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 ..TXT: PSC NO: 90 GAS LEAF: 90.4
 COMPANY: NEW YORK STATE ELECTRIC & GAS CORPORATION REVISION: 2
 INITIAL EFFECTIVE DATE: 02/01/03 SUPERSEDING REVISION: 1
 STAMPS: Issued in compliance with Commission order in Case 01-G-1668 dated 11/
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GENERAL INFORMATION

14. GAS SUPPLY CHARGE (GSC): (CONT'D)

C. The Total Average Cost of Gas is: (Cont'd)

(3) Gas Cost Savings Adjustments: (Cont'd)

(b) Gas Cost Incentive Mechanisms:

- (i) The GCIMs provide a means of sharing gas supply cost savings between customers and shareholders that are not otherwise attributable to the IRM or identified as merger-related. As more fully described below, the GCIMs are designed to address two distinct categories of gas supply cost savings. The first gas supply cost savings category, addressed by GCIM 1, relates to activities conducted by NYSEG on a stand-alone basis. The second gas supply cost savings category, addressed by GCIM 2, relates to activities from the joint optimization of the gas supply portfolios of the Energy East local distribution companies ("LDCs").
- (ii) Customers are guaranteed GCIM 2 savings of \$1 million for each of the first two rate years. GCIM 2 savings in excess of \$2 million for each of the first two rate years will be shared as specified below.

(c) GCIM 1 - NYSEG Stand-Alone Activities:

- (i) One hundred percent (100%) of the savings attributable to migration capacity release and Company-conducted least cost pathing will be for the benefit of customers.
- (ii) There will be an 80%/20% sharing between customers and shareholders of:
 - 1. Company non-migration capacity release;
 - 2. Company off-system sales net of gas cost; and
 - 3. savings from local production.
- (iii) The Customer's share of GCIM 1 savings, except for the Customer's share of GCIM savings attributable to Company-conducted least cost pathing, will first be used to recover Deferred Gas Costs pursuant to the Company's September 12, 2002 Joint Proposal as approved by the PSC in its November 20, 2002 order issued in Cases 01-G-1668 and 01-G-1683.

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(Name of Officer, Title, Address)