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January 29, 1999

Honorable Debra Renner
Acting Secretary
Public Service Commission
3 Empire State Plaza
Albany, New York 12223

Dear Acting Secretary Renner:

The enclosed revised and original leaves, 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 of the State of New York.

Tariff Amendments

Third	Revised	Leaf No. 13	to PSC No. 87 Gas
Third	Revised	Leaf No. 14	to PSC No. 87 Gas
Third	Revised	Leaf No. 17	to PSC No. 87 Gas
First	Revised	Leaf No. 34.1	to PSC No. 87 Gas
Third	Revised	Leaf No. 35	to PSC No. 87 Gas
Second	Revised	Leaf No. 36	to PSC No. 87 Gas
Third	Revised	Leaf No. 44	to PSC No. 87 Gas
First	Revised	Leaf No. 48	to PSC No. 87 Gas
Sixth	Revised	Leaf No. 2	to PSC No. 88 Gas
Third	Revised	Leaf No. 4	to PSC No. 88 Gas
First	Revised	Leaf No. 5	to PSC No. 88 Gas
Third	Revised	Leaf No. 6	to PSC No. 88 Gas
Seventh	Revised	Leaf No. 7	to PSC No. 88 Gas
First	Revised	Leaf No. 7.1	to PSC No. 88 Gas
Original		Leaf No. 7.2	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 8	to PSC No. 88 Gas
Original		Leaf No. 8.1	to PSC No. 88 Gas
Original		Leaf No. 8.2	to PSC No. 88 Gas
Third	Revised	Leaf No. 9	to PSC No. 88 Gas
Second	Revised	Leaf No. 9.1	to PSC No. 88 Gas
Third	Revised	Leaf No. 10	to PSC No. 88 Gas
Second	Revised	Leaf No. 10.1	to PSC No. 88 Gas
Second	Revised	Leaf No. 10.2	to PSC No. 88 Gas
Second	Revised	Leaf No. 10.3	to PSC No. 88 Gas
Second	Revised	Leaf No. 12	to PSC No. 88 Gas
First	Revised	Leaf No. 12.1	to PSC No. 88 Gas
Original		Leaf No. 12.2	to PSC No. 88 Gas
Original		Leaf No. 12.3	to PSC No. 88 Gas
Fifth	Revised	Leaf No. 13	to PSC No. 88 Gas
First	Revised	Leaf No. 13.1	to PSC No. 88 Gas
Original		Leaf No. 13.2	to PSC No. 88 Gas
Original		Leaf No. 13.3	to PSC No. 88 Gas
Original		Leaf No. 13.4	to PSC No. 88 Gas
Third	Revised	Leaf No. 14	to PSC No. 88 Gas
Third	Revised	Leaf No. 15	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 16	to PSC No. 88 Gas
Second	Revised	Leaf No. 16.1	to PSC No. 88 Gas
Third	Revised	Leaf No. 16.2	to PSC No. 88 Gas
Third	Revised	Leaf No. 16.3	to PSC No. 88 Gas

