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September 30, 2005

VIA HAND DELIVERY

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

Re: Case 05-E- – New York State Electric & Gas Corporation –
Electric Rates

Dear Secretary Brillling:

In compliance with the provisions of the Public Service Law and the orders, rules and regulations of the Public Service Commission (the "Commission"), including the Commission's November 23, 1977 Statement of Policy on Test Periods in Major Rate Proceedings, New York State Electric & Gas Corporation ("NYSEG" or the "Company") hereby submits for filing¹ revisions to its Schedules for Electric Service, P.S.C. No. 120 - Electricity and P.S.C. No. 121 - Electricity. NYSEG's proposal is designed to both extend the existing Electric Rate Plan (the "Current Rate Plan") for six years beginning January 1, 2007, and to decrease overall electric delivery rates by \$71.2 million annually, or 9.5%. The Company is proposing to begin this rate decrease on September 1, 2006 by returning to customers \$23.7 million from its Asset Sale Gain Account ("ASGA") through December 31, 2006.

NYSEG is transmitting for filing the revised leaves, effective October 30, 2005, as listed on Attachment A. The tariff leaves are issued as of September 30, 2005, with an effective date of October 30, 2005. The Company's expectation is that the Commission will issue a rate order within the customary statutory 11-month suspension period to authorize rates and tariffs to become effective September 1, 2006.

NYSEG'S FILING

NYSEG is proposing to reduce its rates associated with delivery service and the Non-Bypassable Charge ("NBC"), collectively referred to as "overall delivery rates," and to extend

¹ Pursuant to 16 NYCRR Appendix 7-H (Electronic Tariff Filing System), the Company is also making the requisite electronic filing.

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the Current Rate Plan for six years (the "Rate Plan Extension"). The Current Rate Plan has proved to be a successful regulatory platform in delivering unprecedented value for NYSEG's customers, while providing the Company with financial stability. NYSEG's proposal will allow the Company's customers to continue to receive the benefits of the Voice Your Choice program ("VYC") initiated under the Current Rate Plan. The Company's proposal will provide customers with reduced overall delivery rates at a time of extreme volatility in the energy markets and when many utilities are proposing rate increases. The Rate Plan Extension will build upon the benefits achieved for the Company's customers under the Current Rate Plan and promote the Commission's policy objectives for customer choice, unbundling and competition. The Rate Plan Extension is an ideal platform to provide customers with choice and price certainty while providing the Company with appropriate incentives and revenues to invest in critical infrastructure that will maintain customer service and ensure reliability.

NYSEG is submitting its filing at this time to accommodate the outreach and education, enrollment, and system changes necessary to continue the commodity options proposed in the Rate Plan Extension. In addition, for the period September 1, 2006 through December 31, 2006, NYSEG proposes to decrease customers' bills by returning to customers a portion of the ASGA balance through a surcredit. Effective January 1, 2007, the Company will reduce the NBC, which is referred to as the transition charge on customer bills, and increase delivery rates. The proposed increase in delivery rates will be more than offset by the decrease to the NBC, which is designed to maintain the overall delivery rate reduction implemented on September 1, 2006. The decrease in the NBC will be accomplished by accelerating the benefits resulting from the expiration of certain Non-Utility Generators ("NUGs") contracts and capping the amount of above-market NUG costs over the term of the Rate Plan Extension.

This proposal will provide a benefit to customers regardless of their commodity supplier. As a result of this Rate Plan Extension, the non-commodity portion of customers' bills will decrease by approximately 9.5% (individual customer classes' percent changes will vary) effective September 1, 2006. After being adjusted on January 1, 2007, delivery rates will be frozen for the six-year term of the Rate Plan Extension. The NUG-related costs included in the NBC will be capped at the same level, or reduced, until December 31, 2012. The impacts on individual customer classes may also depend on the renewal and/or reallocation of power purchased from the New York Power Authority ("NYPA"), which is outside the Company's control.

