

December 21, 2006

VIA ELECTRONIC FILING

Honorable Jaclyn A. Brillling, Secretary  
New York State Public Service Commission  
Three Empire State Plaza  
Albany, NY 12223-1350

Re: Case No. 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: Standby Service Compliance Tariff Filing – to become effective on January 1, 2007

Dear Secretary Brillling:

The enclosed tariff leaves, issued by New York State Electric & Gas Corporation (“NYSEG” or the “Company”), are filed in compliance with the New York State Public Service Commission’s (“Commission’s”) Order Adopting Recommended Decision with Modifications, issued and effective August 23, 2006, in Case 05-E-1222 (the “August 2006 Order”). These tariff leaves are transmitted for filing as identified herein and in accordance with the requirements of 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.

PSC No. 120 – Electricity, Schedule for Electric Service

Leaf No. 287, Revision 13  
Leaf No. 287.1, Revision 0  
Leaf No. 288, Revision 13  
Leaf No. 288.1, Revision 6  
Leaf No. 288.2, Revision 0  
Leaf No. 289, Revision 21  
Leaf No. 293, Revision 14

Purpose of the Filing

The purpose of this filing, in further compliance with the August 2006 Order, is to establish revised Standby Service delivery rates under Service Classification No. 11 (“SC-11”). The filing unbundles electricity delivery prices in a manner compatible with the otherwise applicable service classifications (“OASC”) as filed on November 9, 2006 in this proceeding. Additionally, the rates included in the filing are designed, as in the October 31, 2003 filing, based on the principles outlined in Opinion No. 01-4 as reflected in the subsequent Commission

Honorable Jaclyn A. Brillling, Secretary  
Page 2  
December 21, 2006

order dated July 30, 2003 that included a Joint Proposal<sup>1</sup>. As such, the rates are designed to recover each service classification revenue requirement based on the OASC rates pending as filed with the Commission on November 9, 2006 in compliance with the August 2006 Order and based on an assumption that all customers in each service classification are taking Standby Service.

The August 2006 Order stated that “[b]efore NYSEG formally submits its stand-by rates compliance filing, it should share the filing with Multiple Intervenors, Staff and other interested parties.” As also ordered, NYSEG convened a meeting on December 7, 2006, to discuss the filing and the parties respective positions. As further required by the August 2006 Order, the Company states below whether the terms of this filing regarding the matters referenced in the August 2006 Order and in the Recommended Decision are supported or opposed by the parties who attended the meeting.

#### Rate Design Process

As in its October 31, 2003 Standby Service filing, the Company developed the Standby Service rates by examining the OASC designations, using a top-down design based on each OASC delivery revenue requirement resulting from the rates filed to become effective on January 1, 2007. As with the current SC-11 rates, for rate design purposes, the Industrial/High Load Factor (“I/HLF”) and non- I/HLF determinants and revenue requirements were combined. The Standby Service rates, by OASC, are applicable to both I/HLF and non-I/HLF customers.

Consistent with the guidelines in Opinion No. 01-4, the proposed Customer Charges in this filing are based on an Embedded Cost of Service Study (the “Study”) litigated and ultimately used in Case 05-E-1222 to develop the unbundled components of the Customer Charge. The Study was also utilized to update the monthly credit paid to demand-billed customers who have fully paid for their meter and instrument transformation costs.

After determining the revenues to be collected through the SC-11 Customer Charge and the OASC Reactive Charge in each OASC subclass of SC-11, the remaining OASC revenue requirement was allocated to the “shared” and “local” portions of the Company’s delivery system on the basis of established allocation factors. The portion of the remaining revenue requirement deemed “local” is collected through the Contract Demand Charge and the “shared” portion is collected through the Daily As-Used Demand Charge.

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<sup>1</sup> Case No. 99-E-1470, Opinion and Order Approving Guidelines For the Design of Standby Service Rates, issued and effective October 26, 2001 (“Opinion No. 01-4”), and Case No. 02-E-0779, Order Establishing Electric Standby Rates (New York State Electric & Gas Corporation), issued July 30, 2003.

Honorable Jaclyn A. Brillong, Secretary  
Page 3  
December 21, 2006

As recognized in the Recommended Decision issued June 9, 2006 in this proceeding, the parties agreed to continue the collection of the Transition Charge amounts provided for in the OASC. For a demand-billed SC-11 customer with less than 50 kW of Contract Demand, without an Interval Meter, and therefore billed at the OASC, the Transition Charge component is collected as a separate monthly charge, specified as the Standby Transition Charge. For any other SC-11 customer, the Transition Charge amount, from the respective OASC, is proportionately allocated among, and collected from, the Customer Charge, the Daily As-Used Demand Charge and the Contract Demand Charge. The Standby Transition Charge amount, allocated to the above-stated Charge components, will be revised to become effective April 1, 2007 and, if applicable, January 1 and April 1, 2008.

