approved the 1997 Stock Option Plan at the Annual Meeting of Stockholders in May 1997. (See Part II, Item 4. Submission of Matters to a Vote of Security Holders.) The company applies the provisions of Statement of Financial Accounting Standards No. 123 (Statement 123), Accounting for Stock-Based Compensation, to its stock-based compensation plans and accounts for them in accordance with Accounting Principles Board No. 25, Accounting for Stock Issued to Employees, as permitted by Statement 123.

Note 4. Unsolicited Tender Offer

(See Part II, Item 1. Legal Proceedings.)

On July 18, 1997, a subsidiary of Omaha, Nebraska-based CalEnergy Company, Inc. (CalEnergy) commenced an unsolicited tender offer to purchase 9.9% of the company's common stock for $24.50 per share in cash as part of a stated plan to acquire all of the company's common stock. The company's board of directors (Board), after a comprehensive and careful review, unanimously recommended that shareholders reject CalEnergy's unsolicited tender offer. The Board also decided to reject CalEnergy's proposal to commence merger negotiations for a transaction in which CalEnergy would acquire all of the company's common stock at $27.50 per share, as not being in the best interests of the company or its shareholders, customers, employees and other constituencies. The company recognized a liability of $18 million in July 1997 for commitments to financial advisors providing services related to this matter. The company is recognizing expenses for those and all other fees related to this matter as fees are earned.

Note 5. Benefit Trusts

In accordance with the terms of the Employee Benefit Trust Agreement and Director Benefit Trust Agreement, each dated July 1, 1994, as amended, the company deposited $52 million into external trust funds in July 1997. The obligation to make such deposits arose as a result of the actions of CalEnergy. (See Note 4. Unsolicited Tender Offer.) Those agreements cover employee severance agreements and certain employee and director plans.

Item 2. Management's discussion and analysis of financial condition and results of operations

(a) Liquidity and Capital Resources

Competitive Conditions (See Form 10-K for fiscal year ended December 31, 1996, Item 7 - Liquidity and Capital Resources - Competitive Conditions - Electric Industry and Natural Gas Industry, Accounting Issues, and Rate Matters - Electric Rate Settlement and Form 10-Q for the quarter ended March 31, 1997, Item 2(a) - Liquidity and Capital Resources - Competitive Conditions - Electric Rate and Restructuring Plan, and FERC Orders 888 and 889.)

Electric Industry

Electric Rate and Restructuring Plan

The company reached an agreement with the Public Service Commission of the State of New York (PSC) Staff, on July 28, 1997, on the principles to govern a settlement of the company's electric rate and restructuring plan. A settlement agreement (Settlement Agreement) reflecting, among other things, those principles is expected to be entered into shortly with the PSC Staff and others. The Settlement Agreement, which is subject to PSC approval, will include the following key elements:

- Forgo two previously approved price increases for residential and certain commercial customers totaling 6% and freeze overall average electric prices for those customers through July 31, 2002;

- Rates for large-use industrial and commercial customers will be reduced 5% each year for the next five years;

- A retail choice program that is the most aggressive plan in the state for implementing customer choice, under which all customers will be permitted to buy electricity in a competitive marketplace by August 1, 1999, reinforcing the company's commitment to competition;

- After further negotiation, an extension of the current natural gas settlement through July 2002;

- The company will separate its fossil fuel generation into an unregulated subsidiary. The fossil generating units will be subject to an auction process, that will be completed by August 1, 1999, in which the company can participate; and

- The company will receive a reasonable opportunity to recover all prudently incurred investments made in the past.

Prices could be reduced further by passing back to customers savings from renegotiation of nonutility generator (NUG) contracts, the passage of proposed securitization legislation and/or a reduction in the gross receipts tax.

The Settlement Agreement will be presented to all interested parties and an administrative law judge, with the expectation of a PSC decision in the fourth quarter of 1997.

The company is unable to predict the outcome of this proceeding and its ultimate effect on the company's financial position, results of operations or its eligibility to continue applying Statement of Financial Accounting Standards No. 71 (Statement 71), Accounting for the Effects of Certain Types of Regulation, to its regulated operations. Continued application of Statement 71 requires that the company's regulated operations must meet the following three criteria:

- rates for regulated services or products provided to customers are subject to approval by an independent third-party regulator,

- the regulated rates are designed to recover the company's costs of providing regulated services or products, and

- it is reasonable to assume that rates set at levels that will recover the company's costs can be charged to and collected from customers.

Although the company believes that it will continue to meet those criteria in the near future for its businesses that continue to be regulated, it cannot predict what effect the following two matters will have on its ability to do so: 1) recent inquiries by the Securities and Exchange Commission's Chief Accountant regarding the continued application of Statement 71 for generation operations of electric utilities facing restructuring or 2) authoritative guidance from the Financial Accounting Standards Board's Emerging Issues Task Force related to the continued application of Statement 71 during the transition to competition. If the company no longer met the criteria of Statement 71 for all or a separable part of its business, it may have to record as expense or revenue certain previously deferred items (regulatory assets and regulatory liabilities) and may have to record as a loss the amount for purchase power contracts with nonutility generators that is above the estimated price in a competitive marketplace.

Dairylea's Petition to the PSC

The PSC issued an order in June 1997, requiring four upstate utilities, including the company, to proceed with a retail access pilot program for more than 17,000 upstate commercial farmers and food processors, which includes approximately 6,700 of the company's customers, who meet certain eligibility requirements. The four utilities would continue to provide all services for their participating customers except energy and capacity, which would be supplied by alternative suppliers or energy services companies. The program, which begins in November 1997, does not include any provision for the recovery of stranded costs. On June 23, 1997, the company filed a lawsuit in the New York State Supreme Court, Albany County for a judgment annulling the PSC's order. The company will withdraw this lawsuit if the PSC approves the Settlement Agreement.

The company does not believe that this proceeding will have a material adverse effect on its financial position or results of operations.

Petition to the FERC on NUGs

The company petitioned the Federal Energy Regulatory Commission (FERC) in February 1995, asking for relief from having to pay approximately $2 billion more than its avoided costs for power purchased over the lives of two NUG contracts. One of these contracts is with Saranac Power Partners, L.P. (Saranac), the general partner of which is Saranac Energy Company, Inc., a wholly-owned, indirect subsidiary of CalEnergy. (See Note 4. Unsolicited Tender Offer.) The other contract is with Lockport Energy Associates, L.P. (Lockport). The FERC denied that petition in April 1995 and denied the company's subsequent request for a rehearing. The company believes that the overpayments under the two contracts violate the Public Utility Regulatory Policies Act of 1978.

The company filed a petition with the United States Court of Appeals for the District of Columbia (Court of Appeals) in June 1995, to review the FERC's decision. On July 11, 1997, the Court of Appeals issued a decision stating it lacks jurisdiction to rule on the company's appeal of the FERC's refusal to modify the power purchase contracts. The Court of Appeals said the company may pursue its claim in the United States District Court. The company commenced an action in the United States District Court for the Northern District of New York (District Court) on August 7, 1997, against Saranac, Lockport, FERC and the PSC. The complaint asks the District Court to reform the two NUG contracts by reducing the price the company must pay for electricity from Saranac and Lockport or to send the matter back to the FERC or to the PSC with direction that they modify such contracts. The complaint also seeks restitution of all moneys paid to Saranac and Lockport above the company's avoided costs.

The company continues to seek cost-effective ways to terminate or renegotiate existing NUG contracts and thus reduce its overpayment burdens under such contracts.

FERC Orders 888 and 889

The FERC issued Orders 888 and 889 in April 1996, adopting final rules to facilitate the development of competitive wholesale electric markets by opening up transmission services and to address the resulting stranded costs. In March 1997 the FERC issued Orders 888-A and 889-A, which generally affirmed Orders 888 and 889. Various parties, including the company, have filed petitions for review of these orders with the United States Courts of Appeals in various circuits.

In Order 888, the FERC directed all public utilities to file a compliance open-access transmission tariff on or before July 9, 1996. In Order 888-A, the FERC directed all public utilities to file a revised compliance tariff by July 14, 1997. The FERC has approved the company's transmission tariffs.

Natural Gas Industry

Seneca Lake Natural Gas Storage Project

The company's Seneca Lake storage project was placed into service in December 1996. The project consists of a natural gas storage cavern, a compressor station and two natural gas transmission pipelines.

The company received approval from the PSC on May 30, 1997, for a $10 million expansion of the project's compressor station. This expansion, which is scheduled to be completed by November 1, 1997, will increase the cavern's working gas storage capacity from 800 million to 1.45 billion cubic feet of natural gas and allow for growth in the company's wholesale natural gas business through the sale of storage capacity.

Joint Venture with Central Maine Power Company (CMP)

The company and CMP have signed a memorandum of understanding that could lead to the formation of a jointly-owned company to distribute natural gas to Maine customers in areas not currently served by a natural gas utility. Various regulatory approvals are required before the joint venture could operate a new gas distribution service. The opportunity for new retail distribution of natural gas depends on completion of either or both of two new pipeline proposals made by separate organizations. Those proposals are currently under federal and state regulatory review.

Investing Activities

Capital expenditures for the first six months of 1997 were $56 million, primarily for the extension of service and necessary improvements to existing facilities. The company estimates its capital expenditures for 1997 will total $141 million and will be financed entirely with internally generated funds.

Financing Activities

The company initiated a common stock repurchase program in September 1996. As of June 30, 1997, the company had repurchased all four million shares authorized under this program.

(b) Results of Operations

	Three Months Ended June 30,		
	1997	1996	Change
	(Thousands, except per share amounts)		
Total Operating Revenues	$470,370	$454,667	3%
Operating Income	$82,743	$74,924	10%
Earnings Available for Common Stock	$23,923	$18,496	29%
Average Shares Outstanding	68,279	71,503	(5%)
Earnings Per Share	$.35	$.26	35%
Dividends Per Share	$.35	$.35	-

Earnings per share for the three months ended June 30, 1997, increased nine cents compared to the prior year period. Lower costs of natural gas purchased added six cents to earnings per share and higher wholesale sales of electricity added five cents to earnings per share. Decreased losses incurred by NGE Enterprises, Inc. added three cents and reduced average shares outstanding, due to the repurchase of common stock, increased earnings per share another two cents.

Those increases were partially offset by higher costs of mandated purchases of power from NUGs and lower electric retail sales, due to milder weather, that reduced earnings per share five and two cents, respectively.

	Six Months ended June 30,		
	1997	1996	Change
	(Thousands, except per share amounts)		
Total Operating Revenues	$1,058,507	$1,076,723	(2%)
Operating Income	$250,270	$271,277	(8%)
Earnings Available for Common Stock	$103,585	$114,839	(10%)
Average Shares Outstanding	68,813	71,503	(4%)
Earnings Per Share	$1.51	$1.61	(6%)
Dividends Per Share	$.70	$.70	-

Earnings per share for the six months ended June 30, 1997, decreased 10 cents compared to the same period last year. Higher costs of mandated purchases of power from NUGs, a less favorable electric sales mix in the first quarter, due to lower residential and commercial sales but higher industrial sales, and higher fuel costs due to increased electric generation, reduced earnings per share 19 cents. Lower electric and natural gas retail sales, primarily due to very mild weather in the first quarter, reduced earnings per share an additional 19 cents.

Those decreases were partially offset by several items that increased earnings per share. A decrease in the cost of natural gas purchased added seven cents and higher wholesale sales of electricity, decreased losses incurred by NGE Enterprises, Inc. and reduced average shares outstanding, due to the repurchase of common stock, each added six cents to earnings per share.

Operating Results by Business Segment

Electric	Three Months ended June 30, 1997	1996	Change
	(Thousands)		
Retail Sales - Megawatt-Hours (mwh)	3,071	3,092	(1%)
Operating Revenues	$411,453	$397,088	4%
Operating Expenses	$334,939	$321,137	4%
Operating Income	$76,514	$75,951	1%

The $14 million increase in electric operating revenues for the quarter was primarily due to a $16 million increase in wholesale sales. Partially offsetting that increase were lower retail sales, due to milder weather, that reduced revenues $3 million.

The $14 million increase in electric operating expenses is primarily due to an $8 million increase in electricity purchased, mostly due to higher costs of mandated purchases of power from NUGs. Higher fuel costs, due to increased electric generation, added another $6 million to operating expenses.

	Six Months ended June 30, 1997	1996	Change
	(Thousands)		
Retail Sales - Megawatt-Hours (mwh)	6,563	6,735	(3%)
Operating Revenues	$862,723	$869,440	(1%)
Operating Expenses	$666,908	$648,102	3%
Operating Income	$195,815	$221,338	(12%)

Electric retail sales decreased 3% for the six months ended June 30, 1997, primarily because of very mild weather in the first quarter.

The $7 million decrease in electric operating revenues for the six months ended June 30, 1997, is primarily due to lower retail sales that decreased revenues $20 million and a less favorable electric sales mix that lowered revenues $10 million. Those decreases were partially offset by higher wholesale sales of $18 million.

Electric operating expenses increased $19 million primarily due to an $11 million increase in electricity purchased, mostly due to higher costs of mandated purchases of power from NUGs, and a $6 million increase in fuel costs due to an increase in electric generation.

Natural Gas	Three Months ended June 30,		
	1997	1996	Change
	(Thousands)		
Retail Deliveries- Dekatherms (dth)	10,889	10,938	-
Operating Revenues	$58,917	$57,579	2%
Operating Expenses	$52,688	$58,606	(10%)
Operating Income	$6,229	($1,027)	N/A

The $1 million increase in natural gas operating revenues is due to a more favorable sales mix that added $4 million to revenues. That increase was partially offset by a $3 million decrease in other revenues.

Natural gas operating expenses decreased $6 million due to a $6 million decrease in the cost of natural gas purchased.

	Six Months ended June 30,		
	1997	1996	Change
	(Thousands)		
Retail Deliveries - Dekatherms (dth)	34,308	36,275	(5%)
Operating Revenues	$195,784	$207,283	(6%)
Operating Expenses	$141,329	$157,344	(10%)
Operating Income	$54,455	$49,939	9%

Natural gas retail deliveries decreased 5% for the six months ended June 30, 1997, primarily due to very mild weather in the first quarter of 1997 and one low-margin customer that closed its cogeneration plant.

The $11 million decrease in natural gas operating revenues is due to lower retail deliveries.

Natural gas operating expenses decreased $16 million due to a $14 million decrease in the cost of natural gas purchased and a $2 million decrease in certain operating and maintenance costs.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

(See Part I, Item 2(a) - Liquidity and Capital Resources - Competitive Conditions - Electric Industry.)

(a) By letter dated April 20, 1992, the U.S. Environmental Protection agency (EPA) notified the company that the EPA had reason to believe that the company was a potentially responsible party (PRP) for the Clinton-Bender Removal Site (Clinton-Bender Site) in Buffalo, New York. Five other PRPs have been identified by the EPA. Nine private residential lots and one commercial property at the Clinton-Bender Site were contaminated with lead, allegedly due to run-off from the adjacent Bern Metals Site. The EPA ordered the company to perform the necessary removal work at the Clinton-Bender Site and the company is remediating the site in conjunction with four other identified PRPs. The total cost of the removal actions to be performed at the Clinton-Bender Site is estimated to be $3.1 million. The removal work is substantially complete. The company and the other participating parties are seeking to recover from other PRPs, not participating in the remedial action at the Clinton-Bender Site, any cost that the company and the other participating parties have incurred or will incur.

On November 3, 1993, the company was served with a summons and complaint filed on behalf of certain of the homeowners at the Clinton-Bender Site. Seven other defendants were named in the complaint, which was filed in the New York State Supreme Court, Erie County (Supreme Court, Erie County). The action was removed to the U.S. District Court for the Western District of New York (Western District Court). In their complaint, plaintiffs made general allegations that the defendants violated federal environmental laws without alleging facts in support of these allegations. Plaintiffs also alleged personal injury, property damage, and fear of cancer which they claim were caused by the presence of hazardous substances on their property, allegedly resulting from the disposal of such substances by the defendants at the Bern Metals Site. Any liability incurred as a result of these claims may have been joint and several. The plaintiffs asked for $30 million in direct damages from all defendants, as well as treble damages (for unspecified reasons) from all defendants, and an additional $10 million in punitive damages from each defendant. By order dated September 1, 1995, the Western District Court dismissed the plaintiffs claims made under the Clean Air Act, the Clean Water Act, and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, which are the only claims based upon federal causes of action, and remanded the action to the Supreme Court, Erie County. In June 1997 the company and certain other defendants entered into a settlement agreement with the plaintiffs, under which the plaintiffs discontinued their actions with prejudice. The company paid $150,000 toward this settlement.

(b) The company commenced an action against CalEnergy Company, Inc. (CalEnergy) and a subsidiary thereof, on July 30, 1997, in the United States District Court for the Southern District of New York (District Court). The action seeks preliminary and permanent injunctive relief against the offer to purchase 9.9% of the company's common stock and the planned takeover attempt of the company by CalEnergy, on the grounds, among other things, that CalEnergy has breached and continues to violate a confidentiality agreement and that CalEnergy's tender offer materials contained misleading and inadequate disclosures, thereby violating the federal securities laws. In addition, the company seeks an order requiring CalEnergy and its affiliates to divest any and all securities of the company acquired by CalEnergy and its affiliates while in possession of such confidential information. (See Part I, Item 1, Note 4. Unsolicited Tender Offer.)

(c) Nine purported class action lawsuits were commenced against the company and some or all of its directors in the New York State Supreme Court (Broome County, New York County, Kings County and Tompkins County) on or about July 17, 1997 and various dates thereafter through early August 1997. The lawsuits allege, among other things, that the plaintiffs are being deprived of the opportunity to realize the full value of their investment in the company as a result of the defendants' failure to fulfill their fiduciary duties and seek to maximize shareholder value in light of CalEnergy's offer to negotiate a transaction by which CalEnergy would acquire all outstanding shares of the company for $27.50 per share. The lawsuits seek generally, among other things, injunctive and declaratory relief requiring the defendants to fulfill their fiduciary duties to maximize shareholder value, and as to certain of the actions, damages. The defendants believe that these lawsuits are without merit and intend to defend them vigorously.

(d) CE Electric (NY), Inc. (CE), a wholly owned subsidiary of CalEnergy, commenced a proceeding on July 31, 1997, in the New York State Supreme Court (Tompkins County) (Court) seeking an order permitting CE to inspect and copy the company's list of shareholders and related materials. On August 8, 1997, the Court issued an order directing the company to compile the list of shareholders and related materials. The Court also held that if the District Court in the matter referred to in (b) above determines that there has not been a misuse of confidential information by CalEnergy to warrant issuance of a preliminary injunction barring the tender offer the company must produce the materials within 24 hours, and if the District Court makes no such determination, the parties may reapply to the Court for such relief as may be warranted.

(e) The company petitioned the PSC, on August 6, 1997, to issue a ruling that CalEnergy and its subsidiaries cannot acquire any shares of the company's common stock without first obtaining a determination from the PSC pursuant to Section 70 of the New York Public Service Law that the acquisition is in the public interest. On August 13, 1997, the PSC issued an order stating, among other things, that the purchase of 9.9% of the company's common stock by CalEnergy is subject to the PSC's jurisdiction and that such acquisition is approved upon several conditions. Two such conditions are that CalEnergy not use its 9.9% interest to impede a restructuring of the company and that CalEnergy divest all of the company's common stock if the PSC denies CalEnergy's application to acquire additional shares of the company's common stock. The order also provides that CalEnergy shall file for approvals of the acquisition of additional shares of the company's common stock no later than August 29, 1997, unless good cause is shown for a delay in such filing.

(f) A lawsuit was commenced on or about August 12, 1997, against the company and its directors in the United States District Court for the Southern District of New York. The lawsuit seeks, among other things, declaratory and injunctive relief ordering the defendants to correct alleged misleading disclosures and omissions relating to director removal provisions in documents filed by the company with the Securities and Exchange Commission in connection with the CalEnergy tender offer. (See Part I, Item 1, Note 4. Unsolicited Tender Offer.) The defendants believe that the lawsuit is without merit and intend to defend it vigorously.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Stockholders of the company was held on May 21, 1997. The following matters were voted upon:

(a) The election of seven directors:

Nominees	Cumulative Votes For	Cumulative Votes Withheld
R. Aurelio	57,922,963	7,801
L. B. DeFleur	57,925,220	5,544
E. A. Gilmour	57,825,815	104,949
A. E. Kintigh	57,897,405	33,359
A. G. Marshall	57,612,805	317,959
W. G. Rich	58,135,913	205,149
W. W. von Schack	58,112,340	181,576

(b) Approval of the 1997 Stock Option Plan:

Shares For:	51,043,716
Shares Against:	6,806,788
Shares Abstain:	1,369,611

(c) A stockholder proposal relating to a percentage reduction in director remuneration based on a dividend reduction was defeated:

Shares For:	10,061,944
Shares Against:	39,427,344
Shares Abstain:	1,419,060
Broker "Non Voted":	7,504,192

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits - See Exhibit Index.

(b) Reports on Form 8-K

A report on Form 8-K dated July 28, 1997, was filed to report certain information under Item 5, "Other Events" and Item 7, "Financial Statements and Exhibits."

A report on Form 8-K/A dated July 28, 1997, was filed to report certain information under Item 7, "Financial Statements and Exhibits."

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NEW YORK STATE ELECTRIC & GAS CORPORATION
(Registrant)

By Gary J. Turton
Gary J. Turton
Vice President and Controller
(Chief Accounting Officer)

Date: August 14, 1997

EXHIBIT INDEX

(1) The following exhibit is delivered with this report:

Exhibit No.	
27	- Financial Data Schedule

(2) The following exhibits are incorporated herein by reference:

Exhibit No.	Filed In	As Exhibit No.
10-36	- Supplemental Executive Retirement Plan Amendment No. 12 - Company's Schedule 14D-9, dated July 30, 1997	22
10-37	- Amended and Restated Annual Executive Incentive Plan Amendment No. 1 - Company's Schedule 14D-9, dated July 30, 1997 . . .	2
10-38	- Long-Term Executive Incentive Share Plan Amendment No. 1 - Company's Schedule 14D-9, dated July 30, 1997	3
10-39	- Form of Severance Agreement for Senior Vice Presidents Amendment No. 2 - Company's Schedule 14D-9, dated July 30, 1997 . . .	4
10-40	- Form of Severance Agreement for Senior Vice Presidents Amendment No. 3 - Company's Schedule 14D-9, dated July 30, 1997 . . .	5
10-41	- Form of Severance Agreement for Vice Presidents Amendment No. 2 - Company's Schedule 14D-9, dated July 30, 1997 . . .	6
10-42	- Form of Severance Agreement for Vice Presidents Amendment No. 3 - Company's Schedule 14D-9, dated July 30, 1997 . . .	7
10-43	- Form of Severance Agreement for Treasurer - Company's Schedule 14D-9, dated July 30, 1997	8
10-44	- Employment Agreement for W. W. von Schack Amendment No. 2 - Company's Schedule 14D-9, dated July 30, 1997	11
10-45	- Employment Agreement for W. W. von Schack Amendment No. 3 - Company's Schedule 14D-9, dated July 30, 1997	12
10-46	Employee Benefit Trust Agreement - Company's Schedule 14D-9, dated July 30, 1997 . . .	13
10-47	First Amendment to Employee Benefit Trust Agreement - Company's Schedule 14D-9, dated July 30, 1997	14
10-48	Second Amendment to Employee Benefit Trust Agreement - Company's Schedule 14D-9, dated July 30, 1997	15
10-49	Third Amendment to Employee Benefit Trust Agreement - Company's Schedule 14D-9, dated July 30, 1997	16
10-50	Director Benefit Trust Agreement - Company's Schedule 14D-9, dated July 30, 1997 . . .	17
10-51	First Amendment to Director Benefit Trust Agreement - Company's Schedule 14D-9, dated July 30, 1997	18

EXHIBIT E

ACTUAL AND PRO FORMA INCOME STATEMENTS

New York State Electric & Gas Corporation's income statement is set forth in its FERC Form No. 1 for the year ended December 31, 1996 (at pages 114-117), which is incorporated herein by reference.

New York State Electric & Gas Corporation
Unaudited Pro Forma Statements of Income
Year Ended December 31, 1996
(Thousands, except per share amounts)

	Actual	Pro Forma Financial Statements			
	Consolidated	GenSub	NYSEG	Other (F)	HoldCo Consolidated
Operating Revenues					
Wholesale electric	$162,232	$160,958	$1,274		$162,232
Other electric	1,560,915	165,447	1,560,915	(165,447)	1,560,915
Electric	1,723,147	326,405 (A)	1,562,189	(165,447)	1,723,147
Natural gas	336,224		336,224		336,224
Total Operating Revenues	2,059,371	326,405	1,898,413	(165,447)	2,059,371
Operating Expenses					
Fuel used in electric generation	222,102	210,423	11,679		222,102
Electricity purchased	360,753		526,200 (B)	(165,447)	360,753
Natural gas purchased	172,705		172,705		172,705
Other operating expenses (C)	342,455	78,801	263,654		342,455
Maintenance (C)	107,697	30,524	77,173		107,697
Depreciation and amortization	189,401	63,413	125,988		189,401
Other taxes	206,715	28,590	178,125		206,715
Total Operating Expenses	1,601,828	411,751	1,355,524	(165,447)	1,601,828
Operating Income	457,543	(85,346)	542,889		457,543
Interest Charges, Net (D)	122,729	34,343	88,386		122,729
Other Income and Deductions (E)	48,630	3,276	14,791	30,563	48,630
Income Before Federal Income Taxes	286,184	(122,965)	439,712	(30,563)	286,184
Federal Income Taxes	107,943	(46,383)	163,602	(9,276)	107,943
Net Income	178,241	(76,582)	276,110	(21,287)	178,241
Preferred Stock Dividends	9,530		9,530		9,530
Earnings Available for Common Stock	$168,711	($76,582)	$266,580	($21,287)	$168,711
Earnings Per Share	$2.37				$2.37
Dividends Declared per Common Share	$1.40				$1.40
Average Shares Outstanding	71,127				71,127

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New York State Electric & Gas Corporation
Notes to Unaudited Pro Forma Statements of Income
December 31, 1996

The pro forma financial statements and the assumptions set forth below are for illustrative purposes only. The pro forma financial statements and assumptions should not be used to forecast future operating results or financial position. Actual operating results or financial position could differ materially from the pro forma financial statements.