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First	Revised	Leaf No. 16.4	to PSC No. 88 Gas
Third	Revised	Leaf No. 34	to PSC No. 88 Gas
Third	Revised	Leaf No. 35	to PSC No. 88 Gas
Second	Revised	Leaf No. 51	to PSC No. 88 Gas
First	Revised	Leaf No. 53.1	to PSC No. 88 Gas
Second	Revised	Leaf No. 54	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 55	to PSC No. 88 Gas
Fifth	Revised	Leaf No. 57	to PSC No. 88 Gas
Third	Revised	Leaf No. 58	to PSC No. 88 Gas
Third	Revised	Leaf No. 60	to PSC No. 88 Gas
First	Revised	Leaf No. 61	to PSC No. 88 Gas
Second	Revised	Leaf No. 62	to PSC No. 88 Gas
Second	Revised	Leaf No. 63	to PSC No. 88 Gas
First	Revised	Leaf No. 64	to PSC No. 88 Gas
Second	Revised	Leaf No. 66	to PSC No. 88 Gas
Third	Revised	Leaf No. 67	to PSC No. 88 Gas
Third	Revised	Leaf No. 68	to PSC No. 88 Gas
Third	Revised	Leaf No. 69	to PSC No. 88 Gas
Second	Revised	Leaf No. 70	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 71	to PSC No. 88 Gas
First	Revised	Leaf No. 72.1	to PSC No. 88 Gas
First	Revised	Leaf No. 73	to PSC No. 88 Gas
First	Revised	Leaf No. 75	to PSC No. 88 Gas
Original		Leaf No. 75.1	to PSC No. 88 Gas
First	Revised	Leaf No. 76	to PSC No. 88 Gas
Second	Revised	Leaf No. 78	to PSC No. 88 Gas
First	Revised	Leaf No. 82	to PSC No. 88 Gas
Second	Revised	Leaf No. 87	to PSC No. 88 Gas
First	Revised	Leaf No. 87.1	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 88	to PSC No. 88 Gas
Third	Revised	Leaf No. 89	to PSC No. 88 Gas
First	Revised	Leaf No. 92	to PSC No. 88 Gas
Original		Leaf No. 92.1	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 98	to PSC No. 88 Gas
First	Revised	Leaf No. 98.1	to PSC No. 88 Gas
Fourth	Revised	Leaf No. 99	to PSC No. 88 Gas
Third	Revised	Leaf No. 100	to PSC No. 88 Gas
Fifth	Revised	Leaf No. 105	to PSC No. 88 Gas
Second	Revised	Leaf No. 105.1	to PSC No. 88 Gas
Third	Revised	Leaf No. 106	to PSC No. 88 Gas
Second	Revised	Leaf No. 107	to PSC No. 88 Gas
Third	Revised	Leaf No. 3	to PSC No. 90 Gas
Original		Leaf No. 98	to PSC No. 90 Gas

Effective April 1, 1999.

Background

On November 3, 1998, the State of New York Public Service Commission (the "Commission" or the "PSC") issued its Policy Statement Concerning the Future of the Natural Gas Industry and Order Terminating Capacity Assignment ("Policy Statement and Order") in Cases 93-G-0932 and 97-G-1380. The Policy Statement and Order requires each LDC to file proposed tariffs, by no later than February 1, 1999, eliminating its mandatory assignment of capacity provisions, with the proposed tariffs becoming effective April 1, 1999. This filing is made in compliance with that directive.

To place this filing in its proper context, it is necessary to review briefly several filings made by NYSEG in 1998 in response to Commission orders that have a bearing on the issues addressed herein. The issue of eliminating capacity assignment was addressed in NYSEG's compliance filing submitted on March 31, 1998 in response to the Commission's Order Concerning Compliance Filing in Case No. 93-G-0932 - Proceeding on Motion of the Commission to Address Issues Associated with the Restructuring of the Emerging Competitive Natural Gas Market. The Company stated that elimination of capacity assignment without considering the Supplier of Last Resort ("SOLR") / Obligation to Serve

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("OTS") responsibility to non-utility suppliers was extremely problematic.

The interrelationship between SOLR/POLR/OTS obligations and the elimination of capacity assignments was underscored by the Commission's statement in the Policy Statement and Order that, "LDC's will continue to be the provider of last resort for gas service, at least for the short term while other options are more fully explored and developed by staff and interested parties" (p. 5). In order to meet its POLR function, NYSEG must maintain a certain level of upstream pipeline capacity. The level of capacity needed to meet this function is, among other issues, being discussed in the POLR and System Reliability collaboratives, and NYSEG does not intend to address that specific level in this filing. For the purpose of this filing, the significant consideration to keep in mind is that some level of upstream pipeline and storage capacity is required to meet NYSEG's POLR obligations.

On December 11, 1998, NYSEG filed comments in Case 98-G-1785 - Allocation by Local Distribution Companies of Strandable Gas Capacity Costs Caused by Customers Migrating from Sales to Transportation Services. NYSEG supported the position of the Consumer Protection Board ("CPB") whereby both firm sales and firm transportation customers should assume responsibility for unrecovered utility capacity costs. Since the PSC has not yet issued an Order in this case, NYSEG's enclosed tariff leaves reflect recovery of stranded capacity costs from firm customers consistent with the Company's comments.

On December 30, 1998, NYSEG filed a response to the Policy Statement and Order provision whereby LDC's were given the opportunity to demonstrate where such specific operational and reliability requirements continue to warrant capacity assignment. NYSEG requested that migrating customers in Cattaraugus County (referred to as "Olean") of the Company's Binghamton Area continue to be assigned capacity. NYSEG also requested that migrating customers in its Goshen area, Mechanicville district, and Champlain area/Plattsburgh district be required to utilize NYSEG's capacity. The enclosed tariffs reflect this position.

