

..DID: 5923  
..TXT:

**NIAGARA MOHAWK POWER CORPORATION**  
November 11, 1998

Honorable Debra Renner  
Acting Secretary  
State of New York  
Department of Public Service  
Three Empire Plaza  
Albany, New York 12223

Dear Acting Secretary Renner:

Attached for filing in accordance with the requirements of the Public Service Commission of the State of New York are the following tariff leaves:

Second Revised Leaf No.	108
First Revised Leaf No.	108.1
First Revised Leaf No.	184.1
Third Revised Leaf No.	191
Second Revised Leaf No.	195

To P.S.C. No. 218

Effective: November 16, 1998

On October 16, 1998, the Company filed a tariff revision in order to implement a pilot program which implemented a limited waiver of mandatory upstream interstate pipeline capacity assignment. This filing has been designated Case 98-G-1590. The Commission's order acting on the Company's October 16 filing was issued and effective November 4, 1998.

Ordering paragraph 1a of the November 4, 1998 order requires revisions to the Company's October 16, 1998 filing. Ordering paragraph 1c indicates that upon compliance by the Company with the required revisions of the order, the Company's request for waiver of Ordering paragraph No. 3 issued July 16, 1998 in Case 97-G-2067 and Ordering Clause No. 2 of order issued August 21, 1998 in Case 98-G-0584 is granted.

The Commission's November 4, 1998 Order indicated that the waiver of the 10% of capacity cap must be at the Commission's option. Modifications have been made to First Revised Leaf No. 184 to incorporate these revisions. The remaining changes on First Revised Leaf No. 184 are clarifying in nature and have been made at the request of the Commission's staff.

The Company's stipulation & agreement approved by the Commission on December 19, 1996 provides for 85% benefit to ratepayers for capacity release and sales for resale activities for the first \$3 million in net revenue per year of the settlement term. Once the \$3 million cap is reached 60% of the benefit flows to ratepayers. Rule 17.16 of the Company's pilot program as filed on October 16, 1998 reflects 100% of the benefits of capacity release to flow to the benefit of ratepayers up to the lesser of the non capacity non-assignment occasioned by the pilot or 10%. Rule 17.16 of the pilot provides for sharing consistent with the Company's rate case settlement for any capacity release revenues beyond those occasioned by the pilot. However, Page 11 of the Commission's November 3, 1998 "Policy Statement Concerning the Future of the Natural Gas Industry in New York State and Order Terminating Capacity Assignment" indicates that effective April 1, 1999 the sharing of released capacity revenues for the capacity no longer assigned to migrating customers would be eliminated. The Company's filing herein proposes that the sharing allowed in Rule 17.16 will continue to be in effect through October 31, 1999, the termination date for Niagara Mohawk Power Corporation's current rate agreement in accordance with the Commission's Order in Case 98-G-1590.

The Company also requests continuation of capacity release of CNG capacity. The Company's October 16, 1998 filing as modified herein reflects the continuation of assignment of capacity on CNG. The Commission's November 3, 1998 Policy Statement, indicates on Page 10 that LDCs may no longer require

capacity assignment or inclusion of capacity costs in transportation rates beyond April 1, 1999 to customers migrating to marketers except where specific operational and reliability requirements warrant. The Company's filing herein proposes the continuation of assignment of CNG capacity through October 31, 1999 in accordance with the Commission's Order in Case 98-G-1590. The Company proposes a continuation of the assignment of CNG capacity through October 31, 1999 in order to mitigate bill impacts to other customers, ensure that gas will be delivered to customers on a primary, firm basis and that the CNG capacity will be reserved for our customers and not sold off-system.

In addition, the Commission's November 4, 1998 order provides for modifications to the Company's calculation of stranded costs. The Company's original estimates provided for the estimate of capacity costs based on the levels currently included in base rates as approved by the Commission in Case 95-G-1095 rather than the current cost of upstream capacity costs. The Commission's order requires the stranded cost surcharge to be recomputed in order to compute the stranded cost at levels included in base rates for new customers only. The Commission's November 4, 1998 order requires the stranded costs for existing customers to be computed at existing upstream capacity costs rather than what has been collected in base rates. The Company's December 1, 1998 CCAC and its December 1, 1998 Transportation Rate Adjustment will include the addition of the Upstream Capacity Cost Surcharge set forth on the work paper included with this filing. The surcharge applicable to transportation customers will be included on the December 1, 1998 statement but deferred for recovery until April 1, 1999.

Please advise either myself or Robert E. Shanning of any actions taken on this filing. I can be reached at 315-428-5777 and Robert can be reached at 315-460-4024.

Sincerely,

Marcia G. Collier  
Manager Revenue & Cost

Evaluation

RAT.60-G-129