Nature of the Transaction

New York State Electric & Gas Corporation (the company) will reorganize into a holding company structure with GenSub, NYSEG (a regulated subsidiary) and NGE Enterprises, Inc. becoming wholly-owned subsidiaries of the parent company, HoldCo. For purposes of these pro forma financial statements, the balance sheets were prepared assuming the transaction was consummated on December 31, 1996 by transferring assets, liabilities and common stock equity from NYSEG to the GenSub. It was assumed that no cash consideration was received for this transaction. For purposes of the pro forma statements of income and retained earnings, it was assumed that the transaction occurred at the beginning of 1996.

Somerset Railroad Corporation, previously a wholly-owned subsidiary of the company, will become a wholly-owned subsidiary of GenSub. The GenSub will include all of the company's coal-fired generating stations and certain assets and liabilities in addition to Somerset Railroad Corporation. Nuclear and hydro generation assets will remain with NYSEG. NGE Enterprises, Inc. remains as an unregulated subsidiary.

Assumptions

(A) Wholesale sales revenues represent actual revenues received. All remaining GenSub generation was assumed to be sold to NYSEG. Revenues on sales to NYSEG were calculated at the 1996 New York State Department of Public Service schedule of Long Run Avoided Cost energy and capacity price.

(B) Assumes all energy lost and unaccounted for was absorbed by NYSEG.

(C) Operation and maintenance expenses include all amounts directly related to the operation (excluding fuel costs) and maintenance of coal-fired generation plus corporate administrative and general costs allocated in accordance with the company's cost allocation methodology.

The cost allocation methodology provides for the assignment of authorized corporate services directly related to generation; for example, personal computer operation and maintenance costs and information service consulting costs. It also allocates costs which cannot be directly charged on a specific allocation method. For example, building service costs are allocated based on generation square footage utilization of several buildings. Health care costs, pensions and workers compensation costs which are employee dependent are allocated based on payroll. All other corporate administrative and general costs which cannot be allocated using a specific allocation method are charged based on payroll.

(D) Interest charges were allocated based on the debt allocation.

(E) Other income and deductions were either directly assignable to GenSub, allocated based on payroll, or allocated based on utility plant.

(F) Amounts represent normal consolidating eliminations and includes results of operations of unregulated subsidiaries.

EXHIBIT F

STATEMENT OF RETAINED EARNINGS

A statement of retained earnings for the period covered by the income statement referred to in Exhibit E is set forth in New York State Electric & Gas Corporation's Form No. 1 for the year ended December 31, 1996 (at pages 118-119), which is incorporated herein by reference.

New York State Electric & Gas Corporation
Unaudited Pro Forma Statements of Retained Earnings
December 31, 1996
(Thousands)

	Actual	Pro Forma Financial Statements			
	Consolidated	GenSub	NYSEG	Other	HoldCo Consolidated
Balance, December 31, 1995	$424,412	$249,837	$193,682	($19,107)	$424,412
Add net income (loss)	178,241	(76,582)	276,110	(21,287)	178,241
	602,653	173,255	469,792	(40,394)	602,653
Deduct dividends on capital stock					
Preferred	9,530		9,530		9,530
Common	99,611		99,611		99,611
	109,141		109,141		109,141
Deduct premium paid on preferred stock redemption	4,383		4,383		4,383
Balance, December 31, 1996	$489,129	$173,255	$356,268	($40,394)	$489,129

New York State Electric & Gas Corporation
Notes to Unaudited Pro Forma Statements of Retained Earnings
December 31, 1996

The pro forma financial statements and the assumptions set forth below are for illustrative purposes only. The pro forma financial statements and assumptions should not be used to forecast future operating results or financial position. Actual operating results or financial position could differ materially from the pro forma financial statements.

Nature of the Transaction

New York State Electric & Gas Corporation (the company) will reorganize into a holding company structure with GenSub, NYSEG (a regulated subsidiary) and NGE Enterprises, Inc. becoming wholly-owned subsidiaries of the parent company, HoldCo. For purposes of these pro forma financial statements, the balance sheets were prepared assuming the transaction was consummated on December 31, 1996 by transferring assets, liabilities and common stock equity from NYSEG to the GenSub. It was assumed that no cash consideration was received for this transaction. For purposes of the pro forma statements of income and retained earnings, it was assumed that the transaction occurred at the beginning of 1996.

Somerset Railroad Corporation, previously a wholly-owned subsidiary of the company, will become a wholly-owned subsidiary of GenSub. The GenSub will include all of the company's coal-fired generating stations and certain assets and liabilities in addition to Somerset Railroad Corporation. Nuclear and hydro generation assets will remain with NYSEG. NGE Enterprises, Inc. remains as an unregulated subsidiary.

EXHIBIT G

STATE AND FEDERAL APPLICATIONS

Attached are the following:

- Copy of the Petition filed with the NYPSC on December 19, 1996.
- Statement of Principles dated July 28, 1997.
- Settlement Agreement circulated by NYSEG and the NYPSC Staff on August 20, 1997.

Other than the filings enumerated above, the only other applications required to be filed with any other Federal or State regulatory body in connection with the proposed transaction are applications that will be filed with the Nuclear Regulatory Commission and the Securities and Exchange Commission. Applicant will file copies of these applications with the Federal Energy Regulatory Commission as a supplement to this filing.

LAW OFFICES OF

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* NOT ADMITTED IN NEW YORK

DIRECT DIAL

December 19, 1996

BY HAND

Honorable John C. Crary
Secretary
Public Service Commission
of the State of New York
Three Empire State Plaza
Albany, New York 12223

Re: New York State Electric & Gas Corporation

Dear Secretary Crary:

Enclosed for filing with the Commission are an original and five copies of a Petition pursuant to which New York State Electric & Gas Corporation ("Petitioner") seeks authority under Sections 70, 107, 108 and 110 of the Public Service Law: (a) to form a holding company structure pursuant to a plan of exchange under which all outstanding shares of Petitioner's Common Stock will be exchanged on a share-for-share basis for the Common Stock of a holding company ("HoldCo"); (b) to structurally separate fossil and hydropower generation assets from Petitioner; and (c) to engage in certain related transactions.

This filing relates to the Commission's determinations in the Competitive Opportunities Proceeding. Although Petitioner's September 27, 1996 submission ("NYSEGPlan") in the PSC's Competitive Opportunities Proceeding contemplates the functional separation of Petitioner's generation business from its transmission and distribution businesses, parties to the NYSEGPlan proceeding (PSC Case 96-E-0891) have expressed a preference for a structural separation of the generation business based on the view that such structural separation would alleviate

concerns about potential vertical market power in generation better than the planned functional separation. Without conceding the issue, Petitioner desires to address that position constructively by petitioning for a change in corporate structure upon the conditions set forth in the attached Petition.

Petitioner believes that the holding company structure inherently protects ratepayers and that the Commission already possesses a range of statutory tools to ensure that ratepayers are adequately protected. Nevertheless, Petitioner is willing to agree to certain additional restrictions which would address any remaining concerns, provided that such restrictions do not disadvantage HoldCo's competitive businesses. These proposed additional protections are set forth in the attached Petition.

Also enclosed is a form of Notice of Proposed Agency Action under the State Administrative Procedure Act. Testimony in support of the Petition will be submitted to the Commission on January 7, 1997, as a supplement to NYSEGPlan (Case No. 96-E-0891).

James F. Gill and Andrew Irving of Robinson Silverman Pearce Aronsohn & Berman LLP, 1290 Avenue of the Americas, New York, New York 10104, have been retained to assist this law firm in connection with the matters set forth in the Petition. The Petitioner respectfully requests that the Commission consider and approve the Petition on an expedited basis in connection with NYSEGPlan.

Copies of this letter and enclosures are being served this day on all parties to Case No. 96-E-0891.

Kindly acknowledge receipt of this letter and the enclosures by date stamping the enclosed copy of this filing letter.

Very truly yours,

Leonard Blum

Leonard Blum

Enc.
cc: All parties to Case No. 96-E-0891 (U.S. Mail)
James F. Gill (U.S. Mail)
Andrew Irving (U.S. Mail)

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

NOTICE OF PROPOSED AGENCY ACTION

Pursuant to the provisions of the State Administrative Procedure Act, NOTICE is hereby given of the following proposed agency action:

1. **Proposed action:**

   Petition of New York State Electric & Gas Corporation ("Petitioner") seeking authority under Sections 70, 107, 108 and 110 of the Public Service Law to form a holding company structure; to structurally separate fossil and hydropower generation assets; and for certain related transactions.

2. **Statutory authority under which action is proposed:**

   Public Service Law Sections 70, 107, 108 and 110.

3. **Subject matter to which rule relates:**

   Formation of a holding company structure; the structural separation of fossil and hydropower generation assets; and certain related transactions.

4. **Purpose of rule change:**

   To authorize Petitioner to form a holding company structure; to structurally separate fossil and hydropower generation assets; and to engage in certain related transactions.

Substance of Proposed Action: to authorize (a) the formation of a holding company structure pursuant to a plan of exchange under which all outstanding shares of Petitioner's Common Stock will be exchanged on a share-for-share basis for the Common Stock of a holding company ("HoldCo"); (b) the structural separation of designated fossil and hydropower generation assets from Petitioner; and (c) to engage in certain related transactions.

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE
PUBLIC SERVICE COMMISSION

In the Matter of the Application of NEW YORK STATE ELECTRIC & GAS CORPORATION for authority, under Sections 70, 107, 108 and 110 of the Public Service Law, to form a holding company structure; to structurally separate fossil and hydropower generation assets; and for certain related transactions.	Case 96- ____ PETITION

PETITION OF NEW YORK STATE ELECTRIC & GAS CORPORATION TO FORM A HOLDING COMPANY STRUCTURE; TO STRUCTURALLY SEPARATE FOSSIL AND HYDROPOWER GENERATION ASSETS; AND FOR CERTAIN RELATED TRANSACTIONS

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(212) 682-6200

Leonard Blum, Esq.
Frank Lee, Esq.
Of Counsel

ROBINSON SILVERMAN PEARCE
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(212) 541-2000

James F. Gill, Esq.
Andrew Irving, Esq.
Of Counsel

Dated: December 19, 1996

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STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE
PUBLIC SERVICE COMMISSION

In the Matter of the Application of NEW YORK STATE ELECTRIC & GAS CORPORATION for authority, under Sections 70, 107, 108 and 110 of the Public Service Law, to form a holding company structure; to structurally separate fossil and hydropower generation assets; and for certain related transactions.	Case 96- ____ PETITION

TO THE PUBLIC SERVICE COMMISSION OF THE STATE OF NEW YORK:

NEW YORK STATE ELECTRIC & GAS CORPORATION, Petitioner herein, hereby applies for authority under Sections 70, 107, 108 and 110 of the Public Service Law to form a holding company structure; to structurally separate fossil and hydropower generation assets; and for certain related transactions, and in support thereof, respectfully shows:

1. Petitioner is a corporation duly organized and existing under the Transportation Corporations Law of the State of New York, having its principal office in the Town of Dryden, County of Tompkins, State of New York, and is engaged principally in the generation, purchase, transmission and distribution of electricity, and the purchase, transportation and distribution of natural gas for light, heat and power purposes in numerous counties in the State of New York. Petitioner is also qualified to do business in the Commonwealth of Pennsylvania and the State of Texas.

2. A certified copy of Petitioner's Restated Certificate of Incorporation is now on file with the Public Service Commission (the "Commission" or "PSC") in proceedings designated as Case Nos. 88-M-154, 89-M-068, 89-M-145, 90-E-0019, 90-M-0804, 92-M-0104 and 92-M-0828.

3. A Statement of Financial Condition of the Petitioner at December 31, 1996 will be filed with the Commission as soon as available, and will be marked as Exhibit A.

INTRODUCTION

4. Petitioner is filing this petition in order to facilitate a structural separation of designated NYSEG fossil and hydropower generation assets from the PSC-regulated utility business of Petitioner in a holding company corporate framework. Although Petitioner's September 27, 1996 submission ("NYSEGPlan") in the PSC's Competitive Opportunities Proceeding contemplates the functional separation of Petitioner's generation business from its electric delivery business, parties to the NYSEGPlan proceeding (PSC Case 96-E-0891) have expressed a preference for a structural separation of the generation business. This position appears to be based on the view that such structural separation would alleviate concerns about potential vertical market power in generation better than the planned functional separation. Without conceding the issue, Petitioner desires to address that position constructively by petitioning for a change in corporate structure upon the conditions set forth in this application. A

corresponding amendment to NYSEGPlan will be filed in the near future.

5. Pursuant to the provisions of Section 913 of the Business Corporation Law, Petitioner proposes to reorganize its operations by forming a holding company structure pursuant to a Plan of Exchange (the "Plan of Exchange") whereby, subject to the rights of the holders of Petitioner's Common Stock (the "NYSEG Common Stock") to exercise their appraisal rights, all of the outstanding shares of NYSEG Common Stock will be exchanged on a share-for-share basis for the common stock of a holding company (the "Share Exchange"). Such common stock exchanged for NYSEG Common Stock is referred to herein as "HoldCo Common Stock," and the term "HoldCo" refers to the corporation whose common stock is exchanged for NYSEG Common Stock pursuant to the Plan of Exchange. Upon consummation of the Share Exchange, each person who owned NYSEG Common Stock immediately prior to the Share Exchange (other than stockholders who properly exercise their appraisal rights) will own a corresponding number of shares and percentage of the outstanding HoldCo Common Stock, and HoldCo will own all of the outstanding shares of NYSEG Common Stock.

6. After the consummation of the transactions described in this Petition, Petitioner will be a regulated, wholly-owned utility subsidiary of HoldCo, and is referred to herein as "RegSub." As discussed above, Petitioner intends to structurally separate designated fossil and hydropower generation assets from RegSub by transferring at fair market value such generation

assets to one or more generation subsidiaries ("GenSub"), formed to hold such generation assets. GenSub will be a wholly-owned subsidiary of HoldCo. It is expected that such transfers will commence as soon as practicable after satisfaction of the preconditions for the transfer ("the Separation Date"), as set forth below. A chart of the proposed corporate structure after the Separation Date is attached hereto as Exhibit B. GenSub would sell electric power to the marketplace, and it may sell some electric power to RegSub pursuant to a PSC-approved power purchase agreement during the transition to competition when RegSub retains the obligation to serve.

7. Petitioner believes that a holding company structure offers important protections to ratepayers from the risks associated with the introduction of competition. Such protections are described in paragraphs 19-22 below.

8. Accordingly, Petitioner seeks Commission consent, permission and authority under Sections 70, 107, 108 and 110 of the Public Service Law to take such steps as are necessary to form a holding company structure; to structurally separate designated fossil and hydropower generation assets; and for Commission consent, permission and authority under such other statutory and regulatory provisions as may be required to permit the consummation of the transactions contemplated herein.

DESCRIPTION OF THE CORPORATE RESTRUCTURING

A. Description of Share Exchange

9. Upon Commission approval of this Petition, and the receipt of necessary stockholder and other regulatory approvals described below, Petitioner proposes to reorganize its operations by forming a holding company structure pursuant to the Plan of Exchange. Under the terms of the Plan of Exchange, all of the shares of outstanding HoldCo Common Stock, which will then be owned by Petitioner, will be canceled and all outstanding shares of NYSEG Common Stock will be exchanged on a share-for-share basis for HoldCo Common Stock, subject to the rights of the holders of NYSEG Common Stock to exercise their appraisal rights. Upon consummation of the Share Exchange, each person who owned NYSEG Common Stock immediately prior to the Share Exchange (other than stockholders who properly exercise their appraisal rights) will own a corresponding number of shares and percentage of the outstanding HoldCo Common Stock, and HoldCo will own all of the outstanding shares of NYSEG Common Stock.

10. Immediately after the Share Exchange, Petitioner intends to transfer to HoldCo all of the common stock of Somerset Railroad Corporation ("SRC"). It is expected that this transfer will be made in the form of a stock dividend. SRC is currently a wholly-owned subsidiary of Petitioner and was formed in August 1979. It owns and operates a rail line which is used predominantly to transport coal and other materials to Petitioner's Kintigh generating station.

11. Immediately after the Share Exchange, Petitioner intends to transfer to HoldCo all of the common stock of NGE Enterprises, Inc. ("NGE"). It is expected that this transfer will be made in the form of a stock dividend. NGE is currently a wholly-owned subsidiary of Petitioner and was formed in April 1992, to hold the capital stock of certain non-utility subsidiaries of Petitioner and to conduct unregulated business activities.

12. As soon as practicable after the Separation Date, Petitioner intends to commence transferring to GenSub at fair market value designated fossil and hydropower generation assets.

13. Forms of the Certificate of Incorporation and By-Laws of HoldCo will be filed with the Commission as soon as available and will be marked as Exhibits C and D, respectively, and the forms of the Certificate of Incorporation and By-Laws of GenSub will be filed with the Commission as soon as available and will be marked as Exhibits E and F, respectively. Any proposed power purchase agreement between GenSub and RegSub will be filed with the Commission as soon as available.

14. The Share Exchange will not result in any change in the outstanding Preferred Stock or debt securities of the Petitioner, which will continue to be securities and obligations of RegSub after the Share Exchange.

15. In connection with HoldCo's commencement of operations, RegSub may lease office space to HoldCo and GenSub at fair market value and transfer to HoldCo and GenSub at fair market value office furniture, equipment and other non-generation assets.

16. In addition to the Commission's approval, consummation of the proposed reorganization will also require the approval of the Securities and Exchange Commission ("SEC"), the Federal Energy Regulatory Commission ("FERC"), and the Nuclear Regulatory Commission ("NRC"). Petitioner intends to file applications with the SEC, FERC and the NRC as soon as practicable.

17. HoldCo will also file for an exemption from the registration requirements of the Public Utility Holding Company Act of 1935 ("PUHCA"), to the extent necessary. It is contemplated that HoldCo will qualify for an exemption from registration under PUHCA as a "predominantly intrastate" public utility holding company, under section 3(a)(1) of PUHCA.

18. The approval of the holders of the NYSEG Common Stock will be required to effect the transactions described herein. Petitioner currently plans to seek stockholder approval at the Annual Meeting of Stockholders scheduled for May 21, 1997. To secure the stockholders' approval in a timely manner, Petitioner plans to file a registration statement on Form S-4 with the SEC in early February and plans to distribute a combination Proxy Statement and Prospectus to stockholders on or about April 10, 1997.

B. Description of Ratepayer Protections

19. The proposed separation of regulated and unregulated businesses protects the ratepayers in several respects. RegSub and the unregulated affiliates would maintain separate books and records and thereby provide a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from unregulated to regulated businesses. The proposed holding company structure will ensure that RegSub is insulated from any losses and profits resulting from unregulated activities and that such losses or profits will flow to the stockholders of HoldCo so that RegSub and its ratepayers would not be harmed by unregulated activities. The proposed holding company structure will help to streamline the regulatory process and thereby further the Commission's goals by permitting the Commission to devote its finite resources to the regulatory needs of ratepayers.

20. Because the operations of HoldCo's unregulated subsidiaries would be structurally separate from RegSub's operations under a holding company structure, any change in the financial results of the unregulated businesses would have no effect on RegSub or RegSub's credit. Under the holding company structure, RegSub's access to the debt and equity markets would be based on RegSub's operating and financial results alone, and the debt/equity ratios of Holdco's unregulated subsidiaries would have no adverse impact on the credit quality of RegSub.

21. In addition, RegSub and its ratepayers, creditors and other stakeholders would be structurally insulated from the obligations and liabilities of the unregulated businesses as a matter of corporate law.

22. Furthermore, a holding company structure would facilitate the management of the capitalization ratios of RegSub so that ratepayers would not be harmed by a capital structure which was not tailored to the needs of a regulated business. A holding company structure also will permit the use of financing techniques that are more directly suited to the particular requirements, characteristics and risks of unregulated operations without affecting the capital structure or creditworthiness of RegSub, and will increase financial flexibility by allowing the design and implementation of the capitalization ratios appropriate for the capital and business requirements of each subsidiary.

CONDITIONS TO THE FORMATION OF HOLDCO AND GENSUB

23. To compete effectively and fairly in the emerging competitive energy marketplace, Petitioner must have the same degree of flexibility in doing business that is enjoyed by its current and potential competitors. Petitioner must not be unduly burdened by excessive constraints and conditions, particularly when such constraints are not shared by its competitors, many of whom are large, aggressive and well-capitalized affiliates of well-known, out-of-state utility and industrial companies (e.g., Duke Power Company, Enron Corporation, Edison International, LG&E Energy Corporation, Sithe Energies, Inc., Southern Company, and Entergy).

24. As discussed herein, the holding company structure protects ratepayers from the risks of the unregulated businesses by separating the operations of regulated businesses from the unregulated businesses. In addition, the Commission already possesses a broad array of regulatory mechanisms to ensure that ratepayers are adequately protected. The Commission has authority under the Public Service Law with respect to setting utility rates (Sections 65, 66 and 72), the issuance of securities (Section 69), transfers of assets (Section 70), loans to stockholders (Section 106), the use of utility revenues (Section 107), approval of certificates of merger and certain certificates of amendment (Section 108), affiliate transactions (Section 110) and other matters to sufficiently safeguard the ratepayers' interests. Petitioner believes that the Commission

can protect ratepayers and prevent HoldCo and its affiliates from gaining any unfair competitive advantage without imposing additional unduly burdensome operating constraints on HoldCo and its affiliates, including RegSub.

25. The circumstances surrounding Petitioner's proposed reorganization differ from the circumstances surrounding prior occasions where the Commission has imposed conditions on utilities seeking to establish unregulated affiliates. While such conditions may have been appropriate under the old regulatory regime and under the specific circumstances surrounding such prior occasions, such conditions are not appropriate in the emerging competitive energy marketplace. At the Commission's direction, Petitioner's submission provides for the opening of its electric business to competition. Petitioner believes that only limited operating constraints, tailored closely to the activity to be monitored, are appropriate. These constraints, along with the existing statutory tools of the Commission and FERC and the federal and state antitrust laws, will be adequate to protect ratepayers and ensure that robust competition develops.

26. Nonetheless, Petitioner is willing to agree to certain additional restrictions which address the Commission's concerns, provided that such restrictions do not disadvantage HoldCo's competitive businesses and that such restrictions supersede the Order Approving Stipulation and Agreement, Subject to Conditions, issued April 28, 1992 in the Commission's Case No. 91-M-0838 and

the related Stipulation and Agreement (the "Diversification Order"). These proposed additional protections are set forth below, and are designed to ensure, among other things, that RegSub has the financial resources to continue to provide safe and reliable service to ratepayers.

- Debt and Preferred Stock Financing: Future debt or preferred stock of RegSub would be raised by RegSub independently of HoldCo, and RegSub will maintain a separate debt rating from HoldCo and its other subsidiaries (the "affiliates").

- Prohibition on Loans and Guarantees: Except for any initial interim financing, RegSub will neither make loans to, nor guarantee or provide credit support for the obligations of, either HoldCo or any of RegSub's affiliates that are not subsidiaries of RegSub.

- Prohibition on Pledges: RegSub will not pledge any of its assets as security for any indebtedness of HoldCo or its affiliates other than RegSub.

- Maintenance of Credit: RegSub will maintain an investment grade rating on its bonds. RegSub will notify the Commission of any downgrade or possible downgrade or placement on credit watch or review of the debt of RegSub.

- Annual Certification: RegSub will certify annually to the Commission and provide evidence to establish that RegSub has retained or has access to sufficient capital to maintain and upgrade its system for continued safe and reliable service subject to the Commission authorizing rates that are adequate for such purposes.

- Annual Meeting: RegSub will meet annually with Commission designated personnel to discuss RegSub's activities and plans related to capital attraction and financial performance.

27. Petitioner is also willing to agree to the following additional standards of conduct to govern transactions between RegSub and its affiliates:

- Allocations of cost among HoldCo, RegSub and the affiliates would be made in accordance with an approved, fully distributed, cost allocation methodology, which will be filed with the Commission as soon as available, and will be marked as Exhibit G, and all such allocations will be subject to Commission audit annually.

- RegSub will operate at arms-length from HoldCo and the affiliates.