Additionally, NYSEG prefaced its December 30, 1998 submission on two important caveats. First, gas marketers serving core customers whereby NYSEG does not require mandatory capacity assignment must show that they have firm, non-recallable primary point deliverability to the applicable portion of NYSEG's system; and second that the pipelines' terms and conditions and daily operations do not become more restrictive. The instant filing eliminating mandatory capacity assignment is also conditioned on the those two caveats. To the extent either of these caveats are not satisfied, NYSEG reserves its right to request mandatory capacity assignment for the other areas of its system.

Purpose of the Filing

As a result of the Commission's determination to eliminate mandatory capacity assignment, NYSEG projects that migrating customers will strand prudently incurred capacity costs used to provide those customers with sales service before the decision to migrate was made. The Company also projects incurring material system implementation costs as a result of eliminating capacity assignment. Therefore, NYSEG is proposing a Market Transition Surcharge ("MTS") rate along with the utilization of the deferred unbilled revenue pool to recover its stranded capacity and system implementation costs from firm sales and firm transportation customers.

In Opinion No. 98-17, Opinion and Order Adopting Settlement Terms Subject to Modifications and Conditions, issued and effective September 29, 1998 (mimeo, pp. 10-11), the Commission recognized that since NYSEG does not operate with a gas adjustment clause, it cannot rely on that mechanism to recover its strandable costs. That decision provides NYSEG an opportunity to propose another method to recover strandable costs if the Commission concludes LDC's should recover such costs. NYSEG's costs were prudently incurred and the Company has aggressively sought to minimize those costs. The Company should be allowed to recover all capacity costs as a result of the combined effect of customer migration and the Commission Order requiring LDC's to eliminate mandatory capacity assignment.

NYSEG is committed to reducing its stranded capacity cost as a result of customer migration and the elimination of mandatory capacity assignment. As stated in its April 1, 1998 compliance filing, the Company pursues all options to both minimize the term and costs of its contracts and expand the flexibility of its capacity. NYSEG has replaced long-haul pipeline transportation with lower-priced and more flexible alternatives, expanded its service area by aggressively pursuing new franchise opportunities, and reduced and filed notice to terminate certain capacity contracts.

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Despite these substantial efforts, NYSEG will still incur stranded capacity costs in an environment whereby customers migrate and the value of the Company's firm capacity in the secondary market is significantly less than the annual cost. The potential for stranded capacity cost is exacerbated with the current Straight Fixed Variable ("SFV") rate design and secondary market cap at the maximum pipeline rate. While NYSEG recognizes that the FERC has issued a NOPR and NOI addressing, among other issues, the short-term capacity market, the Company believes that any potential near term remedy diminishing stranded capacity costs will not materialize immediately. Consequently, the Company proposes to recover stranded capacity and system implementation costs by a Market Transition Surcharge and use of the deferred unbilled revenue pool.

Description of the Revision

NYSEG proposes to revise the above-listed gas tariff leaves in compliance with the Commission's Policy Statement and Order dated November 3, 1998, in Case 93-G-0932 and 97-G-1380.

These revisions reflect the tariff and rate changes necessary in order to eliminate mandatory capacity assignment. The enclosed tariff leaves, operational requirements and Company rate and cost recovery proposal are as follows:

Tariff Changes:

(1) Removal of the requirement that any non-aggregated transportation customer requesting firm transportation service, who was a firm sales customer on or after November 2, 1995, take an assignment of upstream pipeline transportation and storage capacity.

(2) Removal of the requirement that any aggregated transportation customer requesting firm transportation service, who was a firm sales customer on or after November 2, 1995, take an assignment of upstream pipeline transportation capacity and managed storage service, if applicable.

(3) Creation of a Market Transition Surcharge. The MTS description and proposed calculation is discussed below. The MTS is proposed to be applicable for the following firm sales and firm transportation service classes:

Sales Service - PSC No. 87
Service Class 1 - Residential Service
Service Class 2 - General Service
Service Class 5 - Seasonal Gas Cooling Service
Service Class 8 - Firm Sales to Large General Service
Service Class 9 - Industrial Manufacturing or Processing Purposes

Transportation Service - PSC No. 88
Service Class 1 - Firm Transportation Service
Service Class 4 - Large Firm Transportation Service
Service Class 5 - Small Firm Transportation Service
Service Class 13 - Residential Firm Aggregation Transportation Service
Service Class 14 - Non-Residential Firm Aggregation Transportation Service

(4) General Information changes to PSC No. 88 - Gas Transportation. The changes reflect new definitions and the creation of two new sections. The new sections are: 1) Daily Metered Transportation Requirements, and 2) Non-Daily Metered Transportation Requirements.