SC-11 customers taking electricity supply service from NYSEG (except customers taking Standby Service under Special Provision (d)) will be subject to the Merchant Function Charge, consistent with the customer's OASC.

#### Assessment of Attending Parties' Support

In accordance with the August 2006 Order, and following notice to all parties, the Company held a meeting at the Commission's offices in Albany, N.Y on December 7, 2006 with Staff, Multiple Intervenors, Nucor and IPPNY, with teleconferencing as an available option. As required under the August 2006 Order, the Company presented its review and assessment of the notification period required for changing SC-11 rates as a result of any subsequent annual January 1<sup>st</sup> and April 1<sup>st</sup> changes to the Transition Charge for determining the Fixed Price Option rates for the OASC. It also presented a review and assessment of the design of the Daily As-Used Demand Charge.

##### A. Results of the Notification discussion from the conference:

To resolve the concern raised by Multiple Intervenors, as specified in the August 2006 Order, relative to the current three (3) days' notification of changes to the SC-11 Transition Charges based on changes to the Fixed NBC, the Company is reflecting the following in the tariff leaves in this compliance filing:

1. Five (5) days after NYSEG has provided the Fixed NBC data to Staff for its review relative to FPO service under the OASC, the Company will e-mail preliminary notification of the revised SC-11 Transition Charges to each applicable SC-11 customer, thus providing ten (10) days' preliminary notice.
2. The Fixed NBC and resulting Transition Charges will be identified as preliminary, subject to change, and proprietary - to be shared only with the customer's representatives and employees that have a need to know. The customer's opening of the e-mail will document its agreement with this paragraph 2.

Honorable Jaclyn A. Brilling, Secretary  
Page 4  
December 21, 2006

3. If no changes result from the Staff review of the Fixed NBC, the appropriate SC-11 tariff leaves showing what had been the preliminary Transition Charges will be filed on three (3) days' notice with the Commission.

4. If changes to the Fixed NBC result from the Staff review of the Fixed NBC, the Company will file SC-11 tariff leaves with Transition Charges reflecting such Staff changes on three (3) days' notice with the Commission.

5. The above resolution of the notification issue will not establish a precedent.

NYSEG and Multiple Intervenors agree that the above represents a reasonable resolution of this notification issue. The other active participants have indicated to NYSEG their position as follows:

- Staff – No objections.
- IPPNY – Takes no position.
- Nucor – Does not oppose.

B. Results of the As-Used discussion from the conference:

To resolve the concern raised by Multiple Intervenors, as specified in the August 2006 Order, relative to the level of the Daily As-Used Demand Charge, the Company will phase-in the Customer Charge, which will mitigate the increase to the Daily As-Used Demand Charge, as well as the Contract Demand Charge. This will be reflected in the tariff leaves in this compliance filing as follows:

1. Because the level of the Daily As-Used Demand Charges would be exacerbated as a result of the ECOS-based reduction of the SC-11 Customer Charges, the filing reflects fifty percent (50 %) of the ECOS-based reduction in the Customer Charges for demand-billed customers, whose OASC is SC-2, SC-3 or SC-7, to become effective January 1, 2007.

2. The leaves further show the Opinion No. 01-4, fully compliant Customer Charges that, absent any subsequent litigated ECOS study with greater Customer Charge cost indicators, will become effective January 1, 2008.

3. The above resolution of the As-Used Demand Charge issue shall not establish a precedent.

NYSEG and Multiple Intervenors agree that the above represents a reasonable resolution of this Daily As-Used Demand Charge issue. The other active participants have indicated to

Honorable Jaclyn A. Brillling, Secretary  
Page 5  
December 21, 2006

NYSEG their position as follows:

- Staff – No objections.
- IPPNY – Takes no position.
- Nucor – Does not oppose.

#### Newspaper Publication

In accordance with Ordering Clause 3 of the August 2006 Order, the requirement of Section 66(12) (b) of the Public Service Law that newspaper publication be completed prior to the effective date of the proposed amendments is waived. In compliance with Ordering Clause 3, NYSEG will file proof that a notice to the public of its proposed delivery tariff, including Standby Service, changes has been published once per week for four successive weeks in newspapers having general circulation in NYSEG's electric service areas. Such proof will be filed by no later than six weeks following the tariff amendments' effective date of January 1, 2007.

#### Company Contacts

If there are any questions concerning this filing, please call Patricia Clune at (607) 762-7512 or me at (607) 762-7341.

Very truly yours,

Christine M. Stratakos  
Manager – Pricing & Analysis  
Rates & Regulatory Economics

Enclosures

cc: All Active Parties in Cases 05-E-1222 and 02-E-0779 (Via Electronic Mail)