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April 5, 2007

Honorable Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223

Re: New York State Electric & Gas Corporation's 2008 Supply Service

Dear Secretary Brilling:

In the December 15, 2006 Order on Rehearing in Case 05-E-1222,¹ the New York State Public Service Commission ("Commission") directed New York State Electric & Gas Corporation ("NYSEG" or "Company") to indicate on or before September 1, 2007 whether NYSEG intends to offer fixed price service in 2008.

NYSEG customers and various consumer groups have made it clear that the current supply choices that NYSEG provides are not the services they want. Customers continue to want a simplified supply program and a fixed price. During the enrollment period for 2007, only 28% of eligible customers affirmatively chose their supplier. In other words, 72% or approximately 608,000 customers did not make an affirmative supply choice. These non-choosing customers were then placed on the Default Service Option or the Variable Price Option as required by the Commission.

NYSEG commissioned a survey of these defaulted customers and found that despite significant success in informing customers about their supply choices, approximately 60% of residential and small business customers who defaulted, either intentionally or unintentionally, thought they were defaulting to a fixed price or did not know the details of their default service. When customers were told that they had been automatically placed in a variable price supply option, more than half of the respondents indicated that a variable priced supply was not their preferred choice. Furthermore, 80% of customers surveyed were aware that they defaulted, and more than half either expected that they defaulted to a fixed price option or were unsure of the default option. A fixed price preference was consistently prevalent across all demographic categories (e.g., age, income).

¹ Case 05-E-1222 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service, Order on Rehearing (Dec. 15, 2006).

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Placing customers on a service that they neither want nor understand raises concerns about customer dissatisfaction in general and NYSEG service in particular, especially considering that most of the customers surveyed thought they had defaulted to a fixed price option. The design of the current program, specifically the variable price default, confused customers. The majority of the customers who consciously defaulted thought their price would be fixed and not subject to monthly fluctuations. These results strongly suggest that changes to the current program are warranted to provide customers the price stability they prefer and to minimize customer confusion through a simplified supply program. NYSEG therefore seeks to alter fundamentally its supply service beginning January 1, 2008.

The specific details of NYSEG's proposal follow:

- Simplified Supply Program
 - NYSEG will offer customers a single fixed supply service.
 - Residential and non-residential customers taking service under SC1, SC2, SC3, SC5, SC6, SC8, SC9, SC12 and street lighting, as well as customers taking service under SC7-1, SC7-2, SC7-3, SC7-4 and SC11 with demands below 500 kW, who do not choose an ESCO will receive fixed price supply service from NYSEG. The rate would be fixed throughout the year.
 - Customers with demands equal to or greater than 500 kW taking service under SC7-1, SC7-2, SC7-3, SC7-4 or SC11 who do not chose an ESCO will receive supply service from NYSEG pursuant to the Company's current hourly pricing tariff.
 - The price will be reset each year on November 1st for the following January.
 - Supply prices will be based on recent, competitive wholesale solicitations and a Market Price Index.
- Preservation and Enhancement of Customer Choice
 - NYSEG will eliminate the enrollment period in which customers select among competing utility and energy service companies ("ESCOs").
 - Customers may switch from NYSEG service to an ESCO at any time without penalty and vice versa absent ESCO contract restrictions. The Company will assume all switching risk.
 - All customers in a service classification will be charged the same fixed non-bypassable charge ("NBC"), thereby making it easier for customers to compare NYSEG's supply rate to ESCO offers. The NBC will be fixed and trued-up annually for all customers. The NBC will be reset each year on November 1st for the following January.

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- Customer Guarantee and Sharing
 - All customers will be guaranteed a \$20 million (pre-tax) credit to the NBC, which would be retained by customers even if the Company's pre-tax margin from offering fixed rate service is below that level.
 - Any profits in excess of the \$20 million (pre-tax) credit will be shared 50/50 between customers and the Company.
 - The customers' share will be reflected as a credit in the next year's NBC.

As described in the attached testimony, the proposed changes to NYSEG's supply program will greatly benefit customers and provide a financial opportunity to NYSEG for providing a fixed price service that does not restrict customers from switching suppliers.

In order to implement the proposed supply service as of January 1, 2008, NYSEG seeks Commission approval of the program by September 1, 2007. NYSEG is therefore filing its proposal at this time to afford the Commission adequate time to review and act on NYSEG's proposal prior to that date.

NYSEG will be contacting New York State Department of Public Service Staff and interested parties in the near future to discuss its proposal and to answer any questions.

To the extent that customer bill inserts and newspaper publication requirements apply to this filing, NYSEG respectfully requests waiver of such requirements at this time.

In addition to testimony, revised tariff pages and a draft State Administrative Procedures Act notice are attached hereto. Appendix A sets forth a list of the revised tariff pages. The tariff pages are being filed contemporaneously with this filing via the Commission's electronic tariff filing process.

If you have any questions regarding this filing, please contact me.

Respectfully submitted,

/s/

Noelle M. Kinsch

Enclosures

cc: Active Party Service List in Case 05-E-1222
Honorable Patricia L. Acampora
Honorable Cheryl A. Buley
Honorable Robert E. Curry, Jr.
Honorable Maureen F. Harris

New York State Electric & Gas Corporation

List of Proposed Tariff Leaves filed April 5, 2007

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