

November 30, 2006

VIA ELECTRONIC FILING

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

Case No. 03-E-0641 – Proceeding on Motion of the Commission Regarding
Expedited Implementation of Mandatory Hourly Pricing for
Commodity Service

Dear Secretary Brilling:

New York State Electric & Gas Corporation ("NYSEG" or "the Company") hereby transmits the enclosed tariff leaves for filing in compliance with the *Order Denying Petitions for Rehearing and Clarification in Part and Adopting Mandatory Hourly Pricing Requirements*, issued April 24, 2006 in the above-referenced proceeding (the "April Order") by the New York State Public Service Commission ("PSC" or "Commission"). The enclosed leaves are being filed pursuant to Appendix 7-H (electronic tariff filing system) to the Commission's Codes, Rules and Regulations (16 NYCRR Appendix 7-H). The leaves are proposed to become effective on January 1, 2007. A listing of the proposed revised tariff leaves is enclosed as Attachment A.

Purpose of the Filing

In the April Order the Commission directed NYSEG to file tariff amendments to implement mandatory hourly pricing for its current mandatory time-of-use customers with demands at or above 1,000 KW, to become effective on a temporary basis, on not less than thirty days' notice, on January 1, 2007. The enclosed tariff amendments are in accordance with the draft tariff provisions previously filed in this proceeding, modified to reflect the requirements set forth in the April Order. Specifically, the enclosed leaves reflect the addition of an hourly metering charge and a description of the electric supply pricing calculation. In addition to these modifications NYSEG changed the presentation of the hourly pricing service from a separate service classification as proposed in its draft filing to Special Provision (i) in Service Classification No. 7.

In its draft tariff filing NYSEG had proposed to exempt customers receiving any economic development incentives and customers that receive electricity supply from NYPA as of the effective date of the tariffs from mandatory hourly pricing. The

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proposed exemptions would have applied to customers that receive incentives on their total load as well as customers that receive incentives on only a portion of their load. In the April Order the Commission determined that these customers will be allowed to voluntarily participate in hourly pricing and directed NYSEG to provide an analysis assessing the impact of hourly pricing on customers with economic incentives. The Company provided that assessment and, based on discussions with PSC Staff, NYSEG proposes to allow customers with economic incentives in effect prior to January 1, 2007, who also have demands of 1,000 kilowatts or more, to choose hourly pricing or any of the other electric supply pricing options that were available to such customers prior to January 1, 2007. Similarly, NYSEG proposes to allow customers with NYPA allocations in effect prior to January 1, 2007, who also have demands of 1,000 kilowatts or more, to choose hourly pricing or any of the other electric supply pricing options that were available to such customers prior to January 1, 2007. Customers that receive economic incentives or NYPA allocations after January 1, 2007, that also meet all other mandatory hourly pricing eligibility criteria, will be subject to hourly pricing.

NYSEG's draft tariff filing also proposed that customers participating in the Company's Farm Waste Electric Generating System and Wind Electric Generating System programs be exempt from the mandatory hourly pricing option. In conformance with the directive in the April Order, NYSEG eliminated this exemption in the enclosed tariffs.

In its draft tariff filing NYSEG had proposed to eliminate the voluntary hourly pricing option for its Service Classifications Nos. 2 and 3. The Commission directed NYSEG to continue offering hourly pricing on a voluntary basis to these service classifications and this filing reflects that directive. NYSEG is in the process of making customers taking service under Service Classifications Nos. 2 and 3 aware of the voluntary hourly pricing option as the Commission had directed.

Summary

On November 21, 2005 NYSEG submitted draft tariff leaves in compliance with the Commission' *Order Instituting Further Proceedings and Requiring the Filing of Draft Tariffs*, issued and effective September 23, 2005, (the "September Order"), in the above-referenced proceeding.

Consistent with the draft tariffs, customers with demands of at least 1,000 kilowatts for two of the prior twelve months will qualify for the Special Provision. The customers that qualify for mandatory hourly pricing will have two electric supply pricing options available to them: 1) the ESCO Pricing Option ("EPO") or 2) the NYSEG Hourly Day-Ahead Market Pricing Option ("Hourly Pricing").

Customers will begin to be billed based on their hourly use effective with their first complete billing cycle on or after January 1, 2007.

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Hourly Pricing customers are required to have interval meters with telecommunication access. In accordance with the April Order, NYSEG will charge Hourly Pricing customers that have not previously paid for their own meter, an incremental hourly metering charge. It is the customer's responsibility to install and maintain dedicated telecommunications access in compliance with NYSEG's specifications for each meter. Customers with demands of 1,000 kilowatts or greater that have a portion of their load served under an economic incentive or by NYPA, and choose to voluntarily participate in Hourly Pricing, will also be required to have interval meters with telecommunication access and be subject to the incremental hourly metering charge. Customers that have not provided the required telecommunication access will be charged for each manual meter read that NYSEG is required to make. NYSEG's standard meter reading process does not accommodate reading interval meters. A meter technician will have to be deployed with a lap-top computer to read the interval meter for billing purposes. This is an incremental cost to NYSEG and will be assessed to the customer.

In the April Order the Commission stated:

“The ESCOs of customers that would otherwise take hourly pricing service from the utility, however, will be assigned each customer's hourly load and will have the obligation to purchase electricity from the wholesale market that matches that hourly load pattern. As such, ESCOs will be assigned the appropriate hourly costs.¹”

In accordance with this requirement NYSEG will settle with energy services companies (“ESCOs”) on a monthly basis using actual hourly loads for customers that have otherwise qualified for mandatory hourly pricing. Customers of ESCOs that are not required to participate in hourly pricing will continue to be settled on a service class profile.

