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Joseph J. Syta  
Vice President  
Controller and Treasurer

Reports  
01-G-1668

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OGC  
A+F

March 30, 2007

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

**Re: Case 01-G-1668 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service.**

Dear Secretary Brillling,

New York State Electric & Gas Corporation (“NYSEG”) hereby submits its annual compliance filing for Rate Year Four pursuant to Section XXX.1 Earnings Sharing (Section VIII) of the Joint Proposal approved by the Commission in the above mentioned proceeding. The attachments to this letter set forth required information and associated calculations.

Sincerely,

Joseph J. Syta  
Vice President, Controller and Treasurer

Attachments

xc: Charles M. Dickson

An equal opportunity employer

**NYSEG** | 89 East Avenue | Rochester, NY 14649-0001  
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www.nyseg.com



**New York State Electric & Gas Corporation  
Annual Compliance Filing - GAS  
Year Four - 2006  
INDEX**

<u>Schedule</u>	<u>Description</u>
A	Gas business income statement
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E	Annual financing information

New York State Electric & Gas Corporation  
Annual Compliance Filing  
Year Five - 2006  
Gas Income Statement  
(\$ 000 )

Revenue	\$ 440,237
Less: Supply Costs	<u>280,462</u>
Net Revenues	159,775
Less: O&M Expenses	47,573
Less: Depreciation	21,746
Less: Taxes Other than Income Taxes	<u>24,096</u>
Operating Income	66,360
Plus: Other Income & (Deductions)	3,413
Less: Interest Expense	<u>17,823</u>
Operating Income Less Interest	51,950
Less: Federal & State Income Taxes	19,788
Less: Preferred Dividend	<u>99</u>
Balance for Common	<u>\$ 32,063</u>

New York State Electric & Gas Corporation  
Annual Compliance Filing  
Year Four - 2006  
Gas Earnings Sharing Calculation  
(\$ 000)

<b>Gas Earnings as Recorded (from Schedule A)</b>		\$	32,063
<b>Synchronize Interest With Rate Base</b>			
Interest per Books	\$	17,823	
Interest Synchronized with Rate Base		<u>19,823</u>	
Before-Tax Adjustment		(2,000)	
Taxes @ 39.875%		<u>798</u>	
After-Tax Adjustment			(1,202)
<b>Synchronize Preferred Dividends With Rate Base</b>			
Dividends per Books	\$	99	
Dividends Synchronized with Rate Base		<u>113</u>	
After-Tax Adjustment			(14)
<b>Exclude Other Income and Deductions ("OID") - With Specific Exceptions per the Joint Proposal</b>			
Exclude All OID per Books			
Other Income and Deductions per Books	\$	(3,413)	
Income Taxes on OID per Books		<u>1,848</u>	
Net			\$ (1,764)
Included OID Items per the Joint Proposal			
Gain on Sale of Property	\$		
Loss on Sale of Property			
Interest on Temporary Cash Investments		<u>656</u>	
Before-Tax Adjustment		656	
Taxes @ 39.875%		<u>(262)</u>	
Net OID Included in the Earnings Sharing Calculation			394
<b>Exclude Amortization of Investment Tax Credits</b>			(142)
<b>Other Adjustments to 2006 Regulated Earnings</b>			
Exclude:			
Seneca Phase III Revenues & Operating Costs	\$	(414)	
Shareholder Portion of the Savings Realized through the Gas Cost Incentive Mechanism		(1,847)	
Service Quality Revenue Adjustment		<u>167</u>	
Before-Tax Adjustment		(2,094)	
Taxes @ 39.875%		<u>835</u>	
After-Tax Adjustment			<u>(1,259)</u>
<b>Regulated Gas Earnings</b>		\$	<b>28,076</b>
<b>Regulated Gas Earnings Threshold</b>			
Gas Rate Base	\$	622,666	
Exclude Seneca Phase III Net Plant		<u>(1,276)</u>	
Adjusted Gas Rate Base	\$	621,390	
Equity Ratio			
Actual Equity Ratio	(a)	50.89%	
Cap on Regulatory Equity Ratio per the Joint Proposal	(b)	<u>45.00%</u>	
Regulated Equity Ratio (lesser of "a" or "b")		<u>45.00%</u>	
Gas Common Equity		279,626	
Regulated Gas Earnings Threshold - %		<u>12.5%</u>	
Regulated Gas Earnings Threshold - \$			<u>34,953</u>
<b>Gas Earnings (Below) the Threshold</b>		\$	<b>(6,877)</b>

\* In view of the fact that there has been no earnings sharing for any of the years of the gas rate plan, accounting adjustments relating to prior years that were booked in 2006 have been left in the earnings calculation for 2006 rather than restating the earnings calculations for prior years.

