

March 29, 2007

Honorable Jaclyn A. Brillling
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 Secretary Brillling:

The enclosed filing, issued by Rochester Gas and Electric Corporation ("RG&E") and New York State Electric & Gas Corporation ("NYSEG") ("the Companies"), is being submitted 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 2003 Order"). The April 2003 Order required utilities to gather data on distributed generation ("DG") customers and report semi-annually on that information. The Commission further required that, three years and ninety days after the initial DG tariffs were filed, the utilities provide an analytical assessment of the data and file replacement DG tariffs at that same time. The assessment and tariffs are due April 1, 2007. As explained in more detail below, the Companies are filing revised rates for RG&E but will maintain the current rates for NYSEG.

Assessment of RG&E Current Rates and Technical Data

The enclosed leaves, issued by Rochester Gas and Electric Corporation are transmitted for filing in compliance with the requirements of the New York State Public Service Commission ("PSC" or "Commission") and Appendix 7-H (electronic tariff filing system) to the Commission's Codes, Rules and Regulations (16 NYCRR Appendix 7-H).

Second Revised	Leaf No. 134	to PSC No. 16 – Gas
Third Revised	Leaf No. 134.1	to PSC No. 16 – Gas
Third Revised	Leaf No. 135	to PSC No. 16 – Gas
First Revised	Leaf No. 145	to PSC No. 16 – Gas
First Revised	Leaf No. 146	to PSC No. 16 – Gas
First Revised	Leaf No. 147	to PSC No. 16 – Gas

Effective: July 1, 2007

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The final DG rates approved for RG&E per Order issued December 3, 2003 ("December 2003 Order"), Service Classification No. 6 – Non Residential Distributed Generation Firm Gas Sales Service and Service Classification No. 7 – Firm Gas Transportation Service for Distributed Generation Facilities less than 50 MW, were developed using the then effective rates from Service Classification Nos. 1, 3 and 5. Those rates were revised on May 28, 2004. The DG rates filed today have been updated solely to reflect the May 28, 2004 rates. The methodology used to develop the DG rates is the same as originally filed. The revised DG rates reflect a shift to higher minimum charges and lower volumetric rates consistent with the changes approved on May 28, 2004. Workpapers showing the derivation of the DG rates are included herein as Attachment A.

Also enclosed as Attachment B is a summary of the technical data filed every six months with the Office of Gas and Water from January 1, 2004 through January 1, 2007 for RG&E. Gas DG customers are not required to take service under the DG service classifications. In fact, none of the customers included in the technical reports are taking service pursuant to the DG service classifications.¹ At the request of the Department of Public Service Staff ("Staff"), utility reports include all gas DG customers, not just the customers that would qualify for the DG rates. Additionally, since the customers are not required to separately meter DG gas usage, all the reported data is estimated based on the equipment at the customer's site and expected run time. Additionally, a few minor corrections in the data have been incorporated into Attachment B. Of the customers included in the reports, approximately three have a load factor equal to or greater than the fifty percent load factor required to qualify for the DG rates.

A load factor for each technology was calculated for the three most recent twelve month periods ending September 30, 2006. The average load factor for all the periods and technologies is forty-eight percent, slightly below the fifty percent load factor required for customers to qualify for the DG rates and significantly below the seventy percent load factor used to design the rates. Based on load factor, the majority of the customers included in the technical reports would not qualify for the DG rates.

Assessment of NYSEG Current Rates and Technical Data

The final DG rates approved for NYSEG, Service Classification No. 10 - Non Residential Distributed Generation Firm Gas Sales Service and Service Classification No. 16 - Non Residential Distributed Generation Firm Transportation Service, were based on the final year delivery rates of a five year phase in plan approved in Case No. 01-G-1668, issued and effective September 23, 2004. Those rates are to become effective October 1, 2008. Therefore, NYSEG proposes no change to the currently effective DG rates at this time. Rather, the Company proposes that any changes be considered in the context of the next Company rate case.

A summary of the NYSEG technical data filed with the Office of Gas and Water from January 1, 2004 through January 1, 2007 is also included as Attachment C. Consistent with

¹ Since the filing of the January 1, 2007 DG technical report for RG&E, one customer has commenced service on DG gas transportation rate.

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RG&E, none of the NYSEG customers included in the technical reports are taking service from the DG service classifications and the majority of customers would not qualify for the DG rates based on the fifty percent load factor requirement. The same load factor calculation that was performed for RG&E and described above was performed for the NYSEG data. The average load factor for all the periods and technologies is approximately sixty-two percent, compared to the fifty percent load factor required for customers to qualify for the DG rates. The average load factor for NYSEG DG customers is slightly higher due to one customer with an eighty-six percent load factor.

Conclusions and Recommendation

Per the April 2003 Order, the Commission's goal was to create a service classification for "high load factor base load distributed generation."² Given that goal, the Companies do not recommend any change to the current load factor requirement of fifty percent or to the rate design methodology, which is based on a 70% load factor DG facility. Additional time and experience are needed to support revisions to the existing eligibility criteria and rate design methodology. In addition to load factor data, the DG technical reports requested feedback on the effects of DG on system reliability and interconnection issues. The Companies have not experienced any positive or negative effects on system reliability nor has either company experienced any interconnection issues. This further supports the Companies decision to defer any changes to the current DG rates for NYSEG to its next rate case and limit the revisions to RG&E's DG rates for consistency with previously approved rates.

The analysis of actual, rather than estimated, data is needed to support revisions to the existing rate design. As stated previously, RG&E now has one customer taking service on its DG rates and therefore will have data that is separately metered to review for future rate changes.

Newspaper Publication and SAPA

RG&E requests waiver of publication of these proposed tariff revisions in accordance with Section 66(12)(b) of the Public Service Law and 16 NYCRR Section 720-8.1, because RG&E will directly notify current DG customers of the proposed changes to DG rates.

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

² Order Providing for Distributed Generation Gas Service Classifications, issued and effective April 24, 2003, Case No. 02-M-0515 page 2.

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Company Contact

Please direct any questions pertaining to this filing to Carolyn Sweeney at (585) 771-4809 or me at (585) 771-4692.

Very truly yours,

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Manager – Regulatory and Tariffs