- All transactions in excess of $100,000, other than tariffed transactions and corporate governance and administrative services, between RegSub and either HoldCo or any affiliate will be pursuant to written contracts filed with the Commission, and the provision of goods and services by such contracts will be on a basis that will neither disadvantage RegSub nor unduly prefer HoldCo or any affiliate.

- For the purpose of auditing any transaction between RegSub and either HoldCo or its affiliates, HoldCo will provide Commission designated personnel reasonable opportunity to audit any such transaction, subject to appropriate confidentiality agreements and trade secret protection.

- RegSub will not represent to customers that it speaks on behalf of HoldCo or the affiliates, or that RegSub will provide an advantage to customers if they deal with HoldCo or any affiliate.

- RegSub will make available to competitors of RegSub or competitors of any affiliate, non-confidential information relating to customers in RegSub's service territory that RegSub makes available to HoldCo or any affiliate. Any energy service company affiliated with HoldCo will be permitted to sell goods and services to customers, both inside and outside of RegSub's service territory.

- The Diversification Order shall be superseded by the terms and conditions set forth in this Petition.

- RegSub will implement FERC-approved standards of conduct for FERC-jurisdictional activities, as required under FERC Order 889.

28. Finally, the Separation Date shall be the first business day after all of the following events have occurred or conditions have been satisfied, except as otherwise agreed to in writing by Petitioner:

- Issuance of a final and non-appealable Commission order granting Petitioner the authority sought by this Petition upon the terms and conditions set forth herein.

- Issuance of a final and non-appealable Commission order approving the implementation of NYSEGPlan, as amended by Petitioner.

- Issuance of final and non-appealable orders from the SEC, FERC and NRC regarding the transactions contemplated by this Petition.

- Petitioner's acceptance of the aforesaid orders, and corporate and stockholder approval of, and receipt of any required consents under any agreement to which Petitioner is a party in connection with, the Share Exchange and the transactions contemplated by this Petition.

- Agreement by the trustee under Petitioner's mortgage indenture that the designated fossil and hydropower generation assets to be transferred to GenSub can be released from Petitioner's mortgage indenture on the terms and conditions proposed by Petitioner for such release.

- Commission establishment of a RegSub regulatory asset on terms and conditions acceptable to Petitioner with respect to the above-market costs associated with the designated fossil and hydropower generation assets to be transferred by Petitioner to GenSub at fair market value, including recovery of such costs.

- Issuance of a final and non-appealable order from the Commission granting light regulation status to GenSub and consenting to "exempt wholesale generator" status pursuant to PUHCA to the extent requested by Petitioner, and Commission approval of any power purchase agreement between RegSub and GenSub without material changes or conditions.

- Establishment of a fully operational, FERC-approved Independent System Operator and Power Exchange for the New York State power market on terms acceptable to Petitioner.

- Commission approval of a RegSub mechanism to recover all costs incurred by Petitioner to consummate the reorganization and structural separation of assets contemplated by this Petition, and approval of accounting treatment for the contemplated transactions on terms acceptable to Petitioner.

- Elimination of all New York State gross receipts taxes on any sales at wholesale by GenSub to RegSub.

29. By Commission Order issued and effective September 12, 1996 in Case No. 95-M-1195 (the "Global Financing Order"), which extended the previous global financing order issued and effective on December 8, 1993 in Case No. 93-M-0744, the Commission approved the issuance of securities by Petitioner under Section 69 of the Public Service Law in a total amount not to exceed $339 million principal amount of securities for traditional utility purposes and $979 million of securities for the purpose of early redemption of debt and preferred stock through December 31, 1997. Ordering Clause 5 of the Global Financing Order requires, among other things, that the proceeds from the sale of the authorized common stock "shall not be less than 95% of the value of an equivalent amount of Petitioner's common stock priced at the various methods listed in staff's memorandum." Since there will no longer be a public market for Petitioner's common stock after

the Share Exchange, and any new common stock issued by Petitioner will be sold to HoldCo, rather than to public stockholders, the above-quoted condition will no longer be necessary. Accordingly, Petitioner hereby requests that the Global Financing Order be amended, effective upon consummation of the Share Exchange, to eliminate the above-quoted language from the Global Financing Order.

30. Petitioner reserves the right to amend and withdraw this Petition at any time prior to its acceptance of an order of the Commission with respect to the Petition. Petitioner further requests that any such order by its terms permit Petitioner (even after unconditionally accepting such order) to decide not to consummate the transactions described herein if, in Petitioner's opinion, consummation would not result in material benefit, or would result in material detriment, to Petitioner.

31. All communications and notices in connection with this proceeding should be addressed to Daniel W. Farley, Vice President and Secretary, New York State Electric & Gas Corporation, P.O. Box 5224, Binghamton, New York 13902-5224; W. Chad Steckel, Manager - Corporate Finance, New York State Electric & Gas Corporation, P.O. Box 3287, Ithaca, New York 14852-3287; Leonard Blum, Esq., Huber Lawrence & Abell, 605 Third Avenue, New York, New York 10158 and James F. Gill, Esq., Robinson Silverman Pearce Aronsohn & Berman LLP, 1290 Avenue of the Americas, New York, New York 10104-0053.

WHEREFORE, Petitioner, New York State Electric & Gas Corporation, respectfully requests Commission consent, permission and authority under Sections 70, 107, 108 and 110 of the Public Service Law to take such steps as are necessary to form a holding company structure; to structurally separate designated fossil and hydropower generation assets; and for Commission consent, permission and authority under such other statutory and regulatory provisions as may be required to permit the consummation of the transactions contemplated herein.

NEW YORK STATE ELECTRIC & GAS CORPORATION

Sherwood J. Rafferty

By: Sherwood J. Rafferty
Senior Vice President and
Chief Financial Officer

Dated: December 19, 1996

STATE OF NEW YORK)
) ss.:
COUNTY OF TOMPKINS)

Sherwood J. Rafferty, being duly sworn, deposes and says that he is Senior Vice President and Chief Financial Officer of NEW YORK STATE ELECTRIC & GAS CORPORATION, the Petitioner herein named; that he has read the foregoing application and knows the contents thereof; that the same is true of his own knowledge except as to those matters therein stated to be alleged upon information and belief, and that as to those matters he believes them to be true.

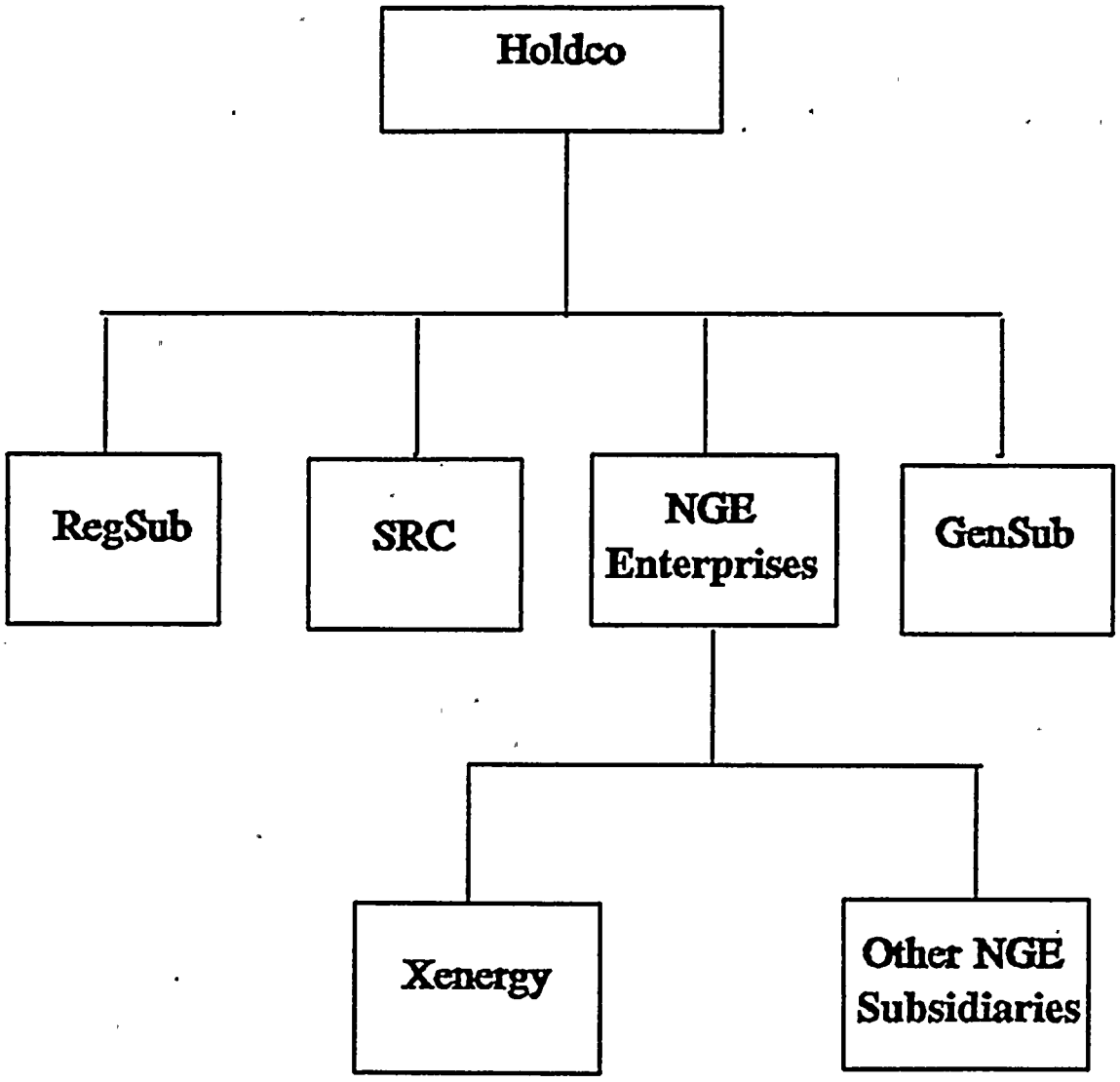
Sherwood J. Rafferty

Sworn to before me this
19th day of December, 1996.

Darlene E. Beach
Notary Public

DARLENE E. BEACH
Notary Public, State of New York
No. 4658551
Qualified in Tompkins County
Term Expires June 30, 1997

Exhibit B
Proposed Corporate Structure



July 28, 1997

NYSEG/PSC Staff Joint Statement of Principles
to Govern a Settlement

Coal Plant Valuation

- Coal plant valuation to be determined by a simultaneous multiple round open auction process designed to obtain highest final market value for purposes of mitigation of above-market costs and establishment of regulatory asset for recovery of remaining above-market costs. All coal plants and associated assets and liabilities (including, without limitation, Somerset railroad, environmental liabilities, coal purchase contracts, etc.) will be subject to such auction process. The process will not be designed to necessarily require NYSEG to divest its coal plants to a third party, except as otherwise agreed to in this settlement. The company's unregulated generating subsidiary (GenSub) can participate as a bidder, and shall not have any special rights or privileges, including the right to close out the bidding by a matching bid. NYSEG shall provide (with appropriate confidentiality protections) all potential bidders with the same plant and operating information as NYSEG makes available to GenSub.

- The ascending bid auction proceeds for a given coal plant until no new bids are received. Bids are compared in the auction process on a gross cash basis, and the company agrees to sell (or transfer to GenSub) the plants at the auction determined value without subsequent negotiation of value.

- The auction process will be completed and the transaction(s) resulting therefrom shall close no later than 8/1/99.

- If no bids are received for a plant above the minimum bid requirement of the auction, an appraisal process will be used and completed no later than 8/1/99, or as soon as practicable thereafter. The valuation, on an after-tax basis, achieved by the appraisal process shall be used in lieu of the value of net after tax auction proceeds for purposes of establishing the regulatory asset or credit as set forth below.

- Protocols, terms and conditions to implement the auction and appraisal process will be developed by the company in consultation with Commission Staff and will be submitted to the Commission for pre-auction approval by approximately February 1, 1998. Such auction provisions will state time requirements for bids and have mechanisms to pre-qualify

bidders willing and able to abide by auction requirements and to disqualify or penalize bidders for cause. The Commission may employ a consultant, at NYSEG's expense (recoverable from the auction proceeds), to advise the Commission on the design and implementation of the auction process consistent with this Settlement. The Commission shall select the consultant from a list of at least three qualified individuals or firms selected jointly by the company and the Commission Staff.

- In order to facilitate a competitive generation market, an auction sale or transfer free and clear of the company's mortgage indenture, and establishment of a minimum bid value for the auction process, the coal plants will be transferred to GenSub as soon as practicable after the creation of HoldCo and obtaining the mortgage trustee's release. GenSub earnings with respect to any such transferred plant will be combined with RegSub's earnings for the period prior to an auction sale or transfer of that plant. Upon such transfer, a regulatory asset of RegSub will be created for the difference between the book value of the coal plants and the valuation performed in accordance with the bond indenture. Such regulatory asset will be adjusted subsequently upon a sale or transfer based on the cash proceeds resulting from the auction process net of tax, auction and transaction costs. Once a plant is sold or transferred pursuant to the auction process there will be no further readjustment of RegSub's regulatory assets.

- Upon completion of the auction process and sale of any plant to an unrelated third party or GenSub, the regulatory asset or credit on RegSub's books will represent the difference between the net book value of the plant, less funded deferred taxes, and the net after-tax auction proceeds. This regulatory asset or credit will be grossed up in accordance with SFAS 109. Any net regulatory asset and carrying charges thereon (calculated based on the pre-tax cost of capital used by the Commission to determine the Company's retail rates, i.e. 12.43%) will be recovered from all customers through a wires charge over a period of time to be determined by the Commission at the conclusion of the auction process and which shall not exceed the weighted average remaining life of the auctioned assets as of the conclusion of the auction process and the closing(s) thereon. In the event that the GenSub is the winning bidder of any plant in the auction, any deferred tax liability on the gain will remain the responsibility of RegSub's customers by virtue of its inclusion in the calculation of the above-described regulatory asset or credit which may result from the auction. The amount of this future customer responsibility will be limited to the tax (calculated at the then current tax rate) which derives from the tax gain that

would have been realized at the time of the transfer to the GenSub at the auction-determined value, had the sale been made to an unrelated third party grossed up in accordance with SFAS 109. Any net regulatory credit will be used by RegSub to writedown the company's Nine Mile II investment, and any such credit remaining after such writedown will be used by RegSub as directed by the Commission.

Rate Plan

- There will be no second and third year increases as provided for in the September 27, 1995 rate settlement. Beginning 8/1/97, rates will be reduced 5% per year for 5 years for industrial customers with average on-peak demands of 500 KW or more and all customers with load factors of 68% or greater. Customers currently served pursuant to contracts or incentive rates will become eligible for such rate reductions after expiration of contracts unless contracts render them eligible for such reductions during term of contract.

- Stranded cost recovery, including amortization of the RegSub regulatory assets associated with the coal plants, is presumed within overall rate objectives during the five-year rate cap period and recovered through retail electric rates. Post-year 5, remaining RegSub regulatory assets, including those resulting from the auction process, and hydro, IPP and nuclear fixed costs will be recovered (for the life of the amortization period, contract or license) through a non-bypassable wires charge or, possibly, a non-bypassable competitive transition charge (CTC). Nuclear variable costs, which would exclude decommissioning and wind down costs and 62.5% of annual property taxes, will be put to market post-year 5, provided that the company's cotenants put the same to market. In year 5, RegSub will make a filing with the Commission for year 6 rates for RegSub.

- Company may petition for recovery of costs in excess of 3% of RegSub Net Income for items identified as Category 1 on Appendix A attached hereto (force majeure). Definitive agreement will define force majeure. Recovery of costs is also permitted upon petition by the company for costs incurred above the target levels of Category 2 items pursuant to Appendix A, which will be refined to show zero targets for legislative, etc. changes. Recovery will be determined through a limited and expedited process similar to a traditional "second stage" review and will not result in a reopener of any terms of the settlement. The Company shall submit an annual filing which reports the variances of actual costs from the Category 1 and 2 targets and costs included on Appendix A. Any recovery of Category 1 or 2 cost items may be offset by Category 1 or 2 savings below

the targets achieved during the period, any earnings in excess of the 12% cap discussed below, and any net NUG contract cost savings achieved by contract termination or restructuring during the period. System benefits charge-related Category 2 targets may be separated into an unbundled System Benefit Charge as determined by the Commission and, upon such separation, are deleted from Category 2 for purposes of recovery. Separation of the SBC targets from Category 2 will not alter the target levels for these components from those shown on Appendix A. After creation of such SBC, any variances from the targets for the separated components will be recovered or credited through the SBC.

- Over the five-year price cap period, RegSub earnings are capped at 12% of common equity including any combined GenSub earnings prior to the completion of the auction or the subsequent appraisal process (if necessary). The RegSub earnings floor is 9.0% during that period. Any earnings in excess of 12% will be returned to customers in a manner to be determined by the Commission. Notwithstanding a Company filing to recover costs pursuant to the Category 1 and 2 cost items, the Company shall make an annual filing for each of the years of this Agreement to report on earnings and to defer any excess earnings for the benefit of customers. The company may petition for rate relief if earnings fall below the floor. In the event that in any year of the price cap period the company petitions for cost recovery under the uncontrollable cost recovery provision stated above for Category 1 or 2 items, the Commission will be entitled to offset any such request with any company earnings in excess of 12% that would have been realized but for the use by the company of accelerated (increased) depreciation or amortization of any physical or regulatory assets. Such acceleration (increase) is permitted without pre-approval by the Commission.

Retail Access

- The company will implement the retail access program required in the Dairylea proceeding.

- Access to Norwich and Lockport customers begins on 8/1/98.

- All remaining customers transitioned to retail access starting 8/1/99 assuming ISO is approved by FERC and operating. Customers selecting a new supplier will have power delivered by RegSub for their chosen supplier commencing no later than 12/31/99. RegSub may rely on the ISO to plan for power supply.

Company permits access to those customers taking service at negotiated or incentive rates if their contracts allow for it.

- For customers eligible for retail access through the Dairylea proceeding, the backout method for billing retail access customers for the period prior to the completion of the auction and the closing(s) thereon is the market price of energy plus a 4 mill/kWh adder for industrial and large commercial customers and a 10 mill/kWh adder for residential and small commercial customers.

- The retail access credit used to back out generation during the period prior to the completion of the auction and the closing(s) thereon for Norwich and Lockport customers electing to switch suppliers shall be the market price of energy plus a 4 mill/kWh adder for industrial and large commercial customers, and a 10 mill/kWh adder for residential and small commercial customers, but such credit shall in no event exceed 3 cents/kWh, including GRT.

- The retail access credit used to back out generation during the period following the completion of the auction and the closing(s) thereon through the end of the rate-cap period for all customers electing to switch suppliers shall be equal to (i) 3.23 cents/kWh including GRT through 7/31/2000, (ii) 3.47 cents/kwh including GRT from 8/1/2000 through 7/31/2001, and (iii) 3.71 cents/kwh including GRT from 8/1/2001 through 7/31/2002. Commencing 8/1/2002, all costs (other than the non-bypassable wires charge or CTC) related to the assets subject to the auction/appraisal process hereunder shall be excluded from the rates charged by RegSub for all customers, and all customers shall pay the market price of generation plus any applicable GRT.

- In the event the auction or appraisal process and the closing(s) thereon are not completed by 8/1/99, the retail access credit during the period commencing 8/1/99 and ending upon the completion of the auction or appraisal process used to back out generation for all customers electing to switch suppliers shall be the market price of energy plus a 4 mill/kWh adder for industrial and large commercial customers and 10 mills/kWh adder for residential and small commercial customers, but such credit shall in no event exceed 3.23 cents/kWh, including GRT.

- All customers, including those who switch suppliers, shall pay the non-bypasssable wires charge or CTC plus any GRT for as long as is necessary to permit the company to recover the regulatory asset determined by the auction process. Bills will disclose all generation-related credits and charges.

- Other NY utility ESCOs permitted into service territory only on a reciprocal basis.

- Except as specifically modified by this Agreement, the Company's right and obligation under New York Law and its Public Service Law Section 68 Certificates to provide electric service to its customers remains unchanged notwithstanding the full implementation of retail access and remains in full force and effect for the full term of the Definitive Agreement and thereafter until duly changed.

Corporate Structure

Structural separation via holding company as set forth in paragraphs 1 through 7 of Section VII of the 3/25/97 "Definitive Agreement" filed by the company, including the following:

- Conditions to ensure protection and prevent anti-competitive behavior as set forth in subparagraphs (a) through (e) of paragraph 8 of Section VII of the 3/25/97 "Definitive Agreement," and subparagraph (f) thereof, as modified as set forth on Attachment B.

- The company shall have flexibility to retain on a cumulative basis M&A savings for a period of five years from the date of closing of any utility merger or acquisition pursuant to a petition filed jointly or individually by the company, up to the amount of acquisition premium paid over the lesser of book value or fair market value of assets merged or acquired. Savings in excess of that recovery will be disposed of by order of the Commission. Cost recovery provisions of settlement continue in combined entity. Company petitions given expedited review and treatment.

- Affiliate ESCO permitted to operate in service area with competitive safeguards.

- The Section 107 order (Order in Case 91-M-0838, issued April 28, 1992) on diversification is superseded.

Rate Design

- Undue bill shock for any customers from any rate design changes will be avoided. Rate design for the five-year rate cap period will be pre-approved by the Commission in the definitive settlement agreement, and will increase the basic monthly charge in steps as energy charges decrease toward marginal cost. Imposition of certain revenue neutral direct charge fees based on incremental costs may be proposed by the company. RegSub may petition for minor, revenue-neutral price changes between and within customer classes. The

company may also petition for a retail access transaction fee on an incremental cost basis.

Unbundling

- On August 1, 1997, or as soon thereafter as practicable, customers' rates will be unbundled as follows:

  - Electric Power Supply per Kwh and per KW.
  - Electric Power Delivery (T&D) per Kwh and per KW.
  - Basic Service Charge (BSC) per customer per month.
  - Non-bypassable wires charge or CTC to amortize regulatory asset per Kwh and per KW.
  - System Benefits Charge applied as determined by the Commission.

- Further unbundling of Delivery into Transmission and Distribution elements will be implemented based on the classification of facilities determined in the proceeding begun for that purpose at the February 12, 1997 session.

- The company commits to provide a study and agrees to unbundle "customer service" functions on an incremental cost basis by tariffs to be effective 8/1/99.

General

- The settlement meets all of the PSC's rate goals. It encourages economic development and freezes prices under a hard, five-year price cap. The aggregate value of the revenue concessions is nearly $600 million.

Other Issues

- Company withdraws outstanding Energy Association, year-2 rate increase, and Dairylea litigation against the Commission pursuant to mutually-agreed stipulations.

- After further negotiation, the current gas rate settlement will be extended through July 31, 2002.

- Implementation of a penalty-only service quality plan which focusses on T&D reliability.

- If the Company achieves NUG contract savings from targets to be set forth in the Definitive Agreement (net of transaction costs) during the rate cap period through contract termination or restructuring (but not securitization), 80% of such savings shall flow through to customers as determined by the Commission; the remaining 20% shall be retained by the Company. The foregoing is subject to the potential offset against uncontrollable costs described

above in the event the Company petitions for uncontrollable cost recovery with respect to Category 1 or 2 items. Beginning in year 6 of the settlement, all net NUG contract cost savings are subject to flow through to customers as determined by the Commission.

- Net gross receipts tax savings will be flowed through to customers.
- SC-11 tariff modification to be negotiated.
- Deferred credit balances as of 8/1/97 will be used by the company during the rate cap period as an offset to deferred charges.
- The FAS 71 language in the 3/25/97 "Definitive Agreement" is to be included.
- The finality language in the 3/25/97 "Definitive Agreement" is to be included.
- Definitive settlement agreement to be negotiated expeditiously.

STATE OF NEW YORK
DEPARTMENT OF PUBLIC
SERVICE STAFF

By: Leonard Van Ryn
Leonard Van Ryn, Staff
Counsel

Dated: July 28, 1997

NEW YORK STATE ELECTRIC & GAS
CORPORATION
By: Huber Lawrence & Abell,
General Counsel

By: Kenneth M. Jasinski
Kenneth M. Jasinski,
Partner

Dated: July 28, 1997

Price Adjustment Factor[1]

	Category 1	Category 2
Frequency:	One-Time Event	Ongoing Costs
General Description of Qualifying Events:	Natural Disasters, Acts of Terrorism, and Category 2 Costs Incurred Before Rates are Changed	Accounting, Legislative, Regulatory, or Tax Changes
Examples of Potential Qualifying Events:	- Storms - Bombings - Retroactive Tax Levies	- Change in DSM Expenses - FASB Accounting Pronouncements - Changes in Federal Income Tax Rate - Changes in Nuclear Decommissioning Costs - NYPA Transmission Adjustment Charge
Threshold Limits for Rate Recovery:	Aggregate Costs in Excess of 3% of RegSub Net Income	Variations from Targets Stated in Appendix A, Page 2
Recovery Method:	The PAF will be applied to each customer's bill in a manner to be determined by the Commission.	The PAF will be applied to each customer's bill in a manner to be determined by the Commission.
Timing of Rate Change/Recovery Period:	Annually in a manner and over a period to be determined by the Commission.	Annually in a manner and over a period to be determined by the Commission.

[1] The price adjustment methods relate to cost increases and decreases.

