

July 23, 2003

Ms. Jaclyn A. Brilling, Acting Secretary to the Commission
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 Brilling:

The enclosed leaves, issued by Rochester Gas and Electric Corporation (“RG&E” 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. 2	to PSC No. 16 – Gas
First Revised	Leaf No. 69	to PSC No. 16 – Gas
First Revised	Leaf No. 71	to PSC No. 16 – Gas
First Revised	Leaf No. 74	to PSC No. 16 – Gas
First Revised	Leaf No. 77	to PSC No. 16 – Gas
Original	Leaf No. 134	to PSC No. 16 – Gas
Original	Leaf No. 135	to PSC No. 16 – Gas
First Revised	Leaf No. 125	to PSC No. 17 – Gas
First Revised	Leaf No. 126	to PSC No. 17 – Gas
Original	Leaf No. 126.1	to PSC No. 17 – Gas
First Revised	Leaf No. 127	to PSC No. 17 - Gas
First Revised	Leaf No. 128	to PSC No. 17 – Gas
Original	Leaf No. 128.1	to PSC No. 17 – Gas
First Revised	Leaf No. 130	to PSC No. 17 – Gas
First Revised	Leaf No. 137	to PSC No. 17 – Gas
First Revised	Leaf No. 138	to PSC No. 17 – Gas
First Revised	Leaf No. 139	to PSC No. 17 – Gas
First Revised	Leaf No. 143	to PSC No. 17 – Gas
First Revised	Leaf No. 147	to PSC No. 17 – Gas
First Revised	Leaf No. 149	to PSC No. 17 – Gas
Original	Leaf No. 150	to PSC No. 17 – Gas

Effective: November 1, 2003.

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Today's filing is in compliance with 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").

Background

In instituting Case 02-M-0515, the Commission solicited comments regarding the development of rates for gas service to distributed generators ("DG") and removing non-rate impediments to DG development that may exist in utility gas tariffs.

The April 24 Order required gas utilities to file new firm delivery service rates for commercial and industrial customers who install baseload DG units. The April 24 Order further required gas utilities to collect DG-related data and file a report with the Director of the Office of Gas and Water every six months beginning January 1, 2004 and ending 90 days prior to filing new DG tariffs.

A technical conference was held on May 28, 2003 at the Commission's Albany offices. At the technical conference, staff reviewed the April 24 Order, reviewed specific points on rate design and discussed recommendations on the format for data collection.

Overview

Today's filing proposes to add Service Classification No. 6 – Non-Residential Distributed Generation Firm Sales Service (SC 6) to PSC 16 Gas and Service Classification No. 7 – Non-Residential Distributed Generation Firm Transportation Service (SC 7) to PSC 17 Gas - Distribution Service. 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 data from RG&E's most recent embedded cost study filed in the Unbundling Track proceeding¹ as adjusted to incorporate the rate of return requested in the Company's recent rate filing.² The rate for a Small DG Customer includes an administrative charge (e.g., basic service charge) and a volumetric charge (e.g. usage charge). The administrative charge was based on the embedded customer costs of the otherwise applicable rate schedule (SC-1 and SC-5). The costs were reduced for one half the embedded cost of a shared service and reflect the full embedded cost of metering equipment. Additional

¹ Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities – Unbundling Track in Case 00-M-0504.

² Case No. 03-G-0766 Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations or Rochester Gas and Electric Corporation for Gas Service.

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service costs not included in the rates are the customer's responsibility. Also, in order to provide meaningful reporting to the Director as required, daily metering equipment, including phone service, are the responsibility of the customer. The volumetric charge was set to recover delivery system average capacity related costs. Unit costs were developed by dividing system costs by sales volumes adjusted for a 70% load factor based on design day demand.

For a Large DG Customer, the administrative charge (e.g., basic service charge) was based on embedded customer costs of the otherwise applicable rate schedule (SC-3). The costs were reduced for one half the embedded cost of a shared service and reflect the full embedded cost of metering equipment. Additional service costs not included in the rates are the customer's responsibility. Also, in order to provide meaningful reporting to the Director as required, daily metering equipment, including phone service are the responsibility of the customer. The demand rate applicable to Large DG units was set to recover delivery system capacity related costs, based on design day demand. Volumetric charges are not applicable since only fixed demand costs are to be recovered.

RG&E did consider including a seasonal differential in the proposed DG rates. However, RG&E concluded that seasonal price differentiation was inappropriate because 1) DG use is essentially process use, not impacted by seasonal variations; 2) costs are primarily the fixed annual costs required to make capacity available; and 3) seasonal billing data is not readily available.

As applicable, both Large and Small DG customers will also be subject to the Gas Cost Calculation, the Distribution Rate Adjustment, balancing charges and all applicable taxes.

As required by the April 24 Order, RG&E will allow customers to take their supply from the Company or from another supplier. Customers who choose bundled sales service will initially pay the same gas cost as other similarly sized-bundled rate customers. After sufficient customer load data is gathered, RG&E may propose a revision its Gas Cost Calculation to incorporate a Load Factor Adjustment for the DG class.

RG&E 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 is not entitled to have that rate frozen.

Other Issues

As specified in the April 24 Order, RG&E will continue to offer negotiated rates allowed under existing tariffs and will file replacement tariffs 3 years and 90 days after initial tariffs are filed.

RG&E requests deferred accounting treatment for any lost margins resulting from the migration of existing customers to the proposed DG rates.

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RG&E has provided a letter under separate cover certifying that no non-rate impediments were found as required by the April 24 Order.

Also included in this filing are housekeeping changes to Service Classification No. 10 of PSC No. 17 – Gas Distribution Service.

Service to Parties and Company Contact

RG&E is serving a copy of today's filing on all parties. Please direct any questions pertaining to this filing to Carolyn Sweeney at (585) 771-4809 or me at (585) 771-4692.

Very truly yours,

Mark O. Marini
Manager – Regulatory and Tariffs

Encs.

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