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July 30, 2004

VIA ELECTRONIC FILING AND OVERNIGHT MAIL

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

RE: **Case 03-G-0766 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service**

Dear Secretary Brilling:

Ordering Paragraph 7 of the New York State Public Service Commission's Order Adopting Provisions of Joint Proposals With Conditions, issued and effective May 20, 2004 (the "Order") in the above-referenced proceeding, directs Rochester Gas and Electric Corporation ("RG&E" or the "Company") "to file by August 1, 2004, for our approval, its proposed method for calculating 'expected GSC revenues' for the purpose of calculating gas supply uncollectible expense as specified in Section VII.6.a.ii of the Gas Rate Joint Proposal ['GRJP']…". Furthermore, pursuant to Ordering Paragraph 8 of the Order, "RG&E, in consultation with other interested parties, is directed to develop and file by August 1, 2004, for our approval, a proposed amendment to Section VII.8 of the [GRJP], … designed to prevent dilution below equitable levels of gas supply credits returned to RG&E's gas customers…"

In accordance with Ordering Paragraph Nos. 7 and 8, RG&E hereby submits its proposals for calculating expected GSC revenues and its proposed amendment to Section VII.8 of the GRJP regarding gas supply credits. In addition, RG&E is transmitting for filing in compliance with the Order, the following tariff revision:

Fourth Revised	Leaf No. 71	to PSC No. 16 - Gas

Effective: November 1, 2004.

Background

On May 27, 2004 and June 7, 2004, RG&E transmitted tariff filings in compliance with Ordering Paragraph 3 of the Order, effectuating the rate changes set forth in the GRJP. As reflected in those filings, the Company also implemented, consistent with Sections IV.2 and VII.6 of the GRJP, a Merchant Function Charge ("MFC"), effective May 28,

Received: 7/30/2004

2004. Section VII.6.a.ii of the GRJP states that beginning January 1, 2005, the gas supply uncollectibles portion of the MFC will be calculated based on expected GSC revenues time the actual 5-year average uncollectible percentage experienced by the Company during the preceding 12-month period ending September 30.

Furthermore, the tariff filings also reflected a revision to P.S.C. No. 16 – Gas to include a provision for gas supply credits received by RG&E in any month that exceed $7.5 million. Section VII.8 of the GRJP states that gas supply credits of this level will be returned to customers through a delivery charge mechanism.

Proposed Method for Calculating Expected GSC Revenues

The Company's proposed expected GSC revenue calculation begins with the calculation of total annualized gas cost. Annualized gas cost includes both fixed and variable charges. Fixed charges consist of pipeline capacity and storage capacity charges, reduced by long-term releases and capacity release revenues resulting from customers migrating to Energy Services Companies ("ESCOs"). The forecast of variable charges will contain commodity dollars plus pipeline and storage transportation variable charges. Commodity dollars is defined as flowing supply (current NYMEX strip plus hedge positions) and estimated weighted average cost of gas for storage. The resulting annualized gas cost is then divided by city gate deliveries and multiplied by the allowed Factor of Adjustment ("FA") to arrive at the gross GSC. The gross GSC is adjusted for the following: the annual reconciliation of gas cost; the research and development surcharge; interdepartmental sales; and any capacity incentive mechanisms. The result, net GSC, is multiplied by forecasted sales to achieve the expected GSC revenues.

Proposed Amendment to Section VII.8 of the GRJP

Section VII.8 of the GRJP states: "If gas supply credits (e.g., supplier refunds) received by RG&E in any month exceed $7.5 million, such credit will be returned through a delivery charge mechanism. If monthly gas supply credits are equal to or less than $7.5 million, such credits will be returned through the GSC. RG&E will not retain any supply credits."

Per the requirements of Ordering Clause No. 8 of the Order, RG&E conducted a conference call on July 29, 2004 with Staff and other interested parties, to discuss its proposed amendment to Section VII.8 of the GRJP. The following proposal is the result of such collaboration.

The Company proposes to amend Section VII.8 of the GRJP as follows:

1) All Service Classification ("SC") No. 3 customers that receive balancing service from RG&E would receive a 10% allocation of any refund received from Dominion Transmission Pipeline (DTI).

Received: 7/30/2004

2) ESCOs serving SC 5 customers would receive a credit or refund directly from DTI. Therefore, SC 5 customers will not share in any supplier credit received by RG&E from DTI.
3) Any other pipeline refund will be shared proportionally based on usage between SC No. 1, SC No. 5 and post 11/1/96 SC No. 3 customers. Pre-11/1/96 SC No. 3 customers will not receive a portion of any pipeline refunds other than stated in item No. 1 above.

SC No. 3 customers have the option of taking balancing service through the Company or participating in the DTI Delivery Point Operator (DPO)/ (CSC) program. RG&E uses approximately ten percent of its DTI assets for this service. Therefore, any such refunds would be proportionately shared with RG&E-balanced SC No. 3 customers.

Furthermore, pre-11/1/96 SC No. 3 customers have been securing their own upstream assets directly through the pipelines for several years. Because these customers have not shared in the cost incurred by the Company for such assets (unless they take balancing service through RG&E, as described above), it would be inappropriate to include these customers in a refund.

For SC No. 1 customers, the delivery credit will be listed as a separate line item on the customer's bill. For SC No. 3 and SC No. 5 customers, the delivery credit will be applied through the monthly Large Transportation Service Rate Adjustment and the Small Transportation Service Rate Adjustment, respectively. Any such refunds will be applied over a 12-month period.

Any correspondence or questions regarding this filing should be addressed to me at (585) 771-4692, or at that above address.

Very truly yours,

Mark O. Marini
Manager, Rates and Regulatory Economics