Category 2 Price Adjustment Factor Targets
($000)

	12 Months Ending July,				
	1998	1999	2000	2001	2002
Nuclear Decommissioning Costs:					
Internal Fund	$208	$263	$263	$263	$263
External Fund	1,494	4,062	4,062	4,062	4,062
Total	1,702	4,325	4,325	4,325	4,325
Demand Side Management Costs	6,090	7,124	6,924	7,162	7,431
Research & Development Costs	4,710	5,951	6,996	6,902	7,065
Manufactured Gas Plan Site Remediation Costs	1,569	2,163	2,640	2,640	2,640
Fresh Start Program Costs	475	475	475	475	475
Renewable Resource Costs	157	157	157	157	157
NYPA Transition Adjustment	0	0	0	0	0
Total	$14,703	$20,195	$21,517	$21,661	$22,093

The above targets are the amounts that are covered within the rates specified in this settlement.
Prudently incurred changes from these amounts will be included in the Price Adjustment Factor.

Appendix B

STANDARDS OF CONDUCT

- Separate Entities: any affiliate should be set up as a business entity separate from RegSub to foster competition in the utility's territory. Separate entities will help to minimize the potential for self-dealing and the perception of self-dealing by customers and other competitors.

- Separation of books and records: Separation should include books and records, non-officer employees, advertising and marketing efforts, and energy purchasing (except for tariffed services). Where common costs are shared to take advantage of economies of scale, direct cost allocation should be used where practical. However, if direct cost allocation is impractical, cost allocations should be accomplished by using a fully distributed cost method to be provided by NYSEG and approved by the Commission.

- Physical Separation: RegSub and HoldCo may occupy the same building. Any non-regulated affiliate, other than HoldCo, should be located at a different location from RegSub to reduce the opportunity for, and appearance of, anti-competitive behavior or other inappropriate activities. Generation employees may occupy the same building as RegSub until completion of the auction required pursuant to the competitive generation plan.

- Affiliate Transactions: Affiliate transactions should be minimized to protect against cross-subsidies. When transactions occur, they should be priced at tariff rates, if applicable, or at least at fully distributed costs. In addition, such transactions should be at arms-length. All transactions in excess of $100,000, other than tariffed transactions and corporate governance and administrative services, between RegSub and either HoldCo or any affiliate will be pursuant to written contracts filed with the Commission, and the provision of goods and services by such contracts will be on a basis that neither disadvantages RegSub nor unduly prefers HoldCo or any affiliate.

- Transfer of Assets: Any transfer of utility assets should be compensated to RegSub based on the greater of book value or market value, except for the transfer of generation assets (coal plants, related equipment and contracts) as contemplated by this settlement.

- Transfer of Data/Information: RegSub should not provide any competitive information or data to its affiliated entities unless that same information or data is provided to all competitors at the same time.

- Access to Books and Records: Staff should have direct access to the books and records of RegSub and, prior to the auction, of GenSub. For purposes of Public Service Law Section 110, Staff should also have direct access to the books and records of RegSub, GenSub, HoldCo, and any majority-held affiliate. For the purpose of auditing any Section 110 transactions between RegSub and either HoldCo or its affiliates, including GenSub, HoldCo will provide Commission designated personnel reasonable opportunity to audit any such transaction, subject to appropriate confidentiality agreements and trade secret protection.

- Dispute Resolution Process: A process should be established for a competitor or customer to use if it believes that RegSub, or its affiliate in a regulated transaction, has acted in an anti-competitive manner. Complete records of disputes should be retained for Department of Public Service review.

- Name and Reputation: There shall be no restrictions on HoldCo or any affiliate using the same name, trade name, trademarks, service name, service mark or a derivative of a name, of HoldCo or RegSub, or in identifying itself as being affiliated with HoldCo or RegSub. RegSub will not provide sales leads for customers in RegSub's service territory to any affiliate and will refrain from giving the appearance that RegSub speaks on behalf of an affiliate or that the affiliate speaks on behalf of RegSub. If a customer requests information about securing any service or product offered within the service territory by an affiliate, RegSub may provide a list of all companies known to RegSub operating in the service territory that provide the service or product, which may include the affiliate, but RegSub may not promote its affiliate.

- Debt Rating: Regsub should have its own debt rating. If RegSub experiences a downgrading or placement on creditwatch or review of its senior debt, RegSub management should notify the Director of Accounting & Finance of the New York State Department of Public Service.

- Guarantee of Affiliate Debt: RegSub should not guarantee the notes, debentures, debt obligations or other securities of any affiliate, nor should it pledge any of its assets as security for any indebtedness of HoldCo or its affiliates.

- Loans of Employees: RegSub should not loan operating employees to its affiliates. Operating employees are those involved in competitive lines of business, which excludes (among other categories) corporate governance, finance, accounting, legal, and administrative services.

Case 96-E-0891

Memorandum

FROM: Staff and NYSEG

TO: All Active Parties

DATE: August 20, 1997

Staff and NYSEG have prepared, for your review and consideration, a proposed comprehensive Settlement Agreement as contemplated by the July 28, 1997 Statement of Principles. The proposed Agreement, a copy of which is attached, reflects Staff's and NYSEG's understanding of the Statement of Principles, our efforts to incorporate comments parties made at the August 5 and August 12, 1997 meetings, and the comments conveyed to us outside the meetings.

Staff and NYSEG invite you to a meeting on Tuesday, August 26, 1997 at 10:30 a.m. at the Omni Hotel in Albany. We would like to explain the Agreement, hear your comments, and discuss their incorporation into the Agreement, towards the end of obtaining your endorsement for the Agreement. You are also encouraged to contact us in advance with your comments.

Since we desire to bring the benefits of this Agreement to consumers as swiftly as possible, we anticipate the execution and filing of the Agreement during the first week of September. We will be available in the days following the August 26 meeting to assist the parties in achieving that goal. NYSEG personnel will be staying in Albany through August 28 for this purpose.

Leonard Van Ryn
Staff Counsel

Kenneth M. Jasinski
Huber Lawrence & Abell

Enclosure
cc: ALJ Jeffrey E. Stockholm

NEW YORK STATE PUBLIC SERVICE COMMISSION

New York State Electric & Gas Corporation Filing in Compliance with Opinion No. 96-12 issued in Case 92-E-0952 *et al.* - In the Matter of the Competitive Opportunities Proceeding Regarding Electric Service	Case 96-E-0891

AGREEMENT CONCERNING

THE COMPETITIVE RATE AND RESTRUCTURING PLAN

OF

NEW YORK STATE ELECTRIC & GAS CORPORATION

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AGREEMENT

CONCERNING THE COMPETITIVE RATE AND RESTRUCTURING PLAN

OF

NEW YORK STATE ELECTRIC & GAS CORPORATION

This agreement concerning the competitive rate and restructuring plan of New York State Electric & Gas Corporation (this "Agreement") is entered into as of this ___th day of September 1997 among New York State Electric & Gas Corporation ("NYSEG" or the "Company"),[1] the Department of Public Service Staff ("Staff") and other parties as indicated on the signature pages at the end of this Agreement, hereinafter collectively referred to as the "Parties." The Parties agree as follows:

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[1] In various provisions of this Agreement, these terms refer to the corporation as of the date of this Agreement and, where this Agreement applies to periods after the formation of a holding company ("HoldCo"), to the electric business of RegSub which will continue to be the Commission-regulated electric and gas utility. After the corporate restructuring contemplated by Article VII of this Agreement, HoldCo will be the parent of RegSub and other subsidiaries, including but not limited to one or more generation companies ("GenSub") and energy services companies ("ESCO").

I. Introduction

In response to the Order Establishing Procedures and Schedule, issued October 9, 1996 in this proceeding by the Public Service Commission of the State of New York (the "Commission"), representatives of NYSEG and Staff have been engaged in discussions regarding a rate plan for the Company's business operations and a restructuring of the Company. As a result of further discussions, the Parties have reached this Agreement to resolve the issues raised in this proceeding and in the Commission's Opinion and Order Regarding Competitive Opportunities for Electric Service, Opinion No. 96-12, issued May 20, 1996 ("Opinion No. 96-12") in the competitive opportunities proceeding (Case 94-E-0952).

The issues raised in these proceedings are interrelated and complex and will have long-range impacts on the provision of electric service in the Company's service territory. Notwithstanding the complexity of the issues, the Parties have resolved these matters by settlement rather than litigation. This Agreement gives fair consideration to the interests of NYSEG's customers, investors and other stakeholders and achieves the Commission's principles, vision and goals set forth in Opinion No. 96-12 and its Opinion No. 95-7, Opinion and Order Adopting Principles to Guide the Transition to Competition, issued in Case 94-E-0952 on June 7, 1995.

In general, this Agreement provides for: (1) lower rates for all customers as contrasted to those that would have applied under NYSEG's 1995 electric settlement agreement; (2) a retail access program that will lead to retail choice of power supplier for all NYSEG customers commencing August 1, 1999; (3) a mechanism to assess the market value of NYSEG's coal-fired generation; (4) authority to implement a HoldCo structure in accordance with the terms set forth in Article VII below; (5) a rate with the objective of moving basic customer service charges, and incremental demand and energy use toward marginal cost, while avoiding undue bill shock for any customer; (6) reasonable unbundling of existing electric rates; and (7) an extension of the gas rate settlement after further negotiation.

1. Procedural History of Opinion No. 96-12

In 1993, the Commission initiated a proceeding to address issues related to potential competition in the regulated energy markets in New York State. Case 93-M-0229, Proceeding on Motion of the Commission to Address Competitive Opportunities Available to Customers of Electric and Gas Service and Develop Criteria for Utility Responses, Order Instituting Proceeding (March 19, 1993) (changed to Case 94-E-0952, by Order dated November 30, 1994, to reflect new focus on electric service) (the "competitive opportunities proceeding").

Subsequently, the Commission issued its Opinion No. 94-15 which addressed the utilities' ability to enter into individually negotiated flex rate contracts with qualifying customers. Case 93-M-0229, Opinion and Order Regarding Flexible Rates, Opinion No. 94-15, issued July 11, 1994. In that Opinion, the Commission stated that "a second phase of this proceeding may be helpful to investigate issues related to the future regulatory regime in light of competitive opportunities." Id. at p. 35.

On August 9, 1994, the Commission instituted phase II of the competitive opportunities proceeding, Order Instituting Phase II of Proceeding, Case 93-M-0229 (August 9, 1994). This phase of the proceeding was intended "to identify regulatory and ratemaking practices that will assist in the transition to a more competitive electric industry designed to increase efficiency in the provision of electricity while maintaining safety, environmental, affordability, and service quality goals." Id. at pp. 1-2. Parties to Phase II of the proceeding were urged to work together to "examine issues related to the establishment of a fully efficient wholesale market for electricity and any pricing reforms necessary to reflect those market efficiencies in retail customer rates." Id. at p. 3.

The Commission adopted, on June 7, 1995, final principles to guide the transition to greater competition in the electric industry. Case 94-E-0952, Opinion and Order Adopting Principles to Guide the transition to Competition, Opinion No. 95-7, issued June 7, 1995.

On December 21, 1995, Administrative Law Judge Judith A. Lee and Ronald Liberty, then-Deputy Director of the Energy and Water Division, issued a Recommended Decision addressing implementation of the restructuring principles.

Subsequently, on May 20, 1996, the Commission issued its Opinion No. 96-12.

2. The Requirements of Opinion No. 96-12

Opinion No. 96-12 sets forth the Commission's vision and goals for the future electric regulatory regime. The Commission's stated vision for the future of the electric utility industry includes the following factors: (1) effective competition in the generation and energy services sectors; (2) reduced prices resulting in improved economic development for the State as a whole; (3) increased consumer choice of supplier and service company; (4) a system operator that treats all participants fairly and ensures reliable service; (5) a provider of last resort for all consumers and the continuation of a means to fund necessary public policy programs; (6) ample and accurate information for consumers to use in making informed decisions; and (7) the availability of information that permits adequate oversight of the market to ensure its fair operation. Id. at 24. In addition, the Commission reiterated that the principles adopted on June 7, 1995 "set forth the overall goals of the future regulatory regime by briefly stating the advantage to be gained and the limitations that are necessary as the State moves toward a more competitive electric industry." Id. at p. 26. The Commission also established the following goals: (1) lowering rates for consumers; (2) increasing customer choice; (3) continuing reliability of service; (4) continuing programs that are in the public interest; (5) allaying concerns about market power; (6) continuing customer protections and the obligation to serve. Id. at pp. 26-27.

In its Opinion, the Commission directed NYSEG and four other electric utilities to each file a rate and restructuring plan consistent with the Commission's policy and vision for increased competition. Id. at pp. 74-75; see also id. at p. 92.

The Commission stated that these utility plans should address, at a minimum, the following matters: (1) the structure of the utility both in the short and long term, including a description of how that structure complies with the Commission's vision and, in cases where divestiture is not proposed, effective mechanisms that adequately address resulting market power concerns; (2) a schedule for the introduction of retail access to all of the utility's customers, and a set of unbundled tariffs that is consistent

with the retail access program; (3) a rate plan to be effective for a significant portion of the transition; and (4) numerous other issues relating to strandable costs, load pockets, energy services, and public policy costs. Id. at pp. 75-76, 90.

In addition, the Commission directed the utilities to collaborate with Staff and other interested parties to accomplish technical studies on subjects including load pockets, market prices, energy services companies and reporting requirements. Collaborative efforts were also directed to be held on public educational forums and on necessary Federal Energy Regulatory Commission ("FERC") filings, which have centered on development of an independent system operator and power exchange. Id. at 63-64.

In a petition filed September 18, 1996 in the Supreme Court of New York, Albany County, the electric utilities, including NYSEG, challenged certain aspects of the Commission's determinations made in Opinion No. 96-12. On November 25, 1996, Justice Joseph Harris issued a decision and order denying the petition of the electric utilities. A notice of appeal was filed by the electric utilities on December 24, 1996 and the appeal remains pending. If this settlement is approved and becomes effective as set forth in Article X below, NYSEG will withdraw its appeal.

3. NYSEGPlan

In compliance with the directives of Opinion No. 96-12, the Company submitted its rate and restructuring proposal called NYSEGPlan on September 27, 1996. On December 19, 1996, the Company filed a petition pursuant to which NYSEG has sought authority to form a holding company. The Commission subsequently notified the parties that the holding company petition would be addressed herein. Case 96-E-0891, Notice to the Parties (issued January 7, 1997).

4. NYSEG's 1995 Electric Settlement

In Opinion No. 95-17, the Commission's Opinion and Order Concerning Electric Revenue and Rate Design (issued September 27, 1995 in Case 94-M-0349), the Commission approved a three-year settlement agreement (the "1995 Electric Settlement") which replaced the third year of a previous agreement. In the 1995 Electric Settlement, NYSEG agreed to forgo the 9.1% increase provided for in a

previously-approved agreement, and eliminated its fuel adjustment clause and its revenue decoupling mechanism and waived its right to most of the reconciliations and true-ups that had been provided under the prior agreement. The 1995 Electric Settlement resolved NYSEG's revenue requirement for a 36-month period by providing for the following increases[2]:

Year One:	$45,079,000	(2.9%)
Year Two:	$45,250,000	(2.8%)
Year Three:	$45,500,000	(2.7%)

Under the terms of the 1995 Electric Settlement, rate design for the first year was adopted and NYSEG was required to file its proposal for Years 2 and 3 revenue allocation and rate design no later than six months before the Year 2 rates were to go into effect (February 1, 1996). On January 31, 1996, NYSEG filed its proposed revenue allocation and rate design for the second and third years and subsequently submitted applicable tariffs on July 18, 1996 for Year 2. On September 9, 1996, NYSEG petitioned for rehearing of the Commission's Order Suspending Rate Filing issued August 26, 1996, which deferred through December 30, 1996 the rates in the July 18 tariff submission. On December 18, 1996, the Commission issued an order further extending the effective date of the July 18, 1996 tariffs to June 30, 1997. By letter dated May 29, 1997, the Company agreed to an extension of the suspension period, with certain conditions, pending the outcome of its rate/restructuring proceeding. At its Open Session of June 25, 1997, the Commission approved this extension of the maximum suspension period. By its Order Suspending Rate Filing, issued July 10, 1997, the Commission suspended the Year 3 rate increase that was scheduled to take effect on August 1, 1997.

In a petition filed and pending in the Supreme Court of the State of New York, Albany County, the Company is seeking a judgment annulling and setting aside the orders issued August 26, 1996 and December 18, 1996 and directing the Commission to issue an order granting rates for the second year increase under the 1995 Electric Settlement. On January 16, 1997, the Commission issued its Order Denying Petition for Rehearing and Requiring Further Proceedings. In this order, the Commission: (1) denied NYSEG's petition

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[2] Years One, Two and Three refer to the twelve month periods ending July 31, 1996, July 31, 1997 and July 31, 1998, respectively.

for rehearing; and (2) determined that the issue of whether NYSEG should receive the second year increase of 2.8% under the 1995 Electric Settlement would be reviewed in this proceeding.

5. Negotiations Among The Parties

Case 96-E-0891 was established by the Commission to examine NYSEGPlan. On October 9, 1996, the Commission issued its Order Establishing Procedures and Schedule (the "October 9 Order"). In the October 9 Order, the Commission established a schedule and assigned Administrative Law Judge Jeffrey E. Stockholm to preside over this proceeding. To date, 58 parties have intervened in this proceeding.

In the October 9 Order, the Commission stated that a negotiated outcome is preferable to a litigated outcome and that discussions and negotiations among the parties are strongly encouraged. October 9 Order at p. 3. The Commission also established a 90-day period for negotiations. To facilitate these negotiations, the Commission waived certain provisions of its settlement guidelines.

On November 1, 1996, NYSEG conducted a briefing session concerning the NYSEGPlan submission and technical experts were available at that session to answer questions. By letter dated November 14, 1996, NYSEG provided notice of impending settlement negotiations pursuant to applicable Commission rules and regulations. An all parties conference was held on December 4, 1996. Public Statement Hearings were held in Plattsburgh on November 20, 1996, in Binghamton on December 11, 1996 and in Elmira on December 12, 1996.

ALJ Stockholm convened procedural conferences on November 18 and December 20, 1996 to review the status of negotiations and discovery, to establish future procedures and schedules and to address other necessary matters. By notices issued December 19, 1996, January 9, February 13, February 27 and March 6, 1997, the Secretary of the Commission informed the parties that the period established in the October 9 Order for the submission of a settlement agreement would be extended for NYSEG, the last extension being to March 25, 1997. Without an executed settlement by that date, the parties proceeded to litigate the case.

6. Litigation of NYSEG's Modified Plan for Competition

On March 25, 1997, NYSEG submitted direct testimony that updated, and in certain respects revised, the testimony that had been filed in support of NYSEGPlan on September 27, 1996. In addition, the Company filed a Proposed Settlement Agreement (Exh. 117). In a letter dated April 10, 1997, the Company explained that the Proposed Settlement Agreement supersedes the March 25th testimony where differences between the two appear.

Direct testimony was also submitted by the following parties: Staff; the American Association of Retired Persons ("AARP"); Independent Power Producers of New York, Inc. and Enron Trade & Capital Resources ("IPPNY/Enron"); Multiple Intervenors ("MI"); the Public Interest Intervenors ("PII"); EnerScope; New York Power Authority ("NYPA"); the New York State Consumer Protection Board ("CPB"); the New York State Department of Economic Development ("DED"); the Retail Council of New York ("Retail Council"); the RE3SCO Restructuring Coalition ("RE3SCO"); and Wheeled Electric Power Company ("WEPCO").

A Procedural Conference was held before ALJ Stockholm on April 16, 1997 to address a variety of procedural issues. The Company submitted responsive testimony on April 21, 1997. Staff and most of the other parties identified above filed rebuttal testimony on May 6, 1997. Evidentiary Hearings were held in Albany, New York before ALJ Stockholm on May 15-16 and 19-22, 1997. The record in this proceeding comprises 3,718 pages of transcript. In addition, 205 exhibits were received in evidence. Initial and Reply Briefs were submitted to ALJ Stockholm on June 13, 1997 and June 23, 1997, respectively.

7. The Settlement Agreement

Negotiations between the Company and Staff continued through the litigation phase of the case. On July 30, 1997, the Company filed with the Commission and ALJ Stockholm, and served upon all parties to the proceeding, a Joint Statement of Principles, which was executed on July 28, 1997 by counsel for NYSEG and Staff. The Settlement Agreement incorporates, and is based upon, the points covered in the Joint Statement of Principles.

II. General Provisions

1. Term

The electric price cap and price reduction provisions of this Agreement cover the five-year period beginning with the effective date of tariffs implementing the Commission opinion approving this Agreement. That five-year period is referred to herein as the "Price Cap Period." Other provisions continue thereafter in accordance with the terms of this Agreement. To more particularly define the Price Cap Period, the terms Year One, Year Two, Year Three, Year Four and Year Five describe the first, second, third, fourth and fifth twelve month period, respectively, after the commencement of the Price Cap Period.

2. Relationship to 1995 Electric Settlement

a. NYSEG is currently operating under the terms of the 1995 Electric Settlement, which expires July 31, 1998. The increases for the second year, commencing August 1, 1996, and the third year commencing August 1, 1997, were suspended by the Commission pending the outcome of this proceeding, as stated in Article I.4 of this Agreement.

b. This Agreement supersedes the 1995 Electric Settlement. As a result, upon this Agreement becoming effective, NYSEG will (*i*) withdraw its pending Article 78 petition regarding the electric increase for the second year under the 1995 Electric Settlement, and (*ii*) forgo the increases scheduled for the second and third years of the 1995 Electric Settlement. NYSEG will withdraw that petition based upon a court-filed stipulation between NYSEG and the Commission.

3. Relationship to Existing Gas Settlement Agreement

NYSEG is currently providing natural gas service consistent with a three-year gas settlement agreement approved by the Commission in Opinion No. 95-19, issued December 14, 1995. After further negotiations, this gas settlement will be extended through the Price Cap Period.

III. Rate Plan

1. Price Reductions, Price Freeze and Securitization

a. NYSEG will forgo the $45.25 million revenue increase approved as part of Year 2 and the $45.5 million revenue increase approved as part of Year 3 under the 1995 Electric Settlement. Those forgone revenues will result in a price reduction of approximately 6% for residential and commercial customers from levels previously anticipated in the 1995 Electric Settlement.

b. Beginning with the effective date of Year 1 tariff leaves implementing the Commission opinion approving this Agreement, current electric rates will be reduced five percent on average each year for five years for the following eligible customer groups: (*i*) industrial customers with average on-peak demands of 500 kw or greater and (*ii*) all demand-billed customer with load factors of 68% or greater. Customers receiving negotiated or incentive rates will become eligible for such rate reductions after their contracts with NYSEG expire unless those contracts permit them to become eligible for such rate reductions prior to the contract expiration date.

c. Overall average electric prices (other than those referred to in paragraph 1.b.) will be frozen by service class during the Price Cap Period unless otherwise adjusted by the terms of this Agreement.

d. The forecast summary of kilowatthours ("kWh") and revenue effects due to revised rates for each service classification for each year of the Price Cap Period is attached hereto as Appendix A.

e. In the event that New York law is enacted to permit and facilitate the voluntary securitization of intangible assets, including but not limited to the generation asset provided for in Article V.1 of this Agreement, and is so utilized by NYSEG, net savings resulting from securitization will be returned to customers in a manner to be determined by the Commission.

2. Electric Earnings Cap

a. During each year of Price Cap Period, RegSub electric earnings will be capped at 12% of common equity, including any combined GenSub earnings prior to the

completion of the auction or the subsequent appraisal process (if necessary). Any such earnings in excess of 12% will be returned to customers in a manner to be determined by the Commission. Any reduction in the common equity balance resulting from any writeoff or writedown of assets, or the repurchase of common stock authorized by this Agreement, will be eliminated before RegSub's electric return on equity is calculated under the earnings cap. The costs of any potential takeover defense mounted by NYSEG may be excluded from the earnings cap calculation at the discretion of the Commission.

b. During each year of the five-year Price Cap Period, the RegSub electric earnings floor will be 9.0%. The Company may petition for rate relief if earnings fall below the floor. Such rate relief will be prospective from the date of the filing.

3. Electric Rate Design

a. As a rate objective, the parties agree that the basic service charge and the energy and demand charges upon which customers make decisions about whether to consume more or less electricity should reflect marginal costs, while avoiding undue bill shock for any customer. The Company agrees, however, to freeze rates for customers not covered by paragraph III.1.b. above for Years 1 and 2 of the Agreement, subject to the terms of this Agreement.

b. Year 1 and 2 rates for all service classifications are shown on the rate schedules attached hereto as Appendix B and made a part hereof. The Year 1 rates for customers covered by paragraph III.1.b. will be implemented upon the effective date of tariff leaves for Year 1 pursuant to the Commission Opinion approving this Agreement. The tariff leaves for Year 1 will be filed on one day's notice prior to the effective date. The Year 2 rates pursuant to Appendix B shall apply for Year 2 of the Price Cap Period, unless otherwise modified by the Company in accordance with the terms of this Agreement.

c. The Company will make a filing no later than February 1, 1999, that includes new electric rate designs for Years 3, 4 and 5 that address the marginal cost-based rate objectives for all classes. Beginning in Year 3, NYPA savings for residential customers will be reflected in the basic service charge. These rates will be implemented upon Commission approval of tariff leaves to be effective at the

beginning of Year 3 of the Price Cap Period, unless otherwise modified by the Company in accordance with the terms of this Agreement. At the same time, the Commission will also approve tariff leaves to be effective at the beginning of Years 4 and 5 of the Price Cap Period, unless otherwise modified by the Company in accordance with the terms of this Agreement.

d. Additionally, during the Price Cap Period, the Company may file with the Commission for approval of tariff changes to implement voluntary incentive rates to encourage changes in sales based upon marginal costs and for minor revenue-neutral electric service price changes between and within classes. Any proposed changes will be filed by RegSub upon 30 days notice and will be subject to Commission approval.

e. The NYPA savings for residential customers will be communicated to customers through a message on their bill for the term of the Price Cap Period.