Also being filed with the tariff leaves are fifteen (15) copies of the prepared written testimony and exhibits comprising NYSEG's direct case in support of this rate filing. Pursuant to Section 4.5(d) of the Commission's Regulations, two (2) copies of this filing are being served simultaneously on the New York State Consumer Protection Board. The Company is sponsoring 12 pieces of testimony in support of its filing, as shown below:

- Rate Plan Panel – A panel of witnesses consisting of Joseph Syta, James Lahtinen, and Christine Stratakos;

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- Commodity Options – David Segal, a consultant with the NorthBridge Group;
- Revenue Requirements Panel – A panel of witnesses consisting of Joseph Syta and Ernest Walker III;
- Sales and Revenue Panel – A panel of witnesses consisting of Michael Purtell and Patricia Clune;
- Retirement and Employee Benefits Panel – A panel with Linda Stone and Marc Freedman, principals with Towers Perrin;
- Depreciation – Earl Robinson, a consultant with Associated Utilities Services;
- Capital Expenditures and Reliability Panel – A panel of witnesses consisting of Michael Conroy, Laura Conklin, David Weiler and Peter Wierzba;
- Merger Savings Policy – Dr. Kenneth Gordon, a consultant with National Economic Research Associates;
- Return on Equity – Robert Rosenberg, a principal of Edgewood Consulting, Inc.;
- Capital Structure – Susan Abbott, a principal of New Harbor Incorporated;
- Cost of Service Panel – A panel of witnesses consisting of Paul Normand, a consultant with Management Applications Consultants, Patricia Beaudoin and Carolyn Sweeney; and
- Delivery Rate Design Panel – A panel of witnesses consisting of Henry Host-Steen and Carl King.

PROCEDURAL MATTERS

Notice of this filing will be published in accordance with 16 NYCRR Section 720-8.1 and proof of publication will be submitted upon completion. In addition, the Company will issue appropriate bill inserts in accordance with 16 NYCRR Section 720-9.1. Also included with this filing is a proposed State Administrative Procedures Act ("SAPA") Notice.

Upon issuance of the Commission's decision prior to September 1, 2006, the Company will file the necessary compliance tariffs.

CONCLUSION

As discussed above, the testimony and exhibits submitted as part of this filing support approval of the Company's Rate Plan Extension because it produces just and reasonable rates,

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provides benefits to customers and energy services companies, provides NYSEG with the appropriate incentives and revenues to invest in critical infrastructure that will maintain customer service and ensure reliability, and furthers the Commission's policy objectives for customer choice, unbundling and competition.

Respectfully submitted,

Frank J. Miller

Scott J. Mueller
260 Franklin Street
Boston, MA 02110

Enclosure (15 copies)
cc: John Walters, Esq. (2 copies)

**New York State Electric & Gas Corporation
Tariff Filing for Electric Rate Plan Extension**

List of Proposed Tariff Leaves

PSC No. 120 – Electricity, Schedule for Electric Service

Leaf No. 22, Revision 1
Leaf No. 24, Revision 1
Leaf No. 25, Revision 1
Leaf No. 26, Revision 1
Leaf No. 28, Revision 2
Leaf No. 29, Revision 3
Leaf No. 30, Revision 2
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Leaf No. 31, Revision 2
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Leaf No. 35, Revision 2
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Leaf No. 38, Revision 3
Leaf No. 40, Revision 1
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Leaf No. 74, Revision 1
Leaf No. 111, Revision 1
Leaf No. 118, Revision 1
Leaf No. 119, Revision 3
Leaf No. 120, Revision 2
Leaf No. 121, Revision 7
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Leaf No. 124, Revision 7
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Leaf No. 130, Revision 2
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Leaf No. 136, Revision 2
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Leaf No. 144, Revision 2
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PSC No. 121 – Electricity, Schedule for Electric Service

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