Daily Metered Transportation Requirements:

(a) New Section 4 replacing "Balancing Receipts and Deliveries".
(b) Reorganized Section 4 to be consistent with New Section 5.
(c) Section 4.E. - Allowance for Losses - Clarify pooling areas.
(d) New Section 4.P. - Upstream Capacity Requirements - Natural Gas Marketers will be required to demonstrate on an annual basis, through an affidavit, signed by an officer of the Company, that it has and will continue to have non-recallable firm primary point upstream capacity to meet the expected daily and seasonal requirements of its customers.
(e) New Section 4.Q. - Capacity Assignment - To assign capacity to transportation customers

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in Olean consistent with the Company's filing on December 30, 1998.

(f) New Section 4.R. - Capacity Surcharge (s) - To charge designated agents for company incurred capacity on intermediary local distribution companies and intrastate pipelines. The surcharge will be applicable in the Goshen Area, Mechanicville District, Champlain Area, and Plattsburgh District consistent with the Company's filing on December 30, 1998. The surcharge rates will be included in the Company's monthly Gas Transportation Rate Schedule.

Non-Daily Metered Transportation Requirements:

(a) New Section 5 replacing "Conditions of Gas Service".

(b) New Section 5.C. - Nomination and Scheduling - Creation of new nomination and scheduling requirements for Aggregation Pool Operators ("APO"). The Company will determine a Daily Aggregated Volume ("DAV") for each aggregation pool of customers taking non-daily metered transportation service. The DAV will be determined each day using a consumption algorithm based on the heating degree day forecast for that day. Each day, the Company will provide each Aggregation Pool Operator with their DAV for the subsequent four (4) days based on the weather forecast.

(c) New Section 5.D. - Balancing Receipts and Deliveries - Requirements that each APO, on behalf of its customers, take service under new Service Class 11 - "Non-Daily Metered Transportation Monthly Balancing Service" (a more detailed description of this service is provided below). Cash out provisions for when APO deliveries deviate from the DAV or an Operational Flow Order provided by the Company. A bi-annual reconciliation between actual non-daily metered customer usage and the forecasted nomination amount used to determine the DAV.

(d) Section 5.F. - Allowance for Losses - Proposed changes to be consistent with the provisions of daily metered transportation requirements.

(e) New Section 5.H. - Upstream Capacity Requirements - Similar language as described in the Daily Metered Transportation Requirements.

(f) New Section 5.I. - Capacity Assignment - Similar language as described in the Daily Metered Transportation Requirements.

(g) New Section 5.J. - Capacity Surcharge (s) - Similar language as described in the Daily Metered Transportation Requirements.

(5) Insertion of the words "Daily Metered" in the title of Service Class 9.

(6) Creation of Service Class 11 - Non-Daily Metered Transportation Monthly Balancing Service - All APO's, on behalf of their non-daily metered transportation customers, will be required to take this service. This service is similar to Service Class 9 - Daily Metered Transportation Monthly Balancing Service. The service was developed to reflect the balancing requirements needed for non-daily metered transportation service.

(7) Wording and reference changes to reflect the above provisions.

Operational Requirements

The Company will update its Gas Transportation Operating Procedures Manual to reflect the new provisions and requirements included in this filing. The manual will be updated upon approval of the Company's filing.

Cost Recovery Proposal

Market Transition Surcharge

As stated above, the Company proposes to implement a Market Transition Surcharge. The MTS along with the proposed deferred unbilled revenue pool balance will serve as the mechanism to recover the Company's stranded capacity and system implementation costs.

Attached Schedules 1 and 2 support the Company's proposed MTS rates. Since this is an electronic filing, all schedules to be attached are being sent by overnight mail. The proposed MTS rates for firm sales and firm transportation customers in each rate area are as follows:

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Owego	$.0090 per therm
Goshen	$.0040 per therm
Lockport	$.0040 per therm
Elmira	$.0070 per therm
Combined	$.0070 per therm
Binghamton	$.0090 per therm
Champlain	$.0000 per therm

The Company requests that the initial MTS rates become effective April 1, 1999 and continue through October 31, 1999. Thereafter, the Company proposes to set a new MTS rate each November 1st. Differences between MTS revenues and actual cost incurred will be charged or credited to the unbilled revenue pool until the pool is depleted. Once the unbilled revenue pool is exhausted, any difference between cost incurred and revenues recovered will be rolled into the subsequent MTS.