4. Uncontrollable Costs

a. The Company may petition to recover revenue for the following two categories of uncontrollable costs:

- Category 1 - As outlined in Appendix C, p. 1, this category covers nonrecurring events as a result of *force majeure*, which shall include storm, flood, riot, terrorism, sabotage, war, strike or labor disturbance (other than by NYSEG's bargaining units) or acts of God. Category 1 costs also include those Category 2 costs that have been incurred before rates are changed to recover those increased costs. Aggregate costs in Category 1 during any of the specified 12-month periods in excess of a materiality threshold of 3% of RegSub's net electric income will be recovered through the aforesaid adjustment.

- Category 2 - This category covers any costs incurred above the target levels specified in Appendix C, p. 2.

b. Recovery of Category 1 and Category 2 uncontrollable costs will be determined through a limited and expedited process similar to a traditional "second stage" review, and will not result in a reopener of any

terms of this Agreement. The Company shall submit an annual filing which reports the variances of actual costs above the 3% materiality threshold for Category 1 items, and Category 2 targets and costs included on Appendix C, p. 2 of 2. Any recovery of Category 1 or 2 cost increases may be offset by Category 1 or 2 cost savings below the targets achieved during the Price Cap Period, any electric earnings in excess of the 12% cap discussed below, and any net NUG contract cost savings achieved by contract termination or restructuring during the Price Cap Period. In the event that the variances from the target are negative, the amounts will be disposed of at the discretion of the Commission.

c. Notwithstanding a Company filing to recover costs pursuant to the Category 1 and 2 cost items, the Company shall make an annual filing for each of the years of the Price Cap Period to report on electric earnings and to defer any excess electric earnings that have not been used to offset rate recovery of uncontrollable costs as described above for the benefit of customers. In the event that in any year of the Price Cap Period the Company petitions for cost recovery under the uncontrollable cost recovery provision for Category 1 or 2 items, the Commission will be entitled to offset any such request with any electric earnings in excess of 12% that would have been realized but for the use by the Company of accelerated (increased) depreciation or amortization of any physical or regulatory assets. Such acceleration (increase) is permitted without pre-approval by the Commission.

5. <u>System Benefits Charge</u>

a. The Commission will make a determination in either the instant proceeding or in the pending System Benefits Charge ("SBC") collaborative in the competitive opportunities proceeding regarding the cost level and method of recovering costs associated with certain public policy programs. The presumed level of those expenditures is included with the expenditures set forth in Appendix C, p. 2 of 2. Any reduction in that level of expenditures will be flowed through to customers. Any increases in those levels will be recovered under the provisions governing Category 2 cost increases.

b. With respect to the method of recovery, SBC-related Category 2 costs may either continue to be included in current rates or separately stated as an SBC. If the SBC is separately stated, such costs would be removed from

Category 2. Separation of the SBC targets from Category 2 will not alter the target levels for these components from those shown on Appendix C. After creation of such an SBC, any variances from the targets for the separated components will be recovered or credited through the SBC.

6. Unbundling

a. Commencing with the date on which NYSEG files tariffs implementing the Commission opinion approving this Agreement, or as soon thereafter as practicable, NYSEG electric retail rates will be unbundled as shown in the following table:

Year 1	Year 2	Years 3-5
Basic Service Charge	Basic Service Charge	Basic Service Charge
System Benefits Charge	System Benefits Charge	System Benefits Charge
Energy & Demand, as appropriate	Transmission	Power Supply
Retail Access Credit, as appropriate	Delivery and Power Supply	CTC
Total	Retail Access Credit, as appropriate	Transmission
	Total	Distribution
		Customer Service
		Retail Access Credit, as appropriate
		Total

b. Unbundling of "Transmission" from "Delivery and Power Supply" will be implemented based on the classification of transmission and distribution facilities determined by the Commission in Case 97-E-0251.

c. RegSub will submit a cost of service study for electric customer service functions by February 1, 1999. The Company agrees to unbundle the customer service function on an incremental cost basis with the filing of tariffs to be effective August 1, 1999.

7. Direct Charge Fees

a. NYSEG may petition to introduce revenue-neutral direct charge fees based on incremental costs for various electric services now performed by the Company. These services may include, but are not limited to, activation fees for customer name change or meter turn-on, reconnection fees where service is restored within 12 months of disconnection, fees to recover costs incurred where access to a customer's property is not permitted, and fees related to customer payment in the field to avoid shut off. The filing will specify the nature of the fee, the rationale for the fee based on cost causation, and the amounts to be collected from customers.

IV. Retail Access

1. General Provisions

a. NYSEG will introduce direct retail access for eligible retail electric customers to other qualified suppliers pursuant to this Agreement. Customers receiving service under tariffs allowing NYSEG negotiated or incentive rates will become eligible for retail access after their contracts expire unless their contracts with NYSEG permit such customer to become eligible earlier. NYSEG may file a petition with the Commission for a retail access transaction fee on an incremental cost basis.

b. For the purposes of this Article IV, the market price of electric power and supply shall be assumed to include energy and capacity. The market price will be obtained from published sources, such as the Dow Jones and Reuters financial service, and eventually from an appropriate power exchange once it is approved by FERC and is operating.

c. Concurrent with the Customer Choice Pilot Program described in Paragraph 2 of this Article IV, NYSEG will begin a statewide education effort for its other retail customers using various communications media.

2. Customer Choice Pilot Program

a. Beginning November 1, 1997, NYSEG will implement a Customer Choice Pilot Program in satisfaction of the Commission's "Order Establishing Retail Access Pilot Program", issued June 23, 1997 in Case 96-E-0948 - Petition of Dairylea Cooperative, Inc. to Establish Open-Access Pilot Program for Farm and Food Processor Electricity Customers. Tariffs governing the Customer Choice Pilot Program were submitted on August 1, 1997 in Case 96-E-0948 and became effective on a temporary basis on August 4, 1997.

3. Retail Access for City of Norwich and Lockport Division

a. Beginning August 1, 1998, RegSub will introduce retail access to all customers in the City of Norwich and in RegSub's Lockport Division subject to minimum load and aggregation requirements as are necessary for the Company and are consistent with the minimization of barriers to competition. There are approximately 23,000 customers in the City of Norwich and the Lockport Division. All customers in this group who sign up with a new supplier will have power delivered by RegSub for their chosen suppliers commencing no later than December 31, 1998. During this introductory period, customers who choose another supplier may be billed off-system, rather than through RegSub's Customer Information System ("CIS").

b. The retail access credit used to back out generation during the period prior to the completion of the auction as more particularly described in Article V.1 and the closing(s) thereon for Norwich and Lockport customers electing to switch suppliers shall be the market price defined in Article IV.1(b) plus an adder of four-tenths of one cent ($0.004) per kWh for customers eligible for the 5% reductions pursuant to Article III 1.b., and an adder of one cent ($0.01) per kWh for customers not eligible for the 5% reductions pursuant to Article III 1.b., except for the flex rate customers defined in Article III 1.b. unless and until they are eligible as provided for in Article III 1.b. In no event shall such credit exceed three cents ($0.03) per kWh, including GRT.

4. Retail Access for Remaining Customers

a. Beginning August 1, 1999, RegSub will offer retail access to all of its remaining customers who are not receiving service under RegSub negotiated or incentive rates, provided that the Independent System Operator ("ISO") is first approved by the FERC and is operating. Notwithstanding the foregoing, customers taking service under RegSub's negotiated or incentive rates shall be eligible for retail access after their contracts expire unless their contracts with NYSEG permit such customer to become eligible earlier. Customers selecting a new supplier will have power delivered by RegSub for their chosen suppliers commencing no later than December 31, 1999. The Company may petition for an extension of these deadlines if RegSub experiences unacceptable balancing/settlement problems or experiences severe customer order backlogs or if the ISO as first approved by FERC is not operating. The petition should clearly define the problems causing delay, NYSEG's potential solutions, and NYSEG's proposed revised schedule.

b. The retail access credit used to back out generation during the period following the completion of the auction and closing(s) thereon through the end of the Price Cap Period for all customers electing to switch suppliers shall be equal to (*i*) 3.23 cents per kWh including GRT through July 31, 2000, (*ii*) 3.47 cents per kWh including GRT from August 1, 2000 through July 31, 2001, and (*iii*) 3.71 cents per kWh including GRT from August 1, 2001 through the end of the Price Cap Period. The retail access credit provided to customers will be net of the CTC produced as a result of the auction described in Article V and will be adjusted without altering the system average retail access credit amounts set forth above. The method used to make this adjustment will be presented by the Company when it submits its cost of service study for electric customer service unbundling by February 1, 1999. At the end of the Price Cap Period, all costs (other than the non-bypassable CTC) related to the assets subject to the auction/appraisal process hereunder shall be excluded from the rates charged by RegSub for all customers, and all customers shall pay the market price of generation plus any applicable GRT.

c. In the event the auction or appraisal process described in Article V and the closing(s) thereon are not completed by August 1, 1999, the retail access credit during the period commencing August 1, 1999 and ending upon the

completion of the auction or appraisal process used to back out generation for all customers electing to switch suppliers shall be the market price of energy plus a four-tenths of one cent ($0.004) per kWh adder for customers eligible for the 5% reductions pursuant to Article III 1.b. and a one cent ($0.01) per kWh adder for customers not eligible for the 5% reductions pursuant to Article III 1.b., except for the flex rate customers defined in Article III 1.b unless and until they are eligible as provided for in Article III 1.b., but such credit shall in no event exceed 3.23 cents per kWh, including GRT.

5. GRT

a. All customers, including those who switch suppliers, shall pay the non-bypassable CTC plus any GRT for as long as is necessary to permit the Company to recover the regulatory asset determined by the auction process. Bills will disclose all generation-related credits and charges.

b. In the event the GRT is modified from the July 28, 1997 amounts, the backout figures listed in Article IV. 4.b shall be changed by a corresponding amount.

6. Provider of Last Resort

RegSub will be the provider of last resort during the Price Cap Period of this Agreement unless such status is changed by the Commission. For those eligible customers who do not receive electric supply from a new supplier, RegSub will deliver power to such customers at the bundled tariff rates in place at that time, but only for the Price Cap Period of this Agreement. For customers that have not made arrangements for electric supply at the end of the Price Cap Period, RegSub will acquire electric supply from an appropriate power exchange and bill those customers for such supply at cost. Unless otherwise required by law, RegSub may rely on the ISO to plan for power supply, assuming the ISO is approved by FERC and operating.

7. Reciprocity

During each phase of the retail access program, HoldCo's ESCO will have full access to provide services to RegSub's retail customers within the conditions of HoldCo's structure described in Article VII of this Agreement. Also, to the extent any other New York State utility or New York State utility-affiliated load serving entity ("LSE") seeks

to gain access to RegSub's service territory, such LSE will not be allowed to serve as a supplier in RegSub's service territory unless the service territory of the LSE's affiliated utility is open to retail access by RegSub and ESCO in an equal or greater proportion.

8. Rights and Obligations under Public Service Law Section 68

Except as specifically modified by this Agreement, RegSub's right and obligation under New York Law and its Public Service Law Section 68 Certificates to provide electric service to its customers remains unchanged notwithstanding the full implementation of retail access and remains in full force and effect for the full term of this Agreement and thereafter until duly changed.

V. Cost Recovery

1. Competitive Generation Plan

NYSEG owns, operates and maintains several coal-fired electric generation plants under traditional cost-of-service regulation supervised by the Commission. To promote a more fully competitive generation marketplace, mitigate the strandable costs associated with generation plants, achieve the Commission's goals, and prudently establish the fair market value of such NYSEG generation plants for the benefit of investors and customers, NYSEG will undertake to operate and to transfer its coal-fired plants pursuant to the following terms and conditions.

a. The NYSEG coal-fired electric generation that is covered by this competitive generation plan consists of its Kintigh, Homer City, Milliken, Goudey, Greenidge, Hickling and Jennison generating stations and their associated assets and liabilities (including without limitation, Somerset Railroad, environmental liabilities, pension costs, collective bargaining agreements, fuel contracts, land and property rights, equipment and facilities, etc.).

b. The valuation of NYSEG's coal-fired electric generation plants shall be determined by a simultaneous multiple round open auction process designed to obtain the highest final market value for purposes of mitigation of above-market costs and establishment of a regulatory asset for recovery of remaining above-market costs. All coal plants and associated assets and liabilities as set forth in

Article V, Paragraph 1.a, will be subject to such auction process. The process will not be designed to necessarily require NYSEG to divest its coal plants to a third party, except as otherwise agreed to in this settlement. The Company's generating subsidiary (GenSub) can participate as a bidder, and shall not have any special rights or privileges, including the right to close out the bidding by a matching bid. NYSEG shall provide at the same time (with appropriate confidentiality protections) all potential bidders with the same plant and operating information as NYSEG makes available to GenSub.

c. The ascending bid auction will continue for a given coal plant until no new bids are received. Bids will be compared in the auction process on a gross cash basis, and the Company agrees to sell (or transfer to GenSub) the plants at the auction determined value without subsequent negotiation of value.

d. The auction process will be completed and the transaction(s) resulting therefrom shall close no later than August 1, 1999.

e. If no bids are received for a plant above the minimum bid requirement of the auction, an appraisal process will be used and completed no later than August 1, 1999, or as soon as practicable thereafter. The valuation, on an after-tax basis, achieved by the appraisal process shall be used in lieu of the value of net after tax auction proceeds for purposes of establishing the regulatory asset or credit as set forth below.

f. Protocols, terms and conditions to implement the auction and appraisal process will be developed by the Company in consultation with Staff and will be submitted to the Commission for pre-auction approval by approximately February 1, 1998. Such auction provisions will state time requirements for bids and have mechanisms to pre-qualify bidders willing and able to abide by auction requirements and to disqualify or penalize bidders for cause. The Commission may employ a consultant, at NYSEG's expense (recoverable from the auction proceeds), to advise the Commission on the design and implementation of the auction process consistent with this Agreement. The Commission shall select the consultant from a list of at least three qualified individuals or firms selected jointly by the Company and Staff.

g. In order to facilitate a competitive generation market, an auction sale or transfer free and clear of the Company's mortgage indenture, and establishment of a minimum bid value for the auction process, the coal plants and associated assets and liabilities will be transferred to GenSub as soon as practicable after the creation of HoldCo and/or obtaining the mortgage trustee's release. GenSub earnings with respect to any such transferred plant will be combined with RegSub's earnings for the period prior to an auction sale or transfer of that plant. Upon such transfer, a regulatory asset of RegSub will be created for the difference between the book value of the coal plants and the valuation performed in accordance with the bond indenture. Such regulatory asset will be adjusted subsequently upon a sale or transfer based on the cash proceeds resulting from the auction process net of tax, auction and transaction costs. After a plant is sold or transferred, pursuant to the process described in this Article, there will be no further adjustment of RegSub's regulatory assets that have been created as a consequence of this Article, except for federal income tax consequences.

h. Upon completion of the auction process and sale of any plant to an unrelated third party or GenSub, the regulatory asset or credit on RegSub's books will represent the difference between the net book value of the plant, less funded deferred taxes, and the net after-tax auction proceeds. This regulatory asset or credit will be grossed up in accordance with SFAS 109. Any net regulatory asset and carrying charge thereon (calculated based on the pre-tax costs of capital used by the Commission to determine the Company's retail rates, i.e., 12.43%) will be recovered from all customers through the CTC over a period of time to be determined by the Commission at the conclusion of the auction process and which shall not exceed the weighted average remaining life of the auctioned assets as of the conclusion of the auction process and the closing(s) thereon. The method for calculating the CTC is attached hereto as Appendix D. In the event that the GenSub is the winning bidder of any plant in the auction, any deferred tax liability on the gain will remain the responsibility of RegSub's customers by virtue of its inclusion in the calculation of the above-described regulatory asset or credit which may result from the auction. The amount of this future customer responsibility will be limited to the tax (calculated at the then current tax rate) which derives from the tax gain that would have been realized at the time of the transfer to the GenSub at the auction-determined

value, had the sale been made to an unrelated third party grossed up in accordance with SFAS 109. Any net regulatory credit will be used by RegSub to writedown the Company's Nine Mile II investment, and any such credit remaining after such write down will be used by RegSub as directed by the Commission.

2. NUGs, NMP2, Hydroelectric and Regulatory Assets

a. Stranded cost recovery, including amortization of the RegSub regulatory assets associated with the coal plants, is presumed within overall rate objectives during the Price Cap Period and recovered through retail electric rates. After the Price Cap Period, remaining RegSub regulatory assets, other than those resulting from the auction process, and hydro, IPP and nuclear fixed costs will be recovered (for the life of the amortization period, contract or license) through a non-bypassable wires charge. The regulatory asset created by the auction will continue to be recovered through the CTC. Nuclear variable costs, which would exclude decommissiong and wind down costs and 62.5% of annual property taxes, will be put to market after the Price Cap Period, provided that the Company's cotenants put the same to market. In year 5 of the Price Cap Period, RegSub will make a filing with the Commission for rates applicable to the year following the Price Cap Period.

b. In the event NYSEG achieves NUG contract cost savings net of transaction costs from targets set forth in Appendix E of this Agreement during the Price Cap Period of this Agreement through NUG contract termination or restructuring, but excluding securitization, 80% of any net savings achieved through such NUG contract termination or restructuring shall be flowed through to customers in a manner to be determined by the Commission. The remaining 20% of any net savings achieved through such NUG contract termination or restructuring shall be retained by the Company. The foregoing shall be subject to potential offset against uncontrollable costs in the event the Company petitions for uncontrollable cost recovery with respect to Category 1 or 2 items as more particularly described in Section III, Paragraph 5, of this Agreement. Commencing after the Price Cap Period, all net NUG contract cost savings are subject to flow through to customers in a manner to be determined by the Commission.

VI. Mergers and Acquisitions

1. Pursuant to a petition filed jointly or individually by the Company, NYSEG shall have the flexibility to retain, on a cumulative basis, all savings associated with the acquisition or merger with another utility for a period of five years from the date of closing of any such merger or acquisition up to the amount of acquisition premium paid over the lesser of book value or fair market value of assets merged or acquired. Savings in excess of that recovery will be disposed of by order of the Commission.

2. The cost recovery provisions of this Agreement will continue in the combined entity.

3. Staff and the Commission will give expedited review and treatment to any petition by RegSub or HoldCo in connection with an acquisition or merger with another utility.

VII. Corporate Structure

1. NYSEG's petition to form HoldCo shall be approved, and NYSEG shall be authorized to restructure its operations by forming a holding company structure pursuant to a Plan of Exchange (the "Plan of Exchange") as more particularly set forth in this Agreement.

2. Under the terms of the Plan of Exchange, and subject to the rights of the holders of NYSEG's Common Stock (the "NYSEG Common Stock") to exercise their appraisal rights, all of the outstanding shares of NYSEG Common Stock will be exchanged on a share-for-share basis for the common stock of HoldCo (the "Share Exchange"). Such common stock exchanged for NYSEG Common Stock is referred to herein as HoldCo Common Stock. NYSEG and HoldCo will make such regulatory filings as may be required by law to effectuate the proposed restructuring.

3. Upon consummation of the Share Exchange, each person who owned NYSEG Common Stock immediately prior to the Share Exchange, other than those stockholders who properly exercise their appraisal rights, will own a corresponding number of shares and percentage of the outstanding HoldCo Common Stock, and HoldCo will own all of the outstanding shares of NYSEG Common Stock.

4. After the Share Exchange, NYSEG will be a regulated, wholly-owned utility subsidiary of HoldCo, herein referred to as RegSub, which will functionally separate electric delivery services from gas services.

5. After the Share Exchange, NYSEG shall be authorized to transfer to GenSub, in the form of a stock dividend or such other appropriate form, all of the common stock of Somerset Railroad Corporation, which is currently a wholly-owned subsidiary of NYSEG.

6. After the Share Exchange, NYSEG shall be authorized to transfer to HoldCo, in the form of a stock dividend or such other appropriate form, all of the common stock of NGE Enterprises, Inc., which is currently a wholly-owned subsidiary of NYSEG.

7. RegSub shall be authorized to structurally separate its coal-fired generation assets and liabilities by transferring such generation assets and liabilities to GenSub in accordance with Article V.1 of this Agreement.

8. The following terms and conditions shall apply to RegSub and its affiliates regarding affiliate operations and relationships.

a. Common stock dividends paid by RegSub to HoldCo will be limited in any calendar year to 100% of net income available for common stock. The calculation of net income will exclude any one-time, non-cash accounting charges. This restriction will exclude any one-time dividends to HoldCo attributable to major transactions such as asset sales, the transfer of generating assets associated with HoldCo and GenSub formation, or securitization.

b. By a separate petition that will be reviewed and acted upon expeditiously, the terms of the current Commission Global Financing Order applicable to NYSEG (Case 95-M-1195) will extend through the term of this Agreement and be amended to include authorization for RegSub to enter into derivative or other risk management transactions with respect to current or future financings. In addition, by a separate petition that will be reviewed and acted upon expeditiously, the terms of the Stock Repurchase Order applicable to NYSEG (Case 94-M-0954) will extend through the term of this Agreement and will be amended so that RegSub may, from time to time, repurchase at book value from HoldCo such amount of shares of its common stock as RegSub

determines in order to maintain the RegSub equity ratio at an appropriate level. These stock repurchases will be excluded from the calculation of excess earnings. These buyback provisions supersede the Commission's authorization to repurchase shares in Case 94-M-0954. In the event that RegSub's first mortgage bond rating falls below investment grade according to both Moody's and S&P, RegSub will be prohibited from repurchasing shares of common stock until its investment grade rating is restored.

c. Non-officer employees who transfer between RegSub and an unregulated affiliate will be prohibited from transferring back to their original employer for a period of one year unless a specific waiver is received from the Commission or its designee. Non-officer employees returning to RegSub may not transfer to an unregulated subsidiary for a minimum of one year from the date of the return unless a specific waiver is received from the Commission or its designee. HoldCo and its affiliates, including RegSub, may have common officers.

d. RegSub and its affiliates will be permitted to maintain one common pension fund at HoldCo. For the purposes of allocating pension expense (credit), excess pension fund assets as of August 1, 2002 will be attributed to RegSub. Subsequent gains or losses will be allocated to all affiliates.

e. No payment or imputation of royalties or positive benefits to ratepayers will be made by or with respect to RegSub or any affiliates given the special circumstance surrounding this Agreement. The "Order Approving Stipulation and Agreement, Subject to Conditions", issued April 28, 1992 in Case 91-M-0838 and the Stipulation and Agreement approved therein authorizing NYSEG to make investments in diversified activities are superseded.

f. In addition, the following standards of conduct shall apply:

- <u>Separate Entities</u>: Any affiliate will be set up as a business entity separate from RegSub to foster competition in the utility's territory. Separate entities will help to minimize the potential for self-dealing and the perception of self-dealing by customers and other competitors.

- Separation of books and records: Separation will include books and records, non-officer employees, advertising and marketing efforts, and energy purchasing (except for tariffed services). Where common costs are shared to take advantage of economies of scale, direct cost allocation will be used where practical. However, if direct cost allocation is impractical, cost allocations will be accomplished by using a fully distributed cost method to be provided by NYSEG and approved by the Commission.

- Physical Separation: RegSub and HoldCo may occupy the same building. Any non-regulated affiliate, other than HoldCo, will be located at a different location from RegSub to reduce the opportunity for, and appearance of, anti-competitive behavior or other inappropriate activities. Generation employees may occupy the same building as RegSub until completion of the auction required pursuant to the competitive generation plan.

- Affiliate Transactions: Affiliate transactions will be minimized to protect against cross-subsidies. When transactions occur, they will be priced at tariff rates, if applicable, or at least at fully distributed costs. In addition, such transactions will be at arms-length. All transactions in excess of $100,000, other than tariffed transactions and corporate governance and administrative services, between RegSub and either HoldCo or any affiliate will be pursuant to written contracts filed with the Commission, and the provision of goods and services by such contracts will be on a basis that neither disadvantages RegSub nor unduly prefers HoldCo or any affiliate.

- Transfer of Assets: Any transfer of utility assets will be compensated to RegSub based on the greater of book value or market value, except for the transfer of generation assets (coal plants, related equipment and contracts) as contemplated by this Agreement.

- Transfer of Data/Information: RegSub will not provide any competitive information or data to its affiliated entities unless that same information or data is provided to all competitors at the same time.

