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July 23, 2003

Honorable Jaclyn A. Brilling, Acting Secretary
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 Acting Secretary Brilling:

The enclosed leaves, issued by New York State Electric & Gas Corporation ("NYSEG" or the "Company") are transmitted for filing in compliance with the requirements of the New York State Public Service Commission ("PSC" or "Commission").

Fourth Revised	Leaf No. 3	to PSC No. 87 – Gas
Original	Leaf No. 51	to PSC No. 87 – Gas
Original	Leaf No. 52	to PSC No. 87 – Gas
Original	Leaf No. 53	to PSC No. 87 – Gas
Original	Leaf No. 54	to PSC No. 87 – Gas
Fifth Revised	Leaf No. 5	to PSC No. 88 – Gas
Second Revised	Leaf No. 112	to PSC No. 88 – Gas
Third Revised	Leaf No. 113	to PSC No. 88 – Gas
Original	Leaf No. 113.1	to PSC No. 88 – Gas
Second Revised	Leaf No. 114	to PSC No. 88 – Gas
Third Revised	Leaf No. 115	to PSC No. 88 – Gas
Sixth Revised	Leaf No. 90	to PSC No. 90 – Gas
Fourth Revised	Leaf No. 95	to PSC No. 90 – Gas
Fifth Revised	Leaf No. 99	to PSC No. 90 – Gas
Second Revised	Leaf No. 102	to PSC No. 90 – Gas
First Revised	Leaf No. 105	to PSC No. 90 – Gas

Effective: November 1, 2003.

Today's filing is 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 24 Order").

Background

In instituting Case 02-M-0515, the Commission solicited comments regarding the development of rates for gas service to distributed generators ("DG") and removing non-rate impediments to DG development that may exist in utility gas tariffs.

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The April 24 Order required gas utilities to file new firm delivery service rates for commercial and industrial customers who install baseload DG units. The April 24 Order further required gas utilities to collect DG-related data and file a report with the Director of the Office of Gas and Water every six months beginning January 1, 2004 and ending 90 days prior to filing new DG tariffs.

A technical conference was held on May 28, 2003 at the Commission's Albany offices. At the technical conference, Staff reviewed the April 24 Order, reviewed specific points on rate design and discussed recommendations on the format for data collection.

Overview

Today's filing proposes to add Service Classification No. 10 – Non-Residential Distributed Generation Firm Sales Service ("SC-10S") to PSC 87 Gas, and Service Classification No. 16 – Non-Residential Distributed Generation Firm Transportation Service ("SC-16T") to PSC 88 Gas. Within each service classification, the proposed tariffs differentiate between a DG customer operating a unit of less than 5 MW ("Small DG Customer") and a DG customer operating a unit equal to or greater than 5 MW but less than 50 MW ("Large DG Customer").

The DG Rates have been designed based on NYSEG's most recent embedded cost of service study filed in the Unbundling Track proceeding[1]. Because the embedded cost differences between rate areas are relatively small, NYSEG is proposing a uniform rate for all rate areas that is differentiated solely by the customer's designation as either a Small DG Customer or a Large DG Customer. Uniform rate treatment across rate areas will make DG tariffs less complex, thereby avoiding a potential implementation impediment for customers.

The rate for a Small DG Customer includes an administrative charge (<u>e.g.</u>, basic service charge) and a volumetric charge (<u>e.g.</u>, usage charge). The administrative charge was based on the embedded customer costs of the otherwise applicable rate schedule (SC-05T, SC-14T or SC-02S). The costs were reduced for one-half the embedded cost of a shared service and reflect the full embedded cost of metering equipment. Additional service costs not included in the rates are the customer's responsibility. Also, in order to provide meaningful reporting to the Director as required, daily metering equipment, including phone service, is the responsibility of the customer. The volumetric charge, which is intended to recover delivery system average capacity-related costs, was developed by dividing system costs by sales volumes adjusted for a 70% load factor based on design day demand.

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[1] Proceeding on Motion of the Commission Regarding Provider of Last Resort Responsibilities, the Role of Utilities in Competitive Energy Markets, and Fostering the Development of Retail Competitive Opportunities – Unbundling Track in Case 00-M-0504. The ECOS study was filed on March 15, 2002, and was revised and filed as an exhibit with written testimony on June 14, 2002. The ALJ issued a Recommended Decision on March 24, 2003. The parties in this proceeding are awaiting a PSC decision.

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For a Large DG Customer, the administrative charge (e.g., basic service charge) was based on the embedded customer costs of the otherwise applicable rate schedule (SC-01T). The costs were reduced for one-half the embedded cost of a shared service and reflect the full embedded cost of metering equipment. Additional service costs not included in the rates are the customer's responsibility. Also, in order to provide meaningful reporting to the Director as required, daily metering equipment, including phone service, is the responsibility of the customer. The demand charge applicable to Large DG units was set to recover delivery system capacity-related costs, based on design day demand. Volumetric charges are not applicable, since only fixed demand costs are to be recovered.

NYSEG considered the potential for including a seasonal differential in the proposed DG rates. However, NYSEG concluded that seasonal price differentiation was inappropriate because: 1) DG use is essentially process use, not impacted by seasonal variations; 2) costs are primarily the fixed annual costs required to make capacity available; and 3) seasonal billing data is not readily available.

Both Large and Small DG Customers will also be subject to the Transition Surcharge (TS), the Research and Development (R&D) Adjustment, the Weather Normalization Adjustment (WNA), all applicable taxes, and other charges applicable to a particular service classification (e.g., balancing and cash-out).

As required by the April 24 Order, NYSEG will allow customers to take their supply from NYSEG or from another supplier. Customers who choose bundled sales service will initially pay the same Gas Supply Charge ("GSC") and Merchant Function Charge ("MFC") as other similarly-sized bundled rate customers. After sufficient customer load data is gathered, NYSEG may propose a revision to its GSC to incorporate a Load Factor Adjustment for the DG customer class.

NYSEG clarifies that the 3-year ceiling on rates, as specified in the April 24 Order, applies only to customers taking the proposed DG rates. A customer selecting a non-DG service class for serving its distributed generation equipment (e.g., the anomalous pricing available to very large use customers taking service under SC-14) is neither entitled to have that rate frozen as part of the April 24 Order nor should the impact on such a customer be a factor in determining the Phase 2 rate design, which is part of NYSEG's Gas Rate Plan Joint Proposal as approved by the Commission in the Order Establishing Rates, issued and effective November 20, 2002 in Cases 01-G-1668 and 01-G-1683 (the "November 20 Order").

Other Issues

NYSEG will continue to offer negotiated rates allowed under existing tariffs, as provided in the April 24 Order.

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NYSEG will defer any net lost revenue as Category 2 Uncontrollable Costs, for future recovery, in accordance with NYSEG's Gas Rate Plan, as approved by the November 20 Order and as provided in the April 24 Order.

NYSEG will file replacement DG tariffs three years and 90 days after the initial DG tariffs become effective, as provided in the April 24 Order, subject to any subsequent orders.

Under separate cover, NYSEG is also filing today with the Commission the required attestation letter.

Service to Parties and Company Contact

NYSEG is serving a copy of today's filing on all parties. Please direct any questions pertaining to this filing to Cindy Reed at (607) 762-7656 or me at (607) 762-7341.

Very truly yours,

Christine M. Stratakos
Manager – Pricing & Analysis

Encs.
cc: All active parties (via email)
N. Giannasca – HL&A (via overnight mail)