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Niagara Mohawk
A National Grid Company

August 1, 2003

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

Re: Case 01-M-0075 – Joint Proposal of Niagara Mohawk Holding, Inc. Niagara Mohawk Power Corporation, National Grid plc and National Grid for Approval of Merger and Stock Acquisition

Dear Acting Secretary Brilling:

Enclosed for filing with the New York Public Service Commission ("the Commission") are an original and three copies of Niagara Mohawk Power Corporation's ("Niagara Mohawk" or "Company") tariff amendments in compliance with the Commission's Opinion No.01 -6, Opinion and Order Authorizing Merger and Adopting Rate Plan, issued and effective December 3, 2001.

Identification of Tariff Amendments

Fifteenth Revised Leaf No. 7
Fifteenth Revised Leaf No. 19
Thirteenth Revised Leaf No. 59
Tenth Revised Leaf No. 72
Sixteenth Revised Leaf No. 82

To P.S.C. No. 214 Electricity

Effective: January 1, 2004

Purpose of the Filing

This CTC Reset Compliance Filing is intended to implement Niagara Mohawk's obligations under the Rate Plan to reset its Competitive Transition Charges ("CTC") in retail delivery rates to reflect the forecast of the market price of electricity in the coming two years.

Following the restructuring and the divestiture of its generating plants, Niagara Mohawk retained several power supply contracts for its Customers. Although the contracts were bought down, the contract prices are generally in excess of the market value of the power produced under the contracts. For retail rate-making, the market value of the contracts is recovered in the commodity component of Niagara Mohawk's rates, and the balance—or the Over Market Variable Cost (OMVC)—is recovered through Niagara Mohawk's CTC. The over-market value

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of the supply contracts depends directly on the forecasted market price of electricity. For example, when the forecast of the market price of electricity increases, the value of the contracts is higher and as a result the OMVC and Niagara Mohawk's CTC is reduced. Yet, because some of Niagara Mohawk's electric supply contracts are indexed to the price of natural gas, higher forecasted gas prices will partially offset the reduction in the OMVC caused by higher electricity prices. In the Rate Plan, the OMVC was established using Niagara Mohawk's market price forecast for electric and gas commodity at that time. However, the Parties recognized that the forecast of the market price for electric and gas commodity would change over time. To reflect these changes from the original forecast in the Rate Plan, Section 1.2.3.3 of the Rate Plan requires Niagara Mohawk to update the forecast of commodity costs every two years and to use the updated forecast to reset the CTC prices in delivery rates. Today's filing complies with that requirement. A companion PSC No. 207 Electricity Filing is also being submitted today under separate cover.

As described in the filing, Niagara Mohawk's new forecast of future commodity prices in 2004 and 2005 is higher than the forecast used to establish OMVC and the CTC in the Merger Rate Plan. The combination of higher forecasted gas and electric prices generates a net reduction in the OMVC and CTC of $36.2 million in 2004 and 2005. The reduction in the CTC is spread to all Niagara Mohawk Customer classes. Separately, an increase in the forecast of electricity prices adds an additional $29 million of value to Niagara Mohawk's purchases from the New York Power Authority (NYPA) for residential customers and that value is returned to the residential class in the CTC reset process.

For Niagara Mohawk's Standard Rate Service ("SRS") customers, the reduction in Niagara Mohawk's CTC is offset by a corresponding adjustment to the benchmark price for Niagara Mohawk's Delivery Charge Adjustment ("DCA"). The DCA adjusts the bills of SRS Customers for the difference between Niagara Mohawk's two-year average forecast of electric commodity prices and the actual electric commodity price between CTC Resets. Because actual commodity prices have exceeded the average forecasted price of electricity established in the Merger Rate Plan over the past 12 months, most SRS customers have received credits through the DCA. A higher forecasted price of electricity increases the DCA benchmark price and reduces the DCA credit that would otherwise offset the higher market prices for Niagara Mohawk's SRS Customers. The net affect of these adjustments is to increase the total bills for small SRS Customers and decrease total bills for large SRS customers and all Market Rate Service (MRS) Customers. In sum, although the CTC Reset process does not affect Niagara Mohawk's overall revenue, it reallocates a portion of the value of Niagara Mohawk's hedged power supply between service classes.

As shown in the table below, the impact of a higher commodity price forecast will reduce the CTC reflected in delivery rates for most customers by 1 to 3%. Residential customers will experience the largest decline in delivery rates due to the added benefit contributed by the reduced OMVC of the NYPA Hydro contracts.