- Access to Books and Records: Staff will have direct access to the books and records of RegSub and, prior to the auction, of GenSub. For purposes of Public Service

Law Section 110, Staff will also have direct access to the books and records of RegSub, GenSub, HoldCo, and any majority-held affiliate. For the purpose of auditing any Section 110 transactions between RegSub and either HoldCo or its affiliates, including GenSub, HoldCo will provide Commission designated personnel reasonable opportunity to audit any such transaction, subject to appropriate confidentiality agreements and trade secret protection.

- Dispute Resolution Process: A process will be established, in consultation with Department of Public Service Staff, for a competitor or customer to obtain Commission review if it believes that RegSub, or its affiliate in a transaction with RegSub, has acted in an anti-competitive manner. Complete records of disputes will be retained for Department of Public Service review.

- Name and Reputation: There shall be no restrictions on HoldCo or any affiliate using the same name, trade name, trademarks, service name, service mark or a derivative of a name, of HoldCo or RegSub, or in identifying itself as being affiliated with HoldCo or RegSub. RegSub will not provide sales leads for customers in RegSub's service territory to any affiliate and will refrain from giving the appearance that RegSub speaks on behalf of an affiliate or that the affiliate speaks on behalf of RegSub. If a customer requests information about securing any service or product offered within the service territory by an affiliate, RegSub may provide a list of all companies known to RegSub operating in the service territory that provide the service or product, which may include the affiliate, but RegSub may not promote its affiliate.

- Debt Rating: Regsub will have its own debt rating. If RegSub experiences a downgrading or placement on creditwatch or review of its senior debt, RegSub management will notify the Director of Accounting & Finance of the New York State Department of Public Service.

- Guarantee of Affiliate Debt: RegSub will not guarantee the notes, debentures, debt obligations or other securities of any affiliate, nor will it pledge any of

its assets as security for any indebtedness of HoldCo or its affiliates.

- Loans of Employees: RegSub will not loan operating employees to its affiliates. Operating employees are those involved in competitive lines of business, which excludes (among other categories) corporate governance, finance, accounting, legal, and administrative services.

VIII. Other Provisions

1. The Parties will negotiate in good faith modifications to NYSEG's SC-11 tariff relating to backup and maintenance services. The negotiation shall address recovery of the CTC where backup or maintenance service continues to be provided by NYSEG.

2. As described in more detail in Appendix F NYSEG's Service Quality Mechanism will be modified to be a potential penalty-only mechanism based on RegSub's performance on electric service reliability. RegSub's earnings cap threshold will be adjusted down for the period of the penalty in the event that a penalty is incurred.

3. In order to mitigate customers' above-market cost burden, in its sole discretion, RegSub shall have the flexibility to accelerate or increase amortization of regulatory assets, including the generation asset resulting from the competitive generation plan described in Article V.1.c. of this Agreement, accelerate or increase amortization of the Nine Mile Point 2 ("NMP2") book balance, accelerate or increase depreciation, or make similar adjustments in the exercise of its business judgment. An amortization schedule is attached hereto as Appendix G. These expenses shall be included in the annual calculation of RegSub's electric return on equity for earnings cap purposes, except that these adjustments shall be excluded from such annual calculation in the event that RegSub presents to the Commission a proposed cost-recovery charge for uncontrollable costs pursuant to Article III.5. of this Agreement. In addition, the Commission will be entitled to offset such proposed charge with any RegSub earnings in excess of 12.0% on common equity that would have been realized but for the use of accelerated or increased amortization or accelerated or increased depreciation as above permitted. These adjustments shall be excluded in the calculation of any earnings shortfall for the purposes of

RegSub filing for electric rate relief described in Article III.2 of this Agreement.

4. As set forth in Appendix G, NYSEG may apply any deferred credit balances as of the commencement of the Price Cap Period against any deferred charges.

5. In its Order Reconvening Proceeding, issued September 20, 1996, in Case 93-E-0960, the Commission directed the parties to that proceeding to negotiate future Economic Development Power ("EDP") rates. Pursuant to a Memorandum of Understanding (the "Memorandum") executed December 6, 1996, the parties agreed to interim EDP rates pending litigation of all issues related to NYSEG's provision of EDP service in this proceeding (Case 96-E-0891). For the reasons explained in the Procedural Ruling of March 20, 1997, the due date for submission of testimony on the EDP rate issue was postponed from the date provided in the Memorandum. An agreement on EDP rates resolving Case 93-E-0960 is attached as Appendix H.

6. Any net savings from changes in Gross Receipts Taxes will be flowed through to NYSEG's customers subject to Article IV, Paragraph 5.

7. RegSub will make a filing at the beginning of Year 5 of the Price Cap Period to provide for recovery of delivery, NMP2 and NUG costs, recovery of or credit to regulatory assets (including the generation asset described in Article V.1 of this Agreement) and recovery of the costs of electric power supply at market rates beginning after the Price Cap Period, consistent with the terms of this Agreement.

8. NYSEG will withdraw the two Article 78 Proceedings referenced in this Agreement and the Article 78 proceeding to challenge the Commission's "Order Concerning Retail Access Proposal" issued in Case 96-E-0948 (the Dairylea Proceeding) through stipulation agreements between the Company and the Commission.

9. It is the intent of the Parties, and the Commission by virtue of its approval of this Agreement, that this Agreement meets the accounting requirements of Statement of Financial Accounting Standards No. 71, throughout its term.

IX. Finality

The Parties agree that Commission approval of this Agreement represents approval of its terms, and the Parties recognize that the concessions and assurances of NYSEG are being made, in substantial part, in reliance upon later actions of the Commission pursuant to the terms of this Agreement. Accordingly, the Parties hereby request that the Commission's Order approving this Agreement expressly find that:

1) the mutual concessions and assurances set forth in this Agreement are inextricably interrelated;

2) that they will produce rates that are just and reasonable through the Price Cap Period;

3) that they justify the reasonable opportunity for continued recovery of strandable costs and the use of non-bypassable wire charges for that purpose subsequent to the Price Cap Period according to the terms of this Agreement;

4) that they achieve the Commission's goals and policy objectives in Opinion No. 96-12; and

5) that they further the public interest.

X. Effectiveness

1. The NYSEG restructuring plan provided for under this Agreement is subject to any required approval of the NYSEG Board of Directors and stockholders and any regulatory body having jurisdiction. This Agreement is subject to issuance of a final Commission Order approving this Agreement without changes, which order shall include or adopt the above-stated express findings. In the event that any of said approvals is not received, then this Agreement and all of its terms and conditions shall be null and void. This Agreement shall be binding upon, and shall inure to the benefit of, any successor in interest to any Party.

2. The terms and provisions of this Agreement apply solely to and are binding only in the context of the purposes and results of this Agreement. None of the terms and provisions of this Agreement and none of the positions

taken herein by any Party may be referred to, cited or relied upon by any other Party as precedent in any other proceeding before this Commission or any other regulatory agency or before any court of law, except in furtherance of the purposes and results of this Agreement.

Executed this _____ day of September, 1997

NEW YORK STATE ELECTRIC & GAS CORPORATION

By: _____

By: _____

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APPENDIX A

FORECAST SUMMARY OF KILOWATTHOURS AND REVENUE EFFECTS

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-08
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954696

Year 1 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,328,704	$483,982	$0	$483,982	0.0%
Residential Day-Night	115	8		1,738,318	$221,284	$0	$221,284	0.0%
Residential Time of Use	115	12		333,559	$39,423	$0	$39,423	0.0%
TOTAL RESIDENTIAL				5,398,581	$744,688	$0	$744,688	0.0%
General Service Regular	115	6		205,238	$35,709	$0	$35,709	0.0%
General Service Day-Night	115	9		6,520	$924	$0	$924	0.0%
Subtotal				211,758	$36,633	$0	$36,633	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>65%	171,716	$15,770	($791)	$14,979	-5.0%
General Service-w/Demand	115	2	All Others	2,582,189	$320,861	$0	$320,861	0.0%
General Service-w/Demand	115	2	Total	2,753,906	$336,631	($791)	$335,840	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	125,402	$12,863	($658)	$12,206	-5.1%
General Service-Time of Use	115	7-1	High Load Factor>65%	68,772	$6,257	($321)	$5,936	-5.1%
General Service-Time of Use	115	7-1	All Others	595,673	$64,792	$0	$64,792	0.0%
General Service-Time of Use	115	7-1	Total	789,847	$83,912	($979)	$82,934	-1.2%
Subtotal				3,543,753	$420,543	($1,769)	$418,774	-0.4%
TOTAL GENERAL SERVICE				3,755,511	$457,176	($1,769)	$455,407	-0.4%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>65%	15,491	$1,323	($67)	$1,256	-5.0%
Primary Service	115	3-P	All Others	141,387	$15,727	$0	$15,727	0.0%
Primary Service	115	3-P	Total	156,878	$17,050	($67)	$16,983	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	377,783	$36,948	($1,890)	$35,058	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>65%	48,291	$4,269	($214)	$4,047	-5.0%
Primary Service-Time of Use	115	7-2	All Others	748,083	$74,872	$0	$74,872	0.0%
Primary Service-Time of Use	115	7-2	Total	1,174,157	$116,089	($2,094)	$113,986	-1.8%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>65%	2,271	$182	($9)	$173	-5.0%
Subtransmission Service	115	3S	All Others	4,180	$471	$0	$471	0.0%
Subtransmission Service	115	3S	Total	6,451	$653	($9)	$644	-1.4%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	494,227	$41,681	($2,118)	$39,563	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>65%	45,771	$3,674	($186)	$3,488	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	222,157	$19,882	$0	$19,882	0.0%
Subtransmission-Time of Use	115	7-3	Total	762,155	$65,237	($2,301)	$62,936	-3.5%
Transmission-Time of Use	115	7-4	Industrial>500 kW	60,458	$4,921	($246)	$4,674	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>65%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	191,620	$16,493	$0	$16,493	0.0%
Transmission-Time of Use	115	7-4	Total	252,078	$21,414	($246)	$21,168	-1.2%
TOTAL PRIMARY				2,351,719	$220,436	($4,718)	$215,717	-2.1%
TOTAL GENERAL SERVICE & PRIMARY				6,107,230	$677,611	($6,487)	$671,124	-1.0%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,523,371	$1,426,012	($6,487)	$1,419,525	-0.5%
Street Lighting	118	All		88,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				11,609,706	$1,444,575	($6,487)	$1,438,088	-0.4%
Miscellaneous Contracts				1,717,457	$108,614	$0	$108,614	0.0%
TOTAL RETAIL SALES REVENUE				13,327,163	$1,553,189	($6,487)	$1,546,702	-0.4%

SUMMARY

Residential	744,688	$0	744,688	0%
Non-Residential (not subject to decrease)	572,008	0	572,008	0%
Subtotal	1,316,696	0	1,316,696	0%
Industrial & High Load Factor	127,879	(6,487)	121,392	-5%
Miscellaneous Contracts	108,614	0	108,614	0%
Total	1,553,189	($6,487)	1,546,702	-0%

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-06
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954596

Year 2 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,345,437	$486,633	$0	$486,633	0.0%
Residential Day-Night	115	8		1,728,039	$220,128	$0	$220,128	0.0%
Residential Time of Use	115	12		329,028	$38,913	$0	$38,913	0.0%
TOTAL RESIDENTIAL				5,402,504	$745,674	$0	$745,674	0.0%
General Service Regular	115	6		207,394	$36,074	$0	$36,074	0.0%
General Service Day-Night	115	9		6,591	$933	$0	$933	0.0%
Subtotal				213,985	$37,007	$0	$37,007	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	173,224	$15,104	($759)	$14,345	-5.0%
General Service-w/Demand	115	2	All Others	2,604,844	$323,430	($26)	$323,404	-0.0%
General Service-w/Demand	115	2	Total	2,778,069	$338,534	($785)	$337,749	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	128,589	$12,334	($649)	$11,685	-5.3%
General Service-Time of Use	115	7-1	High Load Factor>68%	69,162	$5,968	($316)	$5,652	-5.3%
General Service-Time of Use	115	7-1	All Others	598,573	$65,069	($86)	$64,983	-0.1%
General Service-Time of Use	115	7-1	Total	794,324	$83,371	($1,051)	$82,321	-1.3%
Subtotal				3,572,413	$421,905	($1,836)	$420,069	-0.4%
TOTAL GENERAL SERVICE				3,786,398	$458,912	($1,836)	$457,077	-0.4%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,623	$1,266	($64)	$1,202	-5.1%
Primary Service	115	3-P	All Others	142,589	$15,849	($4)	$15,845	-0.0%
Primary Service	115	3-P	Total	158,212	$17,115	($68)	$17,047	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	381,360	$35,437	($1,798)	$33,640	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	48,484	$4,062	($203)	$3,859	-5.0%
Primary Service-Time of Use	115	7-2	All Others	749,017	$74,903	($3)	$74,900	-0.0%
Primary Service-Time of Use	115	7-2	Total	1,178,861	$114,403	($2,004)	$112,399	-1.8%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,289	$175	($9)	$166	-5.0%
Subtransmission Service	115	3S	All Others	4,162	$470	$0	$470	0.0%
Subtransmission Service	115	3S	Total	6,451	$644	($9)	$635	-1.4%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	498,807	$39,974	($2,023)	$37,952	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	45,785	$3,489	($176)	$3,313	-5.0%
Subtransmission-Time of Use	115	7-3	All Others	217,685	$19,372	$0	$19,372	0.0%
Subtransmission-Time of Use	115	7-3	Total	762,387	$62,835	($2,199)	$60,636	-3.5%
Transmission-Time of Use	115	7-4	Industrial>500 kW	61,030	$4,722	($236)	$4,487	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	192,570	$16,568	$0	$16,568	0.0%
Transmission-Time of Use	115	7-4	Total	253,600	$21,290	($236)	$21,054	-1.1%
TOTAL PRIMARY				2,359,511	$216,287	($4,515)	$211,772	-2.1%
TOTAL GENERAL SERVICE & PRIMARY				6,145,910	$675,199	($6,350)	$668,849	-0.9%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,565,974	$1,424,586	($6,350)	$1,418,236	-0.4%
Street Lighting	118	All		86,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				11,652,309	$1,443,149	($6,350)	$1,436,799	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL RETAIL SALES REVENUE				13,405,766	$1,553,369	($6,350)	$1,547,019	-0.4%

SUMMARY

Residential			
Non-Residential (not subject to decrease)	745,674	$0	745,674	0%
Subtotal	574,944	(119)	574,825	-0%
Industrial & High Load Factor	1,320,617	(119)	1,320,498	-0%
Miscellaneous Contracts	-122,532	(6,232)	-116,300	-5%
Total	110,220	0	110,220	0%
	1,553,369	($6,350)	1,547,019	-0%

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NEW YORK STATE ELECTRIC & GAS CORPORATION

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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954696

Year 3 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,373,940	$490,738	$0	$490,738	0.0%
Residential Day-Night	115	8		1,732,927	$220,762	($0)	$220,762	-0.0%
Residential Time of Use	115	12		328,023	$38,803	$0	$38,803	0.0%
TOTAL RESIDENTIAL				5,434,890	$750,303	($0)	$750,303	-0.0%
General Service Regular	115	6		209,796	$36,476	$0	$36,476	0.0%
General Service Day-Night	115	9		8,660	$942	$0	$942	0.0%
Subtotal				218,457	$37,418	$0	$37,418	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	175,124	$14,494	($728)	$13,767	-5.0%
General Service-w/Demand	115	2	All Others	2,633,436	$326,654	($25)	$326,628	-0.0%
General Service-w/Demand	115	2	Total	2,808,560	$341,148	($753)	$340,395	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	127,693	$11,802	($622)	$11,180	-5.3%
General Service-Time of Use	115	7-1	High Load Factor>68%	69,964	$5,715	($304)	$5,412	-5.3%
General Service-Time of Use	115	7-1	All Others	605,888	$45,703	($78)	$45,625	-0.1%
General Service-Time of Use	115	7-1	Total	803,538	$63,220	($1,003)	$62,217	-1.2%
Subtotal				3,612,098	$424,368	($1,756)	$422,612	-0.4%
TOTAL GENERAL SERVICE				3,828,552	$461,786	($1,756)	$460,030	-0.4%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,781	$1,212	($62)	$1,150	-5.1%
Primary Service	115	3-P	All Others	143,849	$15,973	($3)	$15,971	-0.0%
Primary Service	115	3-P	Total	159,610	$17,185	($64)	$17,121	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	384,684	$33,974	($1,735)	$32,239	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	49,067	$3,902	($196)	$3,706	-5.0%
Primary Service-Time of Use	115	7-2	All Others	759,273	$75,776	($3)	$75,773	-0.0%
Primary Service-Time of Use	115	7-2	Total	1,193,024	$113,652	($1,935)	$111,717	-1.7%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,303	$167	($8)	$158	-5.0%
Subtransmission Service	115	3S	All Others	4,148	$468	$0	$468	0.0%
Subtransmission Service	115	3S	Total	6,451	$635	($8)	$627	-1.3%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	503,256	$35,319	($1,945)	$33,374	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	48,442	$3,339	($170)	$3,169	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	223,638	$19,896	$0	$19,896	0.0%
Subtransmission-Time of Use	115	7-3	Total	773,336	$61,574	($2,115)	$59,458	-3.4%
Transmission-Time of Use	115	7-4	Industrial>500 kW	61,582	$4,529	($226)	$4,303	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	194,339	$16,701	$0	$16,701	0.0%
Transmission-Time of Use	115	7-4	Total	255,901	$21,230	($226)	$21,003	-1.1%
TOTAL PRIMARY				2,388,321	$214,276	($4,349)	$209,926	-2.0%
TOTAL GENERAL SERVICE & PRIMARY				6,216,873	$676,062	($6,106)	$669,956	-0.9%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,649,323	$1,430,078	($6,106)	$1,423,972	-0.4%
Street Lighting	116	All		86,335	$19,196	$0	$19,196	0.0%
SUBTOTAL TARIFF REVENUE				11,735,658	$1,449,273	($6,106)	$1,443,167	-0.4%
Miscellaneous Contracts				1,763,457	$110,220	$0	$110,220	0.0%
TOTAL RETAIL SALES REVENUE				13,509,115	$1,559,493	($6,106)	$1,553,387	-0.4%
SUMMARY								
Residential					750,303	($0)	750,303	0%
Non-Residential (not subject to decrease)					581,587	(106)	581,481	0%
Subtotal					1,331,890	(106)	1,331,891	0%
Industrial & High Load Factor					117,473	(5,996)	111,477	-5%
Miscellaneous Contracts					110,220	0	110,220	-0%
Total					1,559,493	($6,106)	1,553,387	-0%

NOTE: Total Revenues will be based on MWh shown above and rates resulting from design approved resulting from filing by February 1, 1998.

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

PSC CASE NO. 96-E-0891
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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954696

Year 4 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,407,676	$495,665	$0	$495,665	0.0%
Residential Day-Night	115	8		1,747,872	$222,604	$0	$222,604	0.0%
Residential Time of Use	115	12		330,600	$39,094	$0	$39,094	0.0%
TOTAL RESIDENTIAL				5,486,148	$757,363	$0	$757,363	0.0%
General Service Regular	115	6		212,715	$36,955	$0	$36,955	0.0%
General Service Day-Night	115	9		6,753	$954	$0	$954	0.0%
Subtotal				219,469	$37,910	$0	$37,910	0.0%
General Service-w/Demand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-w/Demand	115	2	High Load Factor>68%	177,482	$13,942	($699)	$13,243	-5.0%
General Service-w/Demand	115	2	All Others	2,668,903	$330,647	($11)	$330,636	-0.0%
General Service-w/Demand	115	2	Total	2,846,385	$344,589	($711)	$343,878	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	128,731	$11,284	($585)	$10,699	-5.2%
General Service-Time of Use	115	7-1	High Load Factor>68%	70,938	$5,485	($286)	$5,199	-5.2%
General Service-Time of Use	115	7-1	All Others	615,029	$66,628	($25)	$66,603	-0.0%
General Service-Time of Use	115	7-1	Total	814,696	$83,297	($896)	$82,401	-1.1%
Subtotal				3,661,081	$427,886	($1,607)	$426,280	-0.4%
TOTAL GENERAL SERVICE				3,880,549	$465,796	($1,607)	$464,189	-0.3%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	15,916	$1,161	($58)	$1,102	-5.0%
Primary Service	115	3-P	All Others	145,262	$16,112	($2)	$16,110	-0.0%
Primary Service	115	3-P	Total	161,178	$17,273	($61)	$17,213	-0.4%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	387,813	$32,637	($1,660)	$30,978	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	49,683	$3,750	($188)	$3,561	-5.0%
Primary Service-Time of Use	115	7-2	All Others	770,519	$76,742	($3)	$76,739	-0.0%
Primary Service-Time of Use	115	7-2	Total	1,208,015	$113,029	($1,851)	$111,178	-1.6%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,316	$159	($8)	$151	-5.0%
Subtransmission Service	115	3S	All Others	4,135	$467	$0	$467	0.0%
Subtransmission Service	115	3S	Total	6,451	$627	($8)	$619	-1.3%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	507,349	$36,703	($1,865)	$34,838	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	47,094	$3,231	($163)	$3,068	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	229,743	$20,649	$0	$20,649	0.0%
Subtransmission-Time of Use	115	7-3	Total	784,186	$60,584	($2,028)	$58,556	-3.3%
Transmission-Time of Use	115	7-4	Industrial>500 kW	62,063	$4,341	($216)	$4,124	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	195,707	$16,803	$0	$16,803	0.0%
Transmission-Time of Use	115	7-4	Total	257,770	$21,144	($216)	$20,927	-1.0%
TOTAL PRIMARY				2,417,600	$212,657	($4,164)	$208,493	-2.0%
TOTAL GENERAL SERVICE & PRIMARY				6,298,149	$678,453	($5,770)	$672,682	-0.9%
Outdoor Lighting	115	5		17,560	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,801,857	$1,439,529	($5,770)	$1,433,758	-0.4%
Street Lighting	118	All		86,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				11,888,192	$1,458,092	($5,770)	$1,452,321	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL YEAR 1 RETAIL SALES REVENUE				13,641,649	$1,568,312	($5,770)	$1,562,541	-0.4%

SUMMARY			
Residential	757,363	$0	757,363	0%
Non-Residential (not subject to decrease)	588,138	(41)	588,096	-0%
Subtotal	1,345,496	(41)	1,345,457	-0%
Industrial & High Load Factor	112,583	(5,729)	106,854	-5%
Miscellaneous Contracts	110,220	0	110,220	-0%
Total	1,568,312	($5,770)	1,562,541	-0%

NOTE: Total Revenues will be based on MWh shown above and rates resulting from design approved resulting from filing by February 1, 1998.