The Company's intent is to only change the MTS annually. However, since numerous factors such as the level of customer migration, usage characteristics, weather variations, capacity release values, etc. will impact the actual cost incurred, NYSEG proposes that it be allowed to increase or decrease its MTS rates if the projected variation is more than 15% from the established MTS.

NYSEG also requests that it be allowed to recover its incremental system implementation costs which will be incurred in order to eliminate capacity assignment and implement the proposed non-daily metered transportation requirements. The Company projects that it will incur $1.5 million in system implementation costs. A description of the system implementation activities is attached as Schedule 3.

NYSEG proposes to recover $1.0 million of the estimated total of $1.5 million in system implementation costs through the unbilled revenue pool. Amounts over this level will be included in the MTS rates and allocated among rate areas on firm customer throughput. NYSEG has included $250,000 in its proposed MTS rates to be effective April 1, 1999. The projected remaining amount of $250,000 will be included in the November 1, 1999 MTS rates. Differences between the final actual amount incurred and the amount recovered will be recorded in the unbilled revenue pool at the conclusion of the recovery period, October 31, 2000.

NYSEG believes its request to recover incremental system implementation costs is reasonable. As previously stated, the Company proposes to implement new operating procedures for Aggregation Pool Operators of non-daily metered transportation customers. The Company will determine a daily aggregated volume (DAV) for each aggregation pool of customers for each day using a consumption algorithm based on the heating degree day forecast for that day. In order to determine the DAV, the Company must be able to calculate individual customer usage requirements based on historical bill information and usage per heating degree day. The Company then must calculate and accumulate the individual customer load based on the forecasted heating degree days, by pooling area and by APO. This information must be computed and provided in a timely fashion in order to provide the APO with a forecast and allow the APO to plan their gas supplies. The individual customer forecast used to compute the DAV must be stored in order to appropriately cash out actual usage with nominated volumes. This is necessary in order to handle customers switching between marketers and/or the utility and to settle imbalances.

If NYSEG did not develop such a procedure, the Company would re-evaluate its proposed monthly balancing charge to reflect an increased level of upstream assets in order to balance non-daily metered transportation customer aggregation pools.

Non-Daily Metered Transportation Monthly Balancing Service

Attached as Schedule 4 is a calculation of the Company's proposed method to determine its Non-Daily Metered Transportation Monthly Balancing Service rates. The attached calculations are based on the Company's January 1, 1999 monthly rate filing. Actual balancing rates will be included in the Company's applicable monthly rate filing.

The Company's proposed non-daily metered monthly balancing charge is based on the cost of transportation and storage demand, storage capacity, storage injection and withdrawal charges, and storage inventory carrying charges, that are used to meet the balancing needs of non-daily metered transportation customers.

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Customer Impact

Firm sales customers and pre November 2, 1995 firm transportation customers will receive an increase in their bill as a result of eliminating capacity assignment and the implementation of the MTS. Customer impacts will vary depending on the rate area and level of usage. A typical residential sales customer using 50 therms per month will experience an increase in their monthly bill of:

Area	Bill Increase	Percentage
Owego	$.47	.9%
Goshen	$.21	.4%
Lockport	$.21	.4%
Elmira	$.37	.7%
Combined	$.37	.6%
Binghamton	$.47	1.2%
Champlain	$.00	.0%

Post November 2, 1995 firm gas transportation customers will also experience a increase in their NYSEG charges if the customer does not act on their own behalf for capacity assignment. If the customer does act on their own behalf for capacity assignment, the customer will experience a decrease in their charges. Customer impacts will vary depending on the rate area and level of usage.

Notification

Publication of this proposed change will be made in accordance with 16 NYCRR 270.70.

A State Administrative Procedure Act Notice is enclosed for publication in the State Bulletin.

Company Contact

If you have any questions regarding this tariff revision, please contact me at (607) 762-5611, or Dan Verdun at (607) 762-4296.

Very Truly Yours,

STEVEN R. ADAMS
Manager - Gas Pricing, Regulation & Strategy

/sra
Encls.
Cy.:Lyle VanVranken, PSC