Customer Outreach & Education and Implementation

In June 2006, the Company sent letters to customers announcing mandatory hourly metering and notifying them that an interval meter would be installed on their premises. In July 2006, Rochester Gas & Electric Corporation and NYSEG hosted five customer meetings across the state and invited eligible mandatory hourly metering customers, ESCOs, representatives from the New York Independent System Operator, the New York State Energy Research & Development and the Public Service Commission staff to participate in the customer meetings. NYSEG's Energy Profiler On-line (“EPO”) was offered to customers on a free-trial basis to enable customers to become familiar with their hourly use. In August 2006, NYSEG sent letters to eligible customers reminding

¹ Case 03-E-0641, Proceeding on Motion of the Commission Regarding Expedited Implementation of Mandatory Hourly Pricing for Commodity Service, *Order Denying Petitions for Rehearing and Clarification in Part and Adopting Mandatory Hourly Pricing Requirements* (issued and effective April 24, 2006), at page 12.

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them of the availability of EPO on a free basis until January 2007. Additional letters and individual contact was also made to mandatory hourly metering customers concerning their options under NYSEG's Voice Your Choice ("VYC") program.

In July of 2006, NYSEG installed interval meters for mandatory hourly pricing-eligible customers who did not already have an interval meter. All customers with demands of more than 1,000 kilowatts, regardless of their supply option choice or the fact that they may have an economic incentive, NYPA allocation, and individual contracts were included in this group and all now have interval meters. NYSEG is currently in the process of modifying its billing system and NYISO settlement process to accommodate mandatory hourly pricing by January 1, 2007.

Metering Charge and Implementation Costs

In its April Order the Commission addressed the recovery of incremental costs associated with metering, as follows:

"Accordingly, we direct NYSEG and RG&E to follow National Grid's approach, and recover incremental metering costs from the affected customers over time in conformance with normal amortization periods"²

In compliance with this directive, NYSEG has established a new hourly metering charge. This charge is applicable to customers who are eligible for hourly pricing and are either participating in the NYSEG Hourly Day-Ahead Market Pricing Option or have chosen the EPO supply option and are settled on an hourly basis.

The meter charge includes the incremental cost of an interval meter as compared to the meters used for time-of-use service. NYSEG also included the incremental cost to install the meter in the Hourly Metering Charge. The incremental installation costs included in the meter charge represent the difference between the installation of a meter used for time-of-use service and the installation of an interval meter. The installation of the interval meters was completed with current NYSEG employees; the labor used to install the hourly pricing meters was obtained by rearranging previously assigned meter work. Therefore, in addition to charging the hourly pricing customer for the labor costs associated with the installation, NYSEG proposes to defer the equivalent of these costs that are already considered to be included in current rates for the benefit of all customers.

NYSEG has incurred costs other than metering related to the implementation of hourly pricing. The Commission addressed the recovery of non-metering costs related to the implementation of mandatory hourly pricing, as follows:

² Ibid, at page 31.

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“The utilities are authorized to recover the remaining implementation and outreach and education costs that are unrelated to meter installation and activation from all ratepayers through delivery rates.”³

To date, NYSEG has incurred \$7,700 outreach and education costs to implement mandatory hourly pricing. The Company will net these incremental implementation costs and any additional incremental costs against the hourly pricing cost deferral amounts described above.

Phase-in Plan

The Commission directed NYSEG to file a schedule for converting its remaining mandatory time-of-use customers sized below 1,000 KW to hourly pricing contemporaneously with these tariff revisions. Additionally, the Commission ordered the following:

“Finally, within two years, Staff should submit a status report that describes the utilities' experience with implementing hourly pricing, including issues the utility has faced and any ESCO or customer complaints. The report should also identify lessons learned or suggested improvement opportunities as well as describe the extent to which further standardization or expansion of the hourly pricing program is possible or practical.”⁴

With respect to the schedule that utilities are to propose, NYSEG recommends that the Commission-directed Two Year Status Report should first be completed. If the results of that evaluation demonstrate that the hourly pricing costs associated with implementation and on-going support outweigh the benefits of such hourly pricing, the Commission should consider whether continued phase-in is warranted. If the evaluation demonstrates supporting additional customer phase-in at lower demand thresholds, NYSEG proposes the following phase-in schedule:

Phase-in Year	Effective Date	Demand Threshold	Approximate Number of Customers
1	January 1, 2007	1,000 KW	214
2	January 1, 2008	750 KW	110
3	January 1, 2009	500 KW	225

The actual phase-in dates will be dependent upon the completion of the above-referenced evaluation report. Sufficient time will be needed to accommodate meter installation schedules and to conduct outreach and education for the new mandatory hourly metering

³ Ibid, at page 31.

⁴ Ibid, at page 39.

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customers. NYSEG's phase-in proposal is also dependent on the recovery of all incremental costs associated with the additional customers.

Company Contacts

Please direct any questions pertaining to this filing to Sue Morien at (585) 771-4741 or to Lori Cole at (607) 762-8710.

Very truly yours,

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Rates & Regulatory Economics

Enclosures

**New York State Electric & Gas Corporation
Tariff Filing for Case 03-E-0641**

List of Proposed Tariff Leaves filed November 30, 2006

PSC No. 120 – Electricity, Schedule for Electric Service

Leaf No. 117.14, Revision 1
Leaf No. 150, Revision 2
Leaf No. 151, Revision 2
Leaf No. 152, Revision 1
Leaf No. 178, Revision 2
Leaf No. 179, Revision 2
Leaf No. 180, Revision 1
Leaf No. 253, Revision 2
Leaf No. 254, Revision 2
Leaf No. 254.1, Revision 0
Leaf No. 254.2, Revision 0
Leaf No. 254.3, Revision 0
Leaf No. 254.4, Revision 0
Leaf No. 293, Revision 13