PRIVILEGED & CONFIDENTIAL - FOR SETTLEMENT PURPOSES ONLY

NEW YORK STATE ELECTRIC & GAS CORPORATION

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Forecast Summary of Kilowatthours and Revenue Effects
Due to Revised Rates
Reflecting an RTS Factor of: 0.954898

Year 5 of Settlement

	PSC No.	SC No.		MWH	Existing Revenue (000)	Revenue Increase/ (Decrease) (000)	Total Revenue (000)	Percent Change %
Residential Regular	115	1		3,443,618	$500,894	$0	$500,894	0.0%
Residential Day-Night	115	8		1,766,217	$224,853	$0	$224,853	0.0%
Residential Time of Use	115	12		334,056	$39,482	$0	$39,482	0.0%
TOTAL RESIDENTIAL				5,543,871	$765,229	$0	$765,229	0.0%
General Service Regular	115	6		215,891	$37,475	$0	$37,475	0.0%
General Service Day-Night	115	9		6,882	$968	$0	$968	0.0%
Subtotal				222,782	$38,443	$0	$38,443	0.0%
General Service-wDemand	115	2	Industrial>500 kW	0	$0	$0	$0	0.0%
General Service-wDemand	115	2	High Load Factor>68%	180,120	$13,429	($673)	$12,756	-5.0%
General Service-wDemand	115	2	All Others	2,708,565	$335,138	($31)	$335,107	-0.0%
General Service-wDemand	115	2	Total	2,888,685	$348,568	($705)	$347,863	-0.2%
General Service-Time of Use	115	7-1	Industrial>500 kW	129,791	$10,799	($556)	$10,243	-5.2%
General Service-Time of Use	115	7-1	High Load Factor>68%	72,032	$5,277	($273)	$5,004	-5.2%
General Service-Time of Use	115	7-1	All Others	625,467	$67,538	$0	$67,538	0.0%
General Service-Time of Use	115	7-1	Total	827,290	$83,615	($829)	$82,785	-1.0%
Subtotal				3,715,975	$432,183	($1,534)	$430,649	-0.4%
TOTAL GENERAL SERVICE				3,938,728	$470,626	($1,534)	$469,092	-0.3%
Primary Service	115	3-P	Industrial>500 kW	0	$0	$0	$0	0.0%
Primary Service	115	3-P	High Load Factor>68%	16,098	$1,114	($56)	$1,058	-5.1%
Primary Service	115	3-P	All Others	146,930	$16,279	$0	$16,279	0.0%
Primary Service	115	3-P	Total	163,028	$17,394	($56)	$17,337	-0.3%
Primary Service-Time of Use	115	7-2	Industrial>500 kW	391,005	$31,168	($1,591)	$29,577	-5.1%
Primary Service-Time of Use	115	7-2	High Load Factor>68%	50,512	$3,615	($182)	$3,434	-5.0%
Primary Service-Time of Use	115	7-2	All Others	763,027	$76,694	$0	$76,694	0.0%
Primary Service-Time of Use	115	7-2	Total	1,204,544	$111,477	($1,773)	$109,704	-1.6%
Subtransmission Service	115	3S	Industrial>500 kW	0	$0	$0	$0	0.0%
Subtransmission Service	115	3S	High Load Factor>68%	2,334	$161	($8)	$153	-5.0%
Subtransmission Service	115	3S	All Others	4,117	$466	$0	$466	0.0%
Subtransmission Service	115	3S	Total	6,451	$627	($8)	$619	-1.3%
Subtransmission-Time of Use	115	7-3	Industrial>500 kW	512,524	$35,220	($1,789)	$33,431	-5.1%
Subtransmission-Time of Use	115	7-3	High Load Factor>68%	47,791	$3,112	($157)	$2,954	-5.1%
Subtransmission-Time of Use	115	7-3	All Others	235,477	$20,753	$0	$20,753	0.0%
Subtransmission-Time of Use	115	7-3	Total	795,792	$59,085	($1,947)	$57,139	-3.3%
Transmission-Time of Use	115	7-4	Industrial>500 kW	62,574	$4,161	($207)	$3,954	-5.0%
Transmission-Time of Use	115	7-4	High Load Factor>68%	0	$0	$0	$0	0.0%
Transmission-Time of Use	115	7-4	All Others	197,617	$16,948	$0	$16,948	0.0%
Transmission-Time of Use	115	7-4	Total	260,191	$21,109	($207)	$20,902	-1.0%
TOTAL PRIMARY				2,430,006	$209,692	($3,991)	$205,701	-1.9%
TOTAL GENERAL SERVICE & PRIMARY				6,368,734	$680,317	($5,525)	$674,793	-0.8%
Outdoor Lighting	115	5		17,569	$3,713	$0	$3,713	0.0%
SUBTOTAL 115 REVENUE				11,930,268	$1,449,259	($5,525)	$1,443,734	-0.4%
Street Lighting	116	All		86,335	$18,563	$0	$18,563	0.0%
SUBTOTAL TARIFF REVENUE				12,016,600	$1,467,822	($5,525)	$1,462,297	-0.4%
Miscellaneous Contracts				1,753,457	$110,220	$0	$110,220	0.0%
TOTAL RETAIL SALES REVENUE				13,770,057	$1,578,042	($5,525)	$1,572,517	-0.4%

SUMMARY

Residential	765,229	$0	765,229	0%
Non-Residential (not subject to decrease)	594,538	(31)	594,508	-0%
Subtotal	1,359,766	(31)	1,359,735	-0%
Industrial & High Load Factor	108,057	(5,493)	102,564	-5%
Miscellaneous Contracts	110,220	0	110,220	0%
Total	1,578,042	(5,525)	1,572,517	-0%

NOTE: Total Revenues will be based on MWh shown above and rates resulting from design approved resulting from filing by February 1, 1998.

APPENDIX B

RATE SCHEDULES

New York State Electric & Gas Corporation
Rate Schedules - Residential Years 1 - 2*

S. C. No. 1 (Straight Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
	$0.1237	$0.1237	$0.1237
Customer Charge	$/month		
	$7.43	$7.43	$7.43

S. C. No. 8 (Day-Night Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
Day	$0.1391	$0.1391	$0.1391
Night	$0.0571	$0.0571	$0.0571
Customer Charge	$/month		
	$9.23	$9.23	$9.23

S. C. No. 12 (TOU Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
On-Peak	$0.1928	$0.1928	$0.1928
Mid-Peak	$0.1138	$0.1138	$0.1138
Off-Peak	$0.0571	$0.0571	$0.0571
Customer Charge	$/month		
	$24.00	$24.00	$24.00

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e.

New York State Electric & Gas Corporation
Rate Schedules
Non Residential (Small General Service) Years 1 - 2*

S. C. No. 6 (Straight Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
	$0.14277	$0.14277	$0.14277
Customer Charge	$/month		
	$7.43	$7.43	$7.43

S. C. No.9 (Day-Night Meter)

	Current	Year 1	Year 2
Energy	$/kWh		
Day	$0.15512	$0.15512	$0.15512
Night	$0.06422	$0.06422	$0.06422
Customer Charge	$/month		
	$9.23	$9.23	$9.23

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e.

Rate Schedules - Non Residential Years 1 - 2

SC 2 General Service - Secondary*

	Current	Year 1		Year 2	
Hours Use	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
First 200	$0.08379	$0.07960	$0.08379	$0.07562	$0.08379
201 to 350	$0.07292	$0.06927	$0.07292	$0.06581	$0.07292
Over 350	$0.05599	$0.05319	$0.05599	$0.05053	$0.05599
Demand	$/kW				
All kW	$11.35	$10.78	$11.35	$10.24	$11.35
Customer Charge	$/month				
	$0.00	$0.00	$0.00	$0.00	$0.00
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7-1 Large General Service - Secondary*

	Current	Year 1		Year 2	
		HLF/Industrial *	All Other	HLF/Industrial *	All Other
Energy On-Peak	$/kWh				
	$0.08755	$0.08317	$0.08755	$0.07901	$0.08755
Energy Off-Peak	$/kWh				
	$0.05599	$0.05319	$0.05599	$0.05053	$0.05599
Demand On-Peak	$/kW				
All kW	$11.35	$10.78	$11.35	$10.24	$11.35
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
eactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 3 Primary Distribution*

	Current	Year 1		Year 2	
Hours Use	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
First 200	$0.07803	$0.07413	$0.07803	$0.07042	$0.07803
201 to 350	$0.06802	$0.06462	$0.06802	$0.06139	$0.06802
Over 350	$0.05422	$0.05151	$0.05422	$0.04893	$0.05422
Demand	$/kW				
All kW	$10.78	$10.24	$10.78	$9.73	$10.78
Customer Charge	$/month				
	$0.00	$0.00	$0.00	$0.00	$0.00
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7- 2 Large General Service - Primary Distribution*

	Current	Year 1		Year 2	
Energy On-Peak	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
	$0.07932	$0.07535	$0.07932	$0.07158	$0.07932
Energy Off-Peak					
	$0.05422	$0.05151	$0.05422	$0.04893	$0.05422
Demand On-Peak	$/kW				
All kW	$11.68	$11.10	$11.68	$10.55	$11.68
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2*

SC 3 Sub-Transmission**

	Current	Year 1		Year 2	
Hours Use	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
First 200	$0.07499	$0.07124	$0.07499	$0.06767	$0.07499
201 to 350	$0.06498	$0.06173	$0.06498	$0.05864	$0.06498
Over 350	$0.05118	$0.04862	$0.05118	$0.04618	$0.05118
Demand	$/kW				
All kW	$8.68	$8.24	$8.68	$7.83	$8.68
Customer Charge	$/month				
	$0.00	$0.00	$0.00	$0.00	$0.00
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

** Charges shown include a high voltage discount for SC 3 Sub-Transmission customers from the SC 3 Primary Distribution charges on Appendix B Page 5 of 9.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7-3 Large General Service - Sub-Transmission*

	Current	Year 1		Year 2	
Energy On-Peak	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
	$0.07441	$0.07069	$0.07441	$0.06716	$0.07441
Energy Off-Peak					
	$0.05165	$0.04907	$0.05165	$0.04662	$0.05165
Demand On-Peak	$/kW				
All kW	$8.88	$8.44	$8.88	$8.02	$8.88
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Rate Schedules - Non Residential Years 1 - 2

SC 7-4 Large General Service - Transmission*

	Current	Year 1		Year 2	
Energy On-Peak	$/kWh	HLF/Industrial *	All Other	HLF/Industrial *	All Other
	$0.07305	$0.06940	$0.07305	$0.06593	$0.07305
Energy Off-Peak					
	$0.05063	$0.04810	$0.05063	$0.04570	$0.05063
Demand On-Peak	$/kW				
All kW	$8.71	$8.27	$8.71	$7.86	$8.71
Customer Charge	$/month				
	$9.15	$8.69	$9.15	$8.26	$9.15
Reactive Charge	$/RKVAH				
All RKVAH	$0.00095	$0.00090	$0.00095	$0.00086	$0.00095

* Qualifying High Load Factor (HLF) and Industrial Customers as per this Comprehensive Settlement Agreement.

* Rate design for years 3 through 5 of the Price Cap Period will be determined pursuant to the filing described in Article III.3.e., which will reflect reductions pursuant to Article III.1.b and freezes prices by service class pursuant to Article III.1.c.

Uncontrollable Cost Factors[1]		
	Category 1	Category 2
Frequency:	One-Time Event	Ongoing Costs
General Description of Qualifying Events:	Natural Disasters, Acts of Terrorism, and Category 2 Costs Incurred Before Rates are Changed	Accounting, Legislative, Regulatory, or Tax Changes
Examples of Potential Qualifying Events:	- Storms - Bombings - Retroactive Tax Levies	- Change in DSM Expenses - FASB Accounting Pronouncements - Changes in Federal Income Tax Rate - Changes in Nuclear Decommissioning Costs - NYPA Transmission Adjustment Charge
Threshold Limits for Rate Recovery	Aggregate Costs in Excess of 3% of RegSub Net Income	Variations from Targets Stated in Appendix A, Page 2
Recovery Method:	The Uncontrollable Costs Factors will be applied to each customer's bill in a manner to be determined by the Commission.	The Uncontrollable Cost Factors will be applied to each customer's bill in a manner to be determined by the Commission.
Timing of Rate Charge/Recovery Period:	Annually in a manner and over a period to be determined by the Commission.	Annually in a manner and over a period to be determined by the Commission.

[1] The Uncontrollable Cost Factors relate to cost increases and decreases.

Uncontrollable Cost Factor Adjustments[1]
($000)

	Year 1	Year 2	Year 3	Year 4	Year 5
Nuclear Decommissioning Costs:					
Internal Fund	$ 208	$ 263	$ 263	$ 263	$ 263
External Fund	1,494	4,062	4,062	4,062	4,062
Total:	1,702	4,325	4,325	4,325	4,325
Demand Side Management Costs	6,090	7,124	6,924	7,162	7,431
Research & Development Costs	4,710	5,951	6,996	6,902	7,065
Manufactured Gas Plan Site Remediation Costs	1,569	2,163	2,640	2,640	2,640
Fresh Start Program Costs	475	475	475	475	475
Renewable Resource Costs	157	157	157	157	157
NYPA Transition Adjustment	0	0	0	0	0
Mandatory Regulatory, Legislative, Accounting and Tax Changes	0	0	0	0	0
Total	$14,703	$20,195	$21,517	21,661	$22,093

[1] The above targets are the amounts that are covered within the rates specified in this Settlement. Prudently incurred changes from these amounts will be included in the Uncontrollable Cost Factor Adjustments.

APPENDIX D

METHOD FOR CALCULATING THE CTC

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Summary of the Estimated CTC Rates
Based on Three Potential Valuation Results of Coal-Fired Generation Assets
$550 Million Below Book, Equal to Book, and $550 Million Above Book
($ 000)

Potential Market Valuations		Rate Year Ending July 2000	2001	2002
$550 Million Below Book	(page 2)	0.83	0.79	0.76
Equal to Book	(page 3)	0.31	0.30	0.29
$340 Million Above Book	(page 4)	0.00	0.00	0.00
$550 Million Above Book	(page 5)	0.00	0.00	0.00

Commencing August 1, 1999, retail access customers will be credited with the backout rates set forth in Article IV.4.b of the Agreement, net of a CTC calculated as illustrated in this appendix.

Since the backout rate is based on generation costs divided by retail sales, retail access customers will also be responsible to compensate NYSEG for system losses between the supply point and the customer meter.

The valuations are for illustrative purposes and do not presume any actual value. The actual CTC will be based on the results of the auction valuation or subsequent appraisal pursuant to Article V.1 of the Agreement and actual balances of generation net assets on the books after the auction.

Based on these estimates, if the market value of the coal-fired generation assets is $340 million, the CTC would be zero. Any value in excess of that needed to produce a zero CTC will be disposed of pursuant to Article V.1.h of the Agreement.

In the event of a negative determination from the IRS regarding normalization issues, it would be necessary to remove funded deferred taxes from the CTC.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC) Based on Assumed Market Value of Coal-Fired Generation Assets $550 Million Below Book

($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work in Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			546,064					
Before-Tax Gain or (Loss)			(550,000)					
(d) Federal Income Tax								
Sale Price			546,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			86,247					
Tax Rate			35%					
Tax Liability			30,186					
After-Tax Gain or (Loss)			(580,186)					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			580,186	549,650	519,114	488,578	458,042	427,506
Annual Amortization through 2015 - the End of the Average Service Life			(30,536)	(30,536)	(30,536)	(30,536)	(30,536)	(30,536)
Ending Balance			549,650	519,114	488,578	458,042	427,506	396,970
Average Balance			564,918	534,382	503,846	473,310	442,774	412,238
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			70,219	66,424	62,628	58,832	55,037	51,241
Annual Amortization Grossed Up for FIT @	35%		46,978	46,978	46,978	46,978	46,978	46,978
Total Annual Cost Before GRT			$117,197	$113,402	$109,606	$105,810	$102,015	$98,219
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.88	0.84	0.81	0.77	0.74	0.71
(f) Gross Revenue Tax @	4.53%		0.04	0.04	0.04	0.04	0.04	0.03
(g) Annual CTC Based on Market Value $550 Million Below Book			0.92	0.88	0.85	0.81	0.78	0.74
CTC for Rate Year Ending July						0.83	0.79	0.76

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC) Based on Assumed Market Value of Coal-Fired Generation Assets Equal to Book

($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRG	Total					
Net Plant Including Construction Work in Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			1,096,064					
Before-Tax Gain or (Loss)			0					
Federal Income Tax								
Sale Price			1,096,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			636,247					
Tax Rate			35%					
Tax Liability			222,686					
After-Tax Gain or (Loss)			(222,686)					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			222,686	210,966	199,246	187,526	175,806	164,086
Annual Amortization through 2015 - the End of the Average Service Life			(11,720)	(11,720)	(11,720)	(11,720)	(11,720)	(11,720)
Ending Balance			210,966	199,246	187,526	175,806	164,086	152,366
Average Balance			216,826	205,106	193,386	181,666	169,946	158,226
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			26,951	25,495	24,038	22,581	21,124	19,667
Annual Amortization Grossed Up for FIT @	35%		18,031	18,031	18,031	18,031	18,031	18,031
Total Annual Cost Before GRT			$44,982	$43,526	$42,069	$40,612	$39,155	$37,698
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.34	0.32	0.31	0.30	0.28	0.27
(f) Gross Revenue Tax @	4.53%		0.02	0.02	0.01	0.01	0.01	0.01
Annual CTC Based on Market Value Equal to Book			0.36	0.34	0.32	0.31	0.29	0.28
(g) CTC for Rate Year Ending July						0.31	0.30	0.29

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Based on Assumed Market Value of Coal-Fired Generation Assets
$340 Million Above Book
($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work In Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			1,436,064					
Before-Tax Gain or (Loss)			340,000					
(d) Federal Income Tax								
Sale Price			1,436,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			976,247					
Tax Rate			35%					
Tax Liability			341,686					
After-Tax Gain or (Loss)			(1,686)					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			1,686	1,597	1,508	1,419	1,330	1,241
Annual Amortization through 2015 - the End of the Average Service Life			(89)	(89)	(89)	(89)	(89)	(89)
Ending Balance			1,597	1,508	1,419	1,330	1,241	1,152
Average Balance			1,642	1,553	1,464	1,375	1,286	1,197
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			204	193	182	171	160	149
Annual Amortization Grossed Up for FIT @	35%		137	137	137	137	137	137
Total Annual Cost Before GRT			$341	$330	$319	$308	$297	$286
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.00	0.00	0.00	0.00	0.00	0.00
(f) Gross Revenue Tax @	4.53%		0.00	0.00	0.00	0.00	0.00	0.00
Annual CTC Based on Market Value $340 Million Above Book			0.00	0.00	0.00	0.00	0.00	0.00
(g) CTC for Rate Year Ending July						0.00	0.00	0.00

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)
Based on Assumed Market Value of Coal-Fired Generation Assets
$550 Million Above Book
($ 000)

Calendar Years:			1997	1998	1999	2000	2001	2002
	Balances at Dec 31, 1996							
(a) Net Assets to be Transferred to GenSub	NYSEG	SRC	Total					
Net Plant Including Construction Work in Progress	$1,200,959	$45,884	$1,246,843					
(b) Coal Inventory, Spare Parts, Prepaid Property Taxes & Insurance, etc.	80,931		80,931					
(c) Deferred Taxes - APB-11 @ 35%	(200,094)	(12,659)	(212,753)					
(c) Excess Deferred Taxes (46% vs 35%)	(16,127)	(2,830)	(18,957)					
Total	1,065,669	30,395	1,096,064					
Assumed Value of Plants			1,646,064					
Before-Tax Gain or (Loss)			550,000					
Federal Income Tax								
Sale Price			1,646,064					
Remaining Tax Depreciable Basis	(374,124)	(4,762)	(378,886)					
Tax Deduction for Remaining Inventory, Prepayments, etc.			(80,931)					
Taxable Gain or (Loss)			1,186,247					
Tax Rate			35%					
Tax Liability			415,186					
After-Tax Gain or (Loss)			134,814					
Net-of-Tax Above(Below)-Market Regulatory Asset								
Beginning Balance			(134,814)	(127,719)	(120,624)	(113,529)	(106,434)	(99,339)
Annual Amortization through 2015 - the End of the Average Service Life			7,095	7,095	7,095	7,095	7,095	7,095
Ending Balance			(127,719)	(120,624)	(113,529)	(106,434)	(99,339)	(92,244)
Average Balance			(131,267)	(124,172)	(117,077)	(109,982)	(102,887)	(95,792)
(e) Cost of Capital Grossed Up for FIT per 1995 Settlement			12.43%	12.43%	12.43%	12.43%	12.43%	12.43%
Annual Carrying Charge			(16,316)	(15,435)	(14,553)	(13,671)	(12,789)	(11,907)
Annual Amortization Grossed Up for FIT @	35%		(10,915)	(10,915)	(10,915)	(10,915)	(10,915)	(10,915)
Total Annual Cost Before GRT			($27,231)	($26,350)	($25,468)	($24,586)	($23,704)	($22,822)
Annual Retail Sales (mwh)			13,360,421	13,441,485	13,553,386	13,700,753	13,769,257	13,838,103
Cost per KWH (cents)			0.00	0.00	0.00	0.00	0.00	0.00
(f) Gross Revenue Tax @	4.53%		0.00	0.00	0.00	0.00	0.00	0.00
Annual CTC Based on Market Value $550 Million Above Book			0.00	0.00	0.00	0.00	0.00	0.00
(g) CTC for Rate Year Ending July						0.00	0.00	0.00

See notes on page 6.

New York State Electric & Gas Corporation

Illustration of Method for Calculating the Competitive Transition Charge (CTC)

Notes Relating to the CTC Calculation

(a) The items listed on pages 2 through 5 are the major net assets associated with coal-fired generation. Other assets or liabilities may be identified at the time of the auction.

(b) The balances of coal inventory, spare parts, prepayments and deferred taxes at December 31, 1996 are estimates. Actual balances will be used in the calculation of the CTC following the auction.

(c) In the event of a negative determination from the IRS regarding normalization issues, it would be necessary to remove funded deferred taxes from the CTC.

(d) RegSub's tax liability will be payable upon the sale of the plants to a third party and will be included in the CTC.

(e) The tax-depreciable basis of the successful bidder will be the purchased price of the plants. If GenSub is the successful bidder, it will receive a stepped-up basis.

If GenSub is the successful bidder, RegSub's tax liability will be included in the CTC, however it will not accrue a carrying charge because no cash payment would be made as IRS regulations allow RegSub to defer payment of the tax to match GenSub's stepped-up basis.

(f) This appendix does not reflect recent legislated reductions of the gross revenue tax rate. Pursuant to the Agreement, the rate will be adjusted when the actual CTC is calculated.

(g) Any value in excess of that needed to produce a zero CTC will be disposed of pursuant to Article V.1.h of the Agreement.

APPENDIX E

TARGET LEVELS FOR NUG CONTRACTS

New York State Electric & Gas Corporation
Description of the Method that Will be Used to Quantify Savings
Associated with the Termination or Restructuring of NUG Contracts

Net savings associated with the termination or restructuring of NUG contracts will be quantified as described in this appendix and shared pursuant to Section III.2.b of the Agreement.

Net savings will be calculated separately for individual NUGs and will be limited to changes directly resulting from the termination or restructuring of contracts.

Net savings will be calculated at the end of each rate year for inclusion in rates the following year.

The net savings will be determined as follows:

Amount of Avoided Gross Payments to NUGs
Less Cost of Replacement Power (or Reduced Sales for Resale Revenue)
Less Cost to Terminate or Restructure the Contracts

The avoided gross payments will be the difference between the forecast payments listed on Appendix E, Page 2 and the actual payments made to the NUG during the year, to the extent such changes were the result of contract termination or restructuring.

The cost of replacement power (or reduced sales for resale revenue) will be the weighted average market price for the year times the difference between the forecast mwh purchases listed on Appendix E, Page 3 and the actual mwh purchased from the NUG during the year, to the extent that such changes were the result of contract termination of restructuring.

The weighted average market price will be determined as described in Article IV.1.b of the Agreement.

Incremental costs incurred to effect a contract termination or reformation will be deferred and amortized ratably over the remainder of the original contract period. Interest will be accrued on the unamortized balance of termination and restructuring costs at the before-tax cost of capital allowed in the most recent NYSEG electric rate case (12.43% for the term of this agreement).

Sharing of the net benefit will be according to Article V.2.b of the Agreement.

New York State Electric & Gas Corporation

Cost of NUG Purchases Excluding Gas Import Tax
Forecast at Time of 1997 Rate Settlement
($ 000)

Private Generator	Year 1	Year 2	Year 3	Year 4	Year 5
Contract 1	$109,166	$112,345	$117,241	$119,366	$123,752
Contract 2	152,993	156,644	159,031	165,782	179,261
Contract 3	19,936	19,669	19,219	18,679	18,147
Contract 4	17,901	18,341	18,863	19,143	21,570
Contract 5	8,445	8,880	9,562	9,868	10,214
Contract 6	1,266	1,273	1,277	1,273	1,273
Contract 7	2,192	2,236	1,721	1,313	1,313
Contract 8	1,653	2,001	2,096	2,047	662
Contract 9	426	402	416	432	452
Contract 10	70	122	126	131	137
Contract 11	800	1,412	1,461	1,509	1,577
Contract 12	270	270	278	286	295
Contract 13	113	68	71	76	82
Contract 14	222	179	187	200	217
Contract 15	350	285	207	213	223
Contract 16	7	5	5	5	6
Contract 17	40	40	40	40	40
Contract 18	792	972	1,071	1,141	1,192
Contract 19	3,179	3,365	3,365	3,365	3,365
Contract 20	15,614	14,902	14,902	14,902	14,902
Contract 21	626	603	603	603	603
Contract 22	312	315	315	315	315
Contract 23	72	89	89	89	89
TOTAL	$336,442	$344,417	$352,145	$360,778	$379,689

New York State Electric & Gas Corporation

NUG MWH Purchases

Forecast at Time of 1997 Rate Settlement

Private Generator	Year 1	Year 2	Year 3	Year 4	Year 5
Contract 1	1,259,220	1,223,510	1,255,780	1,228,040	1,221,310
Contract 2	1,883,062	1,864,018	1,833,498	1,828,131	1,907,943
Contract 3	103,670	103,360	103,360	103,770	103,530
Contract 4	360,000	360,000	364,800	364,800	404,880
Contract 5	128,760	128,760	134,050	133,660	133,660
Contract 6	21,190	21,190	21,250	21,190	21,190
Contract 7	23,050	23,050	23,110	23,050	23,050
Contract 8	20,390	20,390	20,450	20,390	20,390
Contract 9	17,470	17,470	17,470	17,470	17,500
Contract 10	5,290	5,290	5,290	5,290	5,290
Contract 11	48,530	48,530	48,530	48,530	48,530
Contract 12	5,150	5,150	5,150	5,150	5,150
Contract 13	2,310	2,310	2,310	2,310	2,310
Contract 14	6,090	6,090	6,090	6,090	6,090
Contract 15	6,890	6,890	6,890	6,890	6,890
Contract 16	170	170	170	170	170
Contract 17	670	670	670	670	670
Contract 18	8,330	8,330	8,330	8,330	8,330
Contract 19	37,950	37,950	37,950	37,940	37,950
Contract 20	216,910	216,910	217,090	217,090	217,090
Contract 21	6,750	6,750	6,750	6,750	6,750
Contract 22	3,730	3,730	3,730	3,730	3,730
Contract 23	960	960	960	960	960
TOTAL	4,166,542	4,111,478	4,123,678	4,090,401	4,203,363

APPENDIX F

SERVICE QUALITY MECHANISM

Electric Service Quality Performance Mechanism

An Electric Service Quality Performance Mechanism shall be implemented for the Price Cap Period. The mechanism provides NYSEG an incentive to render reliable electric service to its customers by avoiding a penalty due to unsatisfactory performance. The mechanism will make use of two reliability indices. They are:

1. The customer average interruption duration index ("CAIDI"). This measures how long the average power outage lasts for an interrupted customer during each year of the Price Cap Period.