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Central Region (Load Zones 2C, 3E and 31D)

Determinants			Delivery				Commodity				Total			
kWh Usage	Peak Pct	kW	Merger	Reset	Difference	Change	Merger	Reset	Difference	Change	Merger	Reset	Difference	Change
SC-1														
500			$40.60	$39.55	($1.05)	-2.59%	$25.42	$28.06	$2.64	10.39%	$66.02	$67.61	$1.59	2.41%
SC-2ND														
600			$61.83	$61.46	($0.37)	-0.60%	$32.02	$34.97	$2.95	9.21%	$93.85	$96.43	$2.58	2.75%
SC-2D														
7,200		25	$490.81	$485.47	($5.34)	-1.09%	$374.96	$416.83	$41.87	11.17%	$865.77	$902.30	$36.53	4.22%
SC-3 Secondary														
144,000		500	$11,198.04	$11,215.51	$17.47	0.16%	$8,677.22	$8,556.34	($120.88)	-1.39%	$19,875.26	$19,771.85	($103.41)	-0.52%
SC-3A Transmission														
2,304,000	40%	4,000	$51,486.40	$50,744.36	($742.04)	-1.44%	$1,222,263.44	$122,265.79	$2.35	0.00%	$173,749.84	$173,010.15	($739.69)	-0.43%

Lower delivery rates for residential and small general service SRS Customers will be more than offset by higher commodity costs caused by the recalibration of the DCA to reflect the higher forecasted price of electricity. But the impact on the total bills of these Customers will still only be in the 2 to 4 % range. Because the recalibration of the DCA has a much smaller or zero impact on the commodity portion of bills for large general service Customers, the total impact of the reset for these Customers is slightly favorable.

This filing also includes Niagara Mohawk's hedging plans for 2004 and 2005 as required by Section 1.3.4 of the Merger Rate Plan. Under the Rate Plan, Niagara Mohawk has the right to enter into new hedges, but the value or cost of those new hedges are allocated only to Standard Rate Service Customers and not to Market Rate Service Customers (See section 1.2.3.3.4). Niagara Mohawk's hedging plans for 2004 and 2005 are set forth in Attachment 4, included with the companion PSC No. 207 filing. As indicated in that Attachment, Niagara Mohawk anticipates using NYMEX gas and electric futures contracts to hedge the majority of the price volatility in Niagara Mohawk's gas swap contracts. Attachment 4 calculates the value that has been produced by the gas hedges that Niagara Mohawk has implemented since September of 2001 when the Commodity Adjustment Clause became effective and the Erie Boulevard/Orion contract extension that is treated as a new hedge under section 1.2.3.3.4 of the Rate Plan.

Under the Rate Plan, the hedged percentages reflected in Niagara Mohawk's DCA for many Customer classes fall off over time. Of particular significance in the coming two years is the reduction in the hedge percentage to the SC-3 Class of Customers. At the beginning of 2003, the hedge percentage in the DCA for this class of Customers was reduced from 80 percent to 50 percent and the percentage is scheduled to fall to 20 percent in January 2004 and to zero in January 2005. Niagara Mohawk has scheduled meetings with ESCos, generators and other interested parties to explore an aggregation program that will provide this class of Customers with a reasonable power supply option during the coming two years as their DCA hedge phases out. In the event that our discussions are productive, Niagara Mohawk will file the aggregation plan separately with the Commission for its approval.

Finally, today's filing reports on the status of Niagara Mohawk's deferral accounts. Under the Rate Plan, Niagara Mohawk is required to adjust its underlying rate in the event that the balances in certain deferral accounts exceed defined limits. As explained in Attachment 5,

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included in the companion PSC No. 207 filing, the only deferral allowed to be collected from Customers in this CTC reset filing is the Standby Lost Revenue Deferral Account.

Attachments in Support of this Filing

Included with the companion PSC No. 207 Filing are attachments that describe and present the revised commodity forecast and the proposed retail electricity prices for PSC No. 214 Outdoor Lighting effective January 1, 2004.

Newspaper Publication

Newspaper publication will be made on August 14, 21, 28 and September 4, 2003 in accordance with Public Service Law 66(12)(b).

Inquires about this Filing

Anyone with questions regarding the administrative aspects of this filing may call or write the undersigned. Requests for information about the proposals presented in this filing should be sent via email to George Bauman (george.bauman@us.ngrid.com) and Susan Pelkey (susan.pelkey@us.ngrid.com). Your information request will be assigned a number for recording purposes, logged into an information request log developed for this specific case, and forwarded to the appropriate Company representative who will prepare the response. Although PSC regulations require that the Company respond to all information requests within ten (10) calendar days, it is the Company's intention to try to respond within five (5) business days. The requesting party will receive the response via email as well as a hard copy delivered via U.S. Mail

Technical Conference

The Company has scheduled a technical conference to the explain the proposals presented in this filing. The technical conference will be held at the Company's offices at 1125 Broadway, Albany, New York, on Thursday, August 28, 2003 at 10 a.m. in Conference Room Number 308. If you plan to attend this conference please send confirmation and the number of people attending from your organization by Friday, August 22, 2003 via email to Ms. Susan Pelkey (susan.pelkey@us.ngrid.com).

This letter is submitted in triplicate pursuant to Section 136.10 of the Commission's regulations. Kindly acknowledge receipt and filing of the enclosures by date-stamping the enclosed copy of this letter and return it to the Company.

Respectfully submitted,

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George A. Bauman
Supervisor
Tariff and Regulatory Administration
Electric Pricing Department

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Attachments
Xc: Hon. Joel A. Linsider, Administrative Law Judge
All Active Parties in Case 01-M-0075