

December 23, 2003

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

Re: Case No. 02-M-0515
Order Providing for Distributed Generation Gas Service Classifications

Dear Acting Secretary Brillling:

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

First Revised	Leaf No. 51	to PSC No. 87 – Gas
First Revised	Leaf No. 52	to PSC No. 87 – Gas
First Revised	Leaf No. 54	to PSC No. 87 – Gas
Third Revised	Leaf No. 112	to PSC No. 88 – Gas
Fourth Revised	Leaf No. 113	to PSC No. 88 – Gas
Third Revised	Leaf No. 114	to PSC No. 88 – Gas
Fourth Revised	Leaf No. 115	to PSC No. 88 – Gas

Effective: January 1, 2004.

Today’s filing is in compliance with the Commission’s Order Proceeding on Motion of the Commission to Establish Gas Transportation Rates for Distributed Generation Technologies, issued and effective December 3, 2003 in Case No. 02-M-0515 (the “December 3 Order”).

Background

NYSEG filed tariffs in response to the Commission’s Order Providing For Distributed Generation Gas Service Classifications, issued and effective April 24, 2003 in Case No. 02-M-0515 (“the April 24 Order”) on July 23, 2003. Subsequent to that filing, Staff requested two postponements to the filing. The first on October 15, 2003 postponed the tariffs to December 1, 2003 and the second on October 22, 2003 postponed the tariffs to January 1, 2004. Staff also had individual discussions with the Company to further clarify the April 24 Order.

The December 3, 2003 Order required NYSEG to file revised firm delivery service rates per Appendix II of the Order for commercial and industrial customers who install baseload DG units.

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Overview

Today's filing revises Service Classification No. 10 – Non-Residential Distributed Generation Firm Sales Service ("SC-10S") to PSC 87 Gas, and Service Classification No. 16 – Non-Residential Distributed Generation Firm Transportation Service ("SC-16T") to PSC 88 Gas. Within each service classification, the proposed tariffs differentiate between a DG customer operating a unit of less than 5 MW ("Small DG Customer") and a DG customer operating a unit equal to or greater than 5 MW but less than 50 MW ("Large DG Customer").

The DG Rates have been designed based on NYSEG's currently effective Combined Area rates adjusted for 70% load factor. Uniform rate treatment across rate areas will make DG tariffs less complex, thereby avoiding a potential implementation impediment for customers. The rate for a Small DG Customer includes an administrative charge (e.g., basic service charge) and a volumetric charge (e.g., usage charge). For a Large DG Customer the rate includes an administrative charge (e.g., basic service charge), a demand charge and a volumetric charge (e.g., usage charge). A seasonal rate differential was established with a summer discount of 10% for April through October, with a corresponding winter premium for November through March.

Both Large and Small DG Customers will also be subject to the Transition Surcharge (TS), the Research and Development (R&D) Adjustment, the Weather Normalization Adjustment (WNA), all applicable taxes, and other charges applicable to a particular service classification (e.g., balancing and cash-out).

Additional tariff language has been included to ensure the following: (1) DG customers and non-DG customers will receive equivalent treatment in regard to metering, balancing and curtailment. (2) The Company may choose to retain a customer on either Service Classification Nos. 10S or 16T even if their load factor drops below 50% if the customer has mitigating circumstances. (3) The calculation of load factor is based on the winter peak and not the annual peak load. (4) Rates established herein are ceilings and are fixed for at least three years.

As required by the April 24 Order, NYSEG will allow customers to take their supply from NYSEG or from another supplier. Customers who choose bundled sales service will initially pay the same Gas Supply Charge ("GSC") and Merchant Function Charge ("MFC") as other similarly-sized bundled rate customers. After sufficient customer load data is gathered, NYSEG may propose a revision to its GSC to incorporate a Load Factor Adjustment for the DG customer class.

NYSEG again clarifies that the 3-year ceiling on rates, as specified in the April 24 Order, applies only to customers taking the proposed DG rates. A customer selecting a non-DG service class for serving its distributed generation equipment (e.g., the anomalous pricing available to very large use customers taking service under SC-14) is neither entitled to have that rate frozen as part of the April 24 Order nor should the impact on such a customer be a factor in determining the Phase 2 rate design, which is part of NYSEG's Gas Rate Plan Joint Proposal as approved by

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the Commission in the Order Establishing Rates, issued and effective November 20, 2002 in Cases 01-G-1668 and 01-G-1683 (the "November 20 Order").

Other Issues

NYSEG will continue to offer negotiated rates allowed under existing tariffs, as provided in the April 24 Order.

NYSEG will defer any net lost revenue as Category 2 Uncontrollable Costs, for future recovery, in accordance with NYSEG's Gas Rate Plan, as approved by the November 20 Order and as provided in the April 24 Order.

NYSEG will file replacement DG tariffs three years and 90 days after the initial DG tariffs become effective, as provided in the April 24 Order, subject to any subsequent orders.

The requirement of Section 66(12) of the Public Service Law as to newspaper publication of the amendments are waived in accordance with the December 3 Order.

Service to Parties and Company Contact

NYSEG is serving a copy of today's filing on all parties. Please direct any questions pertaining to this filing to Cindy Reed at (607) 762-7656 or me at (607) 762-7341.

Very truly yours,

Christine M. Stratakos
Manager – Pricing & Analysis

Encs.

cc: All active parties (via email)
N. Giannasca – HL&A (via overnight mail)