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December 29, 2000

Janet H. Deixler, Secretary
Executive Office - 14th Floor
Public Service Commission
State of New York
3 Empire State Plaza
Albany, New York 12223

Re: **NYSEG's Proposed Tariff Revisions for the Tax Changes Contained in the 2000-2001 New York State Budget; Case 00-M-1556**

Dear Secretary Deixler:

The enclosed revised leaves, statements and supplements, issued by New York State Electric & Gas Corporation ("NYSEG" or the "Company"), are transmitted for filing in compliance with the requirements of the Public Service Commission, State of New York.

Fifth	Revised	Leaf No. 10	to PSC No. 87 Gas
Second	Revised	Leaf No. 11	to PSC No. 87 Gas

and
TSF Statement No. 1 to PSC No. 87 Gas
Supplement No. 1 to PSC No. 87 Gas

Sixth	Revised	Leaf No. 8	to PSC No. 88 Gas
Third	Revised	Leaf No. 8.1	to PSC No. 88 Gas
First	Revised	Leaf No. 8.2	to PSC No. 88 Gas

and
TSF Statement No. 1 to PSC No. 88 Gas
Supplement No. 7 to PSC No. 88 Gas

Effective January 1, 2001.

Proposed Revisions

NYSEG proposes to revise the General Information Section 3: Increase in Rates and Charges Applicable Where Service is Supplied, of PSC 87 - Gas and PSC 88 - Gas to implement the tax changes signed into law by Governor George Pataki on May 15, 2000 as part of the 2000-2001 NYS Budget ("Tax Law Changes"). The proposed revisions reflect that NYSEG will collect the State Income Tax, the Gross Income Tax, and any applicable Temporary Metropolitan Business Tax Surcharge ("MTA Tax") through the utilization of its current tax surcharge. The tariff leaves also identify a deferral mechanism that will reflect the difference between actual tax expense and actual tax collected from customers. Finally, the revisions remove all references to the repealed Gross Earnings Tax.

NYSEG also proposes to replace the existing Revenue Tax Surcharge ("RTS") Statement with the Tax Surcharge Factor ("TSF") Statement. The TSF Statement contains the same surcharge rates as the RTS statement, but has been revised to reflect that the surcharge now also collects the State Income Tax. The RTS Statement will be canceled.

Reasons for Proposed Revisions

NYSEG is revising its gas tariff in compliance with the Commission's abbreviated Order Implementing Tax Law Changes (the "Order") dated December 21, 2000. The Order substantially adopts

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the Department of Public Service Staff's ("Staff") October 13, 2000 Memorandum which proposed accounting and ratemaking for the Tax Law Changes.

Background

On May 15, 2000, Governor Pataki approved major revisions to the tax law applicable to utilities of New York State. These Tax Law Changes have a direct impact on NYSEG and its customers. The following list details the taxes incurred by NYSEG that were impacted by the Tax Law Changes:

Section 186 of the Tax Law was repealed retroactive to January 1, 2000. This eliminates the 0.75% Gross Earnings Tax and associated MTA surcharge. This tax is currently being collected through a tax surcharge. Repealing Section 186 also eliminated the Excess Dividends Tax currently being collected through base rates.

Section 186-a of the Tax Law, the existing 2.5% Gross Income Tax portion of the GRT, was separated into two different declining rates to be applied separately to T&D and commodity revenues. By January 1, 2005, the T&D portion will be phased out for Non-Residential customers and phased down to 2.0% for Residential customers. The commodity portion of the tax will be phased out completely by January 1, 2005. This tax is also currently being collected through a tax surcharge.

Section 189 of the Tax Law, the Gas Import Tax, will be phased out by January 1, 2005. This tax is directly flowed through to customers as applicable.

Article 9-A of the Tax Law, State Net Income Tax, will now apply to utilities. This tax will temporarily be collected through a surcharge tariff as more fully explained below.

Sales Tax now applies to T&D service for retail access customers, but will be phased out by September 1, 2003. This tax is directly flowed through to customers as applicable.

The Compensating Use Tax is a new tax on commodity that is purchased outside of New York State and is effective June 1, 2000. This tax is directly flowed through to applicable customers.

Per the Order, any taxes currently collected through base rates (i.e., the repealed Excess Dividends Tax) will continue to be collected until base rates change and that amount will be deferred. Any taxes being directly flowed through to affected customers will continue to be collected in that manner at applicable rates.

NYSEG will now pay a State Net Income Tax and associated MTA Surcharge under Article 9-a of the Tax Law as indicated above. Although the Commission's intent is for this tax to eventually be collected through base rates, for utilities with long-term rate agreements, this tax will temporarily be collected through a surcharge tariff subject to reconciliation with actual tax expense.

NYSEG anticipates that it will incur an overall net tax increase as a result of the repeal of the Excess Dividends Tax, the phase-out/phase-down of the gross revenue taxes, and the implementation of the State Income Tax. Since the Order adopts the recommendation in Staff's report that a company continue to bill customers at rate levels no higher than those that existed before the tax changes become fully effective, NYSEG will not change its current tax surcharge rates. Instead, the surcharge rates charged will now collect the Gross Income Tax and the State Income Tax. If actual tax expense differs from actual tax collected, that difference will be deferred and reconciled in accordance with the Order.

The Company reserves the right to revise its tariff pending review of the comprehensive PSC Order which will be issued subsequent to the December 21, 2000 abbreviated Order.

Newspaper Publication

Newspaper publication will not be required in accordance with the Order.

Company Contacts

Questions regarding this filing should be addressed to me at (607) 762-5611 or Susan Dornblaser at (607) 762-8004.

Very truly yours,

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/dlS STEVEN R. ADAMS
Encls. Manager - Gas Pricing, Regulation & Strategy
Cy.: Alan F. Mostek, PSC