2. The system average interruption frequency index ("SAIFI"). This measures how often the average customer is interrupted during each year of the Price Cap Period.

The calculation of CAIDI and SAIFI conforms to PSC electric reliability standards and, therefore, interruptions due to "major storm", as defined in 16 NYCRR in Part 105, are excluded.

The two measures will be tracked separately for NYSEG on a systemwide composite basis (average of NYSEG district performance indicators). The systemwide, composite figure for each measure will be determined using performance indicators applicable to each NYSEG district as established in Case Nos. 90-E-1119 and 95-E-0165. The threshold systemwide composite performance indicator for duration (CAIDI) shall be 2.08 for each year of the Price Cap Period. The threshold systemwide composite performance indicator for frequency (SAIFI) shall be 1.33 for each year of the Price Cap Period.

In the event that the systemwide composite performance indicator for CAIDI is within the range of 2.08 and 2.18 during any year of the Price Cap Period, NYSEG shall be assessed a penalty equal to 3.75 basis points. If the systemwide composite performance indicator for CAIDI exceeds 2.18 during any year of the Price Cap Period, NYSEG shall be assessed the maximum CAIDI penalty of 7.5 basis points.

In the event that the systemwide composite performance indicator for SAIFI is within the range of 1.33 and 1.40 during any year of the Price Cap Period, NYSEG shall be assessed a penalty equal to 3.75 basis points. If the systemwide composite performance indicator for SAIFI exceeds 1.40 during any year of the Price Cap Period, NYSEG shall be assessed the maximum SAIFI penalty of 7.5 basis points.

The maximum aggregate penalty that could be assessed for each year of the Price Cap Period is 15 basis points. In the year that a penalty is incurred, the 12.0% earnings cap contained in the Settlement Agreement will be reduced by the number of basis points of the penalty incurred. For example, if the maximum aggregate penalty is incurred, the ROE cap for that year would be 11.85%.

APPENDIX G

AMORTIZATION SCHEDULE FOR ELECTRIC BUSINESS OF REGSUB

Appendix G

New York State Electric & Gas Corporation

Amortization Schedule for Electric Business of RegSub

($ 000)

	Year 1	Year 2	Year 3	Year 4	Year 5
Beginning Balance					
Sales for Resale Profit	($4,835)				
Fuel Costs	10,662				
South Corning Termination Costs	15,905				
Demand Side Management Program Costs	69,268				
SFAS-112 OPEBs	3,175				
Ice Storm	1,426				
Somerset Non Cash Return	3,065				
Jamesport Plant Abandonment	12,484				
NYS Sales Tax Audit Deficiency	1,248				
Federal Income Tax					
TRA-86 Deferred Taxes	1,960				
RRA-93 Deferred Taxes	1,768				
R&D Tax Credits	8,046				
FIT Gross-up	5,231				
Total	129,403	101,652	73,901	46,150	18,399
Annual Amortization	(27,751)	(27,751)	(27,751)	(27,751)	(27,751)
Ending Balance	$101,652	$73,901	$46,150	$18,399	($9,352)

Pursuant to the terms of the Settlement, all of the current true-ups will be discontinued on July 31, 1997, including costs and benefits associated with Nine Mile 2, pensions and NGE.

Pursuant to Article VIII.4 of the Agreement, the net credit balances deferred through July 31, 1997 associated with the items subject to true-up per the 1995 rate settlement and the deferred credit balance associated with the gas import tax have been netted against the South Corning deferred debit balance, thereby reducing the non-cash return accrued as the remaining balance is amortized linearly over the five years of the Price Cap Period.

During the Price Cap Period, NYSEG will continue to record an amortization of $27.751 million annually, subject to the provisions of Article VIII.3.

Based on the deferred balances at July 31, 1997 identified above, the annual amortization of $27.751 million will result in a net credit balance of $9.352 million at the end of the Price Cap Period. That amount will be used to write down other miscellaneous net deferred debits. Any remainder of that credit will be used to write down a corresponding amount of the unamortized loss on reacquired debt or the unamortized debt discount & expense.

This schedule does not include the above-market costs of coal-fired generation because they cannot be identified until after the auction or subsequent appraisal.

APPENDIX H

TO BE PROVIDED

EXHIBIT H

AGREEMENT AND PLAN OF EXCHANGE

A copy of the current draft of the Agreement and Plan of Exchange between NYSEG and HoldCo is attached hereto. A copy of the final document will be filed separately upon availability.

EXHIBIT H

DRAFT

AGREEMENT AND PLAN OF SHARE EXCHANGE

OF

NEW YORK STATE ELECTRIC & GAS CORPORATION

AND

HOLDCO, INC.

This Agreement and Plan of Share Exchange (the "Plan of Exchange") is dated and executed as of the ___ day of _____, 1997 by and between New York State Electric & Gas Corporation, a New York corporation and HoldCo, Inc., a New York corporation.

1. The name of the acquiring corporation is HoldCo, Inc. (the "Acquiring Corporation"). The name of the subject corporation is New York State Electric & Gas Corporation (the "Subject Corporation"). The name under which the Subject Corporation was originally formed was the Ithaca Gas Light Company.

2. The designation and number of outstanding shares of capital stock of the Subject Corporation are as follows: Common Stock, $6.66 2/3 par value per share, each of which is entitled to one vote and of which ____ shares are outstanding ("Subject Corporation Common Stock"); 3.75% Serial Preferred Stock, $100.00 par value per share, of which 150,000 shares are outstanding; 4 1/2% Serial Preferred Stock (Series 1949), $100.00 par value per share, of which 40,000 shares are outstanding; 4.15% Serial

Preferred Stock, $100.00 par value per share, of which 14,000 shares are outstanding; 4.40% Serial Preferred Stock, $100.00 par value per share, of which 55,200 shares are outstanding; 4.15% Serial Preferred Stock (Series 1954), $100.00 par value per share, of which 35,200 shares are outstanding; 6.48% Serial Preferred Stock, $100.00 par value per share, of which 300,000 shares are outstanding; 6.30% Serial Preferred Stock, $100.00 par value per share, of which 250,000 shares are outstanding; Adjustable Rate Serial Preferred Stock, Series B, $25.00 par value per share, of which 2,000,000 shares are outstanding; and 7.40% Serial Preferred Stock, $25.00 par value per share, of which 1,000,000 are outstanding (said series of preferred stock are collectively referred to herein as "Subject Corporation Preferred Stock"). The Subject Corporation Preferred Stock is non-voting, except that the holders thereof have the right to vote as a class in connection with certain corporate actions as set forth in the Subject Corporation's Restated Certificate of Incorporation. The Subject Corporation is also authorized by its Restated Certificate of Incorporation to issue Preference Stock (Cumulative, $100 Par Value) ("Subject Corporation Preference Stock"), none of which is outstanding. The number of shares set forth in this paragraph is subject to change prior to the Effective Time (as defined below) insofar as the Subject Corporation may during said period issue Subject Corporation Preference Stock, issue additional Subject Corporation Common Stock and Subject Corporation Preferred Stock and may reacquire

Subject Corporation Preferred Stock and may repurchase Subject Corporation Common Stock.

The designation and number of outstanding shares of the Acquiring Corporation are: Common Stock, $___ par value per share ("the Acquiring Corporation Common Stock"), each of which is entitled to one vote and of which ____ shares are outstanding; and Preferred Stock, no par value per share (the "Acquiring Corporation Preferred Stock"), none of which are outstanding.

In accordance with the provisions of Section 913(c) of the New York Business Corporation Law ("BCL"), this Plan of Exchange shall be submitted to the holders of the Subject Corporation Common Stock for their approval and adoption. The affirmative vote of the holders of at least two-thirds of the outstanding shares of Subject Corporation Common Stock shall be necessary to approve and adopt this Plan of Exchange.

3. Upon the time of filing of a Certificate of Exchange in connection with the share exchange contemplated hereby (the "Share Exchange") by the Department of State of the State of New York (the "Effective Time"):

(a) Each share of Subject Corporation Common Stock outstanding at the Effective Time shall, by operation of law and without further action, be exchanged for one share of Acquiring Corporation Common Stock, subject to dissenting shareholders' rights under Sections 623 and 910 of the BCL ("Dissenter's Rights");

(b) Each share of Acquiring Corporation Common Stock outstanding immediately prior to the Effective Time shall be canceled and shall be restored to the status of an authorized but unissued share of Acquiring Corporation Common Stock;

(c) Each share of Subject Corporation Common Stock held in the treasury of the Subject Corporation immediately prior to the Effective Time shall be canceled and shall be restored to the status of an authorized but unissued share of Subject Corporation Common Stock; and

(d) Immediately after the Effective Time, all of the outstanding shares of Subject Corporation Common Stock will be held by the Acquiring Corporation, and all of the outstanding shares of Acquiring Corporation Common Stock will be held by the holders of shares of Subject Corporation Common Stock that were outstanding immediately prior to the Effective Time (subject to Dissenter's Rights). Each holder of Subject Corporation Common Stock who properly exercises Dissenter's Rights shall have the right to receive payment of the fair value of the holder's Subject Corporation Common Stock in accordance with the provisions of Sections 623 and 910 of the BCL.

4. Shares of Subject Corporation Preferred Stock shall not be exchanged or otherwise affected by this Plan of Exchange.

Each share of Subject Corporation Preferred Stock outstanding immediately prior to the Effective Time shall continue to be outstanding following the Effective Time.

5. Each outstanding certificate which immediately prior to the Effective Time represents Subject Corporation Common Stock shall, without any further action on the part of the holder thereof, be deemed and treated for all corporate purposes to represent the ownership of the same number of shares of Acquiring Corporation Common Stock as though a surrender or transfer and exchange had taken place.

6. At the Effective Time, the Acquiring Corporation will succeed to and assume the Subject Corporation's Tax Deferred Savings Plan for Salaried Employees, Tax Deferred Savings Plan for Hourly Paid Employees, Employee Stock Purchase Plan, Tax Reduction Act Employee Stock Ownership Plan, Dividend Reinvestment and Stock Purchase Plan and 1997 Stock Option Plan (collectively referred to as the "Plans"); and, by virtue of the Share Exchange and without any action on the part of the holder thereof, each option or right under the Plans to purchase shares of Subject Corporation Common Stock granted and outstanding immediately prior to the Effective Time shall be converted into and become an option or right to purchase an equivalent number of shares of Acquiring Corporation Common Stock at the same price per share, and upon the same terms and subject to the same conditions, as applicable immediately prior to the Effective Time under the relevant option or right.

The Acquiring Corporation will reserve, for purposes of the Plans, a number of shares of Acquiring Corporation Common Stock equivalent to the number of shares of Subject Corporation Common Stock reserved by the Subject Corporation for such purposes immediately prior to the Effective Time.

7. The Plan of Exchange shall be conditioned upon:

(a) Receipt of the requisite vote of shareholders of the Subject Corporation pursuant to Section 913(c)(2) of the BCL;

(b) Effectiveness of a registration statement under the Securities Act of 1933 relating to Acquiring Corporation Common Stock to be issued or reserved for issuance in connection with the Share Exchange;

(c) Approval for listing, on official notice of issuance, of such shares of Acquiring Corporation Common Stock on the New York Stock Exchange;

(d) Receipt of an opinion of counsel covering certain United States federal income tax matters;

(e) Receipt of an opinion of counsel as to the legality of Acquiring Corporation Common Stock issuable in connection with the Share Exchange; and

(f) Receipt of all consents and approvals of federal or state regulatory authorities that are necessary and appropriate for the consummation of the Share Exchange, in form and substance satisfactory to the Subject Corporation and the Acquiring Corporation.

8. At any time prior to the Effective Time, this Plan of Exchange may be amended or modified by mutual consent of the respective Boards of Directors of the Subject Corporation and the Acquiring Corporation; provided, however, once the Plan of Exchange is approved by the common shareholders of the Subject Corporation, no amendment or modification may be made that either changes the number or kind of shares to be received by the Subject Corporation Common Shareholders pursuant to the Plan of Exchange or affects the rights of any shareholder of the Subject Corporation in any manner that is materially adverse to such shareholder in the judgment of the Board of Directors of the Subject Corporation. The Plan of Exchange may be abandoned by resolution approved by the Board of Directors of either the Subject Corporation or the Acquiring Corporation, at any time before the Effective Time, whether or not the shareholders of the Subject Corporation have cast their votes with regard to the Plan of Exchange.

9. The Subject Corporation and the Acquiring Corporation, respectively, shall take all such action as may be necessary or appropriate in order to effectuate the Share Exchange and the other transactions contemplated by this Plan of Exchange. If at any time after the Effective Time, any further action is necessary or desirable to carry out the purposes of this Plan of Exchange, the officers and directors of each of the Acquiring Corporation and the Subject Corporation shall take such further action.

10. The Plan of Exchange was duly adopted by the Board of Directors of the Subject Corporation on _____, 1997.

11. The Plan of Exchange was duly adopted by the Board of Directors of the Acquiring Corporation on _____, 1997.

IN WITNESS WHEREOF, the parties hereto have caused this Plan of Exchange to be duly executed by their respective duly authorized representatives as of the date first above written.

HOLDCO, INC.

By:_____

NEW YORK STATE ELECTRIC &
GAS CORPORATION

By:_____

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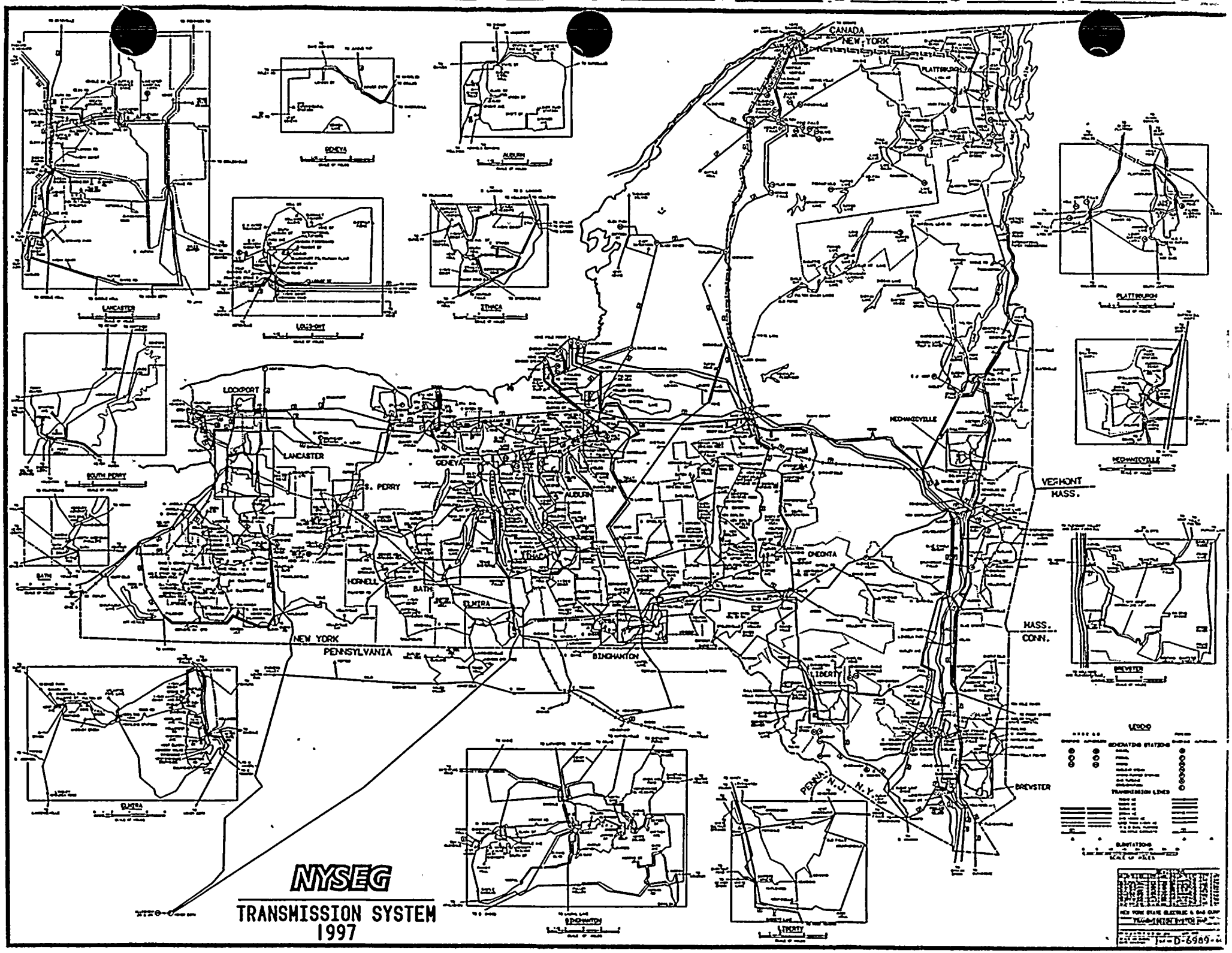
EXHIBIT I

MAP OF AREAS SERVED


NYSEG
TRANSMISSION SYSTEM
1997
CANADA
NEW YORK
PLATTSBURGH
LOCKPORT
LANCASTER
GENEVA
AUBURN
ITHACA
ONEONTA
HOMER
CORTLAND
BATH
HORNELL
ELMIRA
BINGHAMTON
LIBERTY
MOHAWKVILLE
BREWSTER
SOUTH PERRY
S. PERRY
VERMONT
MASS.
MASS.
CONN.
NEW YORK
PENNSYLVANIA
PENNA.
N.J.
N.Y.
LEGEND
GENERATING STATIONS
TRANSMISSION LINES
SUBSTATIONS
D-6989-A

UNITED STATES OF AMERICA
BEFORE THE
NUCLEAR REGULATORY COMMISSION

NEW YORK STATE ELECTRIC &)
GAS CORPORATION)

AFFIDAVIT OF ROBERT D. KUMP

State of New York)
) ss.:
County of Tompkins)

I, Robert D. Kump, being duly sworn, depose and state that the following statements are true and correct to best of my knowledge, information and belief:

1. I am Treasurer of New York State Electric & Gas Corporation ("NYSEG" or "Company"), and as such I am familiar with (1) NYSEG's financial condition, (2) the proposed rate settlement and reorganization contained in the Joint Statement of Principles to Govern a Settlement between NYSEG and the Staff of the Public Service Commission dated July 28, 1997 and the subsequent proposed Settlement Agreement ("Settlement Agreement"), and (3) the expected future financial performance of NYSEG, which after the proposed reorganization will maintain its electric transmission and distribution functions, its natural gas distribution facilities, its hydroelectric facilities and its 18%

ownership interest in Nine Mile Point Nuclear Station, Unit No. 2 ("Nine Mile 2").

2. After the reorganization, NYSEG will continue to be an electric utility engaged in the transmission, distribution and, in the case of Nine Mile 2 and hydroelectric facilities, the generation of electricity. NYSEG will continue to be regulated by the New York State Public Service Commission ("NYPSC") and the Federal Energy Regulatory Commission ("FERC").

3. The holding company structure effectuated by the proposed Reorganization is a well-established form of organization for companies conducting multiple lines of business and will insulate NYSEG from any financial or other risks associated with the holding company's unregulated enterprises. The proposed holding company structure separates the operations of regulated and unregulated businesses. As a result, it provides protection to ratepayers and a better structure for regulators to assure that there is no cross-subsidization of costs or transfer of business risk from unregulated to regulated lines of business. Pursuant to the terms of the Settlement Agreement, once the holding company structure is implemented, NYSEG will not guaranty any affiliate debt or pledge any of its assets as security for the debt of any affiliate. Moreover, the

use of a holding company structure provides legal protection against the imposition of liability on the regulated utility for the results of unregulated business activities. In short, the holding company structure is a desirable form of conducting regulated and unregulated businesses within the same corporate group.

The proposed Reorganization therefore strengthens the organization by establishing a more appropriate corporate structure for the pursuit of unregulated non-utility business activities.

4. As more fully discussed below, the proposed reorganization and future operations under the Settlement Agreement will not adversely affect the ability of NYSEG to meet its financial obligations for future funding of operations, capital requirements and decommissioning costs of Nine Mile 2. The Settlement Agreement's provisions are designed to enable NYSEG to remain a rate-regulated electric utility which qualifies for favorable accounting treatment under Statement of Financial Accounting Standards No. 71. This would allow continued recognition of amounts to be collected from customers in the future as assets. NYSEG's capital structure, bond ratings and ability to raise capital will therefore be protected from

deterioration. Moreover, maintenance of an investment-grade credit rating is contemplated by the Settlement Agreement since a provision providing financial flexibility related to common stock repurchases would be lost if NYSEG's credit ratings fall below investment grade.

5. The Settlement Agreement contemplates a five-year price cap period ("Price Cap Period"). During the Price Cap Period, all expenditures associated with Nine Mile 2 are presumed to be within overall rate objectives and will continue to be recoverable through retail electric rates. Electric service tariffs for the Price Cap Period will be approved in accordance with the terms of the Settlement Agreement.

6. Further financial protection for NYSEG during the Price Cap Period is provided through return on equity ("ROE") provisions of the Settlement Agreement. NYSEG will have an ROE cap of 12% and a floor ROE of 9%. NYSEG may petition the NYPSC for rate relief if earnings fall below the 9% floor during any year of the Price Cap Period.

7. NYSEG can also petition the NYPSC to recover revenue for certain uncontrollable costs. One-time events such as natural disasters and acts of terrorism can be recovered if they, in aggregate, exceed 3% of NYSEG's net electric income.

Uncontrollable costs resulting from changes in accounting, legislative, regulatory or tax changes may also be recovered in full if they vary from the targets specified in the Settlement Agreement. This category of costs includes changes in nuclear decommissioning funding. Recovery of uncontrollable costs will be afforded an expedited process and will not result in a reopener of any terms of the Settlement Agreement.

The Settlement Agreement includes provisions for an increase in annual nuclear decommissioning funding, which remains fully recoverable through the rate making process, of over 150% from 1998 to 1999 and for levels of annual funding which will reflect the most recent funding estimate of $806-million (for the entire plant), calculated by Niagara Mohawk in 1995. Such estimate significantly exceeds NRC minimum requirements.

8. For years beyond the Price Cap Period, the Settlement Agreement contemplates a subsequent rate filing by NYSEG with the NYPSC. The Settlement Agreement provides that after the Price Cap Period, nuclear plant fixed costs (including all nuclear decommissioning and wind down costs and 62.5% of annual property taxes) will be recovered through a non-bypassable wires charge borne by retail customers. Nuclear variable costs (including 37.5% of annual property taxes) will be recovered through

proceeds from sales of Nine Mile 2 power in the marketplace, but only if the other Nine Mile 2 cotenants put the same to the market.

9. The transfer of coal-fired generation to GenSub and the subsequent auction of NYSEG's coal-fired plants in the competitive market place also provides financial protection to NYSEG. Upon the transfer of the coal-fired generating assets to GenSub, a regulatory asset will be created on NYSEG's books for the shortfall, if any, between the fair value of the coal-fired generating assets determined in accordance with NYSEG's mortgage bond indenture for purposes of obtaining the release of the property from the lien of the mortgage and the book value of the plants. Upon the subsequent auction of the coal-fired plants, such regulatory asset will be adjusted to reflect the after-tax auction proceeds. That regulatory asset will be recovered through a competitive transition charge that will extend beyond the Price Cap Period of the Settlement Agreement, but not to exceed the weighted average remaining life of the auctioned assets (about 19 years). In the event that the net proceeds of the auction exceed the book value of the coal-fired plants, any net regulatory credit will be used to writedown NYSEG's investment in Nine Mile 2. This regulatory asset mechanism

therefore provides financial protection to NYSEG regardless of the sales price of the coal-fired assets.

10. Other provisions of the Settlement Agreement are beneficial to NYSEG's customers. Certain large commercial/industrial customers will receive five annual 5% price reductions, while the remaining customers will enjoy a five-year price freeze. Additional price reductions would result from renegotiation of over-market NUG contracts, securitization legislation and a reduction in New York State's Gross Receipts Tax. Full retail choice is contemplated to be provided to all customers by August 1, 1999.

Those five annual 5% price reductions are expected to be financed by sales growth and reducing the cost of doing business, not by weakening NYSEG's financial condition. NYSEG expects electric sales to grow modestly (66 major new customers or expansions have been added in the last 18 months). Non-nuclear operations and maintenance expenses, which have been held relatively flat since 1993, will continue to be carefully controlled. Taxes, other than federal income tax, have also been flat for the past two years, and NYSEG is continuing to work with the State and municipalities to reduce the tax burden further.

11. There will also be a continued focus on controlling non-nuclear capital costs. Non-nuclear capital spending by NYSEG is only expected to be about 70% of depreciation, compared to well over 100% in recent years, saving about $60 to $100 million in cash on an annual basis.

Robert D. Kump

STATE OF NEW YORK)
) ss.:
COUNTY OF TOMPKINS)

On this 17th day of September, 1997, before me, the subscriber, personally appeared Robert D. Kump, to me known and known to me to be the same person described in and who executed the within instrument and he duly acknowledged to me that he executed the same.

Notary Public

LISA M. COCHRAN
Notary Public, State of New York
No. 4838459
Qualified in Tompkins County
Commission expires July 31, 1999