New York State Electric & Gas Corporation  
Annual Compliance Filing  
Year Two - 2004 REVISED 04/05, 03/31/06, 03/31/07  
Gas Earnings Sharing Calculation  
(\$ 000)

<b>Gas Earnings as Recorded</b>		\$ 26,854
<b>Synchronize Interest With Rate Base</b>		
Interest per Books	\$ 16,120	
Interest Synchronized with Rate Base	<u>17,283</u>	
Before-Tax Adjustment	(1,163)	
Taxes @ 39.875%	<u>464</u>	
After-Tax Adjustment		(699)
<b>Synchronize Preferred Dividends With Rate Base</b>		
Dividends per Books	\$ 63	
Dividends Synchronized with Rate Base	<u>116</u>	
After-Tax Adjustment		(53)
<b>Exclude Other Income and Other Deductions per Joint Proposal</b>		
Exclude Other Income & Deductions	\$ (607)	
Include Gain on Sale of Property	-	
Include Loss on Sale of Property	-	
Include Interest on Temporary Cash Investments	<u>88</u>	
Before-Tax Adjustment	(519)	
Taxes @ 39.875%	<u>207</u>	
After-Tax Adjustment		(312)
<b>Exclude Amortization of Investment Tax Credits</b>		(113)
<b>Exclude Seneca Phase III Revenues &amp; Operating Costs</b>		
Before-Tax Adjustment	\$ (511)	
Taxes @ 39.875%	<u>204</u>	
After-Tax Adjustment		(307)
<b>Exclude Adjustments Booked in 2004 for Prior Year Items</b>		
Adjustment to Correct 2003 GSC Deferrals	\$ 2,928	
Deferral for the True-up of 2003 R&D Costs	200	
Correction to the 2003 Pension Deferral	931	
Out-of-Period Adjustments to Payroll Taxes	<u>(197)</u>	
Before-Tax Adjustment	3,862	
Taxes @ 39.875%	<u>(1,540)</u>	
After-Tax Adjustment	2,322	
Adjustments to Prior Year Income Taxes	<u>(610)</u>	
Total After-Tax Adjustment		<u>1,712</u>
<b>Regulated Gas Earnings</b>		<b>\$ 27,082</b>
<b>NYSEG's Equity Ratio</b>		
Average Equity Balance	\$ 974,101	
Average Capitalization	<u>2,043,042</u>	
Actual Equity Ratio	46.04%	
Regulatory Equity Ratio	45.00%	
<b>Regulatory Gas Common Equity</b>		
Gas Rate Base	\$ 589,584	
Equity Ratio	<u>45.00%</u>	
Gas Common Equity	265,313	
<b>Regulated Gas Earnings Threshold</b>		<b>11.5%</b>
<b>Regulated Gas Earnings Threshold</b>		<b>30,511</b>
<b>Gas Earnings (Below) the Threshold</b>		<b>\$ (3,429)</b> As filed originally
<b>Adjustments Filed 03/31/06: (Tax Effected)</b>		
Adjustment for Gas Costs LIRA - Energetix	\$ (176)	
Adjustment for GCIM True-up	(597)	
Adjustment for Purchased Gas Costs Deferred	403	
Adjustment for Miscellaneous Prior Year O&M	(174)	
Adjustment for Reversal of 2004 Gas Medicare Deferral	1,076	
Adjustment for Amended 2004 GRT	721	
Prior Year Adjustments to Payroll Taxes	<u>96</u>	
Before-Tax Adjustment	1,349	
Taxes @ 39.875%	<u>(538)</u>	
After-Tax Adjustment	811	
Adjustment to Prior Year Income Taxes	<u>(979)</u>	
Total Adjustments, After-Tax		(168)
<b>Gas Earnings (Below) the Threshold</b>		<b>\$ (3,597)</b> As revised 03/31/06
<b>Adjustments Filed 03/31/07: (Tax Effected)</b>		
Adjustment of Actual Equity Ratio to 47.68%	\$ -	
Adjustment of Gas Rate Base to \$593,676	<u>(\$212)</u>	
Total Adjustments, After-Tax		(212)
<b>Gas Earnings (Below) the Threshold</b>		<b>\$ (3,809)</b> As revised 03/31/07

**New York State Electric & Gas Corporation**  
**Annual Compliance Filing**  
**Year Four - 2006**  
**Service Quality Performance Mechanism**  
**Schedule C**

	<u>Actual</u>	<u>Threshold</u>	<u>Revenue Adjustment</u>
<b><u>Customer Service Measures</u></b>			
Overall Customer Satisfaction Index*	75.2%	73.0%	\$ -
Customer Contact Satisfaction Index*	73.6%	85.0%	\$ 166,666
PSC Complaint Rate*	0.9/100,000	3.5/100,000	\$ -
<b><u>Gas Operation and Safety Measures**</u></b>			
Bare Steel Mains Replacement Program	15.67	15.0	\$ -
Bare Steel Services Replacement	2093	1900	\$ -
Bare Steel Main Isolation Program	11.6	10.0	\$ -
Quality Assurance Program	100%	100%	\$ -
<b>Gas Leak Response Program</b>			
Within 30 minutes	78%	75%	\$ -
Within 45 minutes	94%	90%	\$ -
Within 60 minutes	99%	95%	\$ -
<b>Total Revenue Adjustment Required</b>			<b>\$ 166,666</b>

\*Signed verification submitted under separate cover, dated February 05, 2007, to Sandra Stanton Sloane; Director, Office of Consumer Services.

\*\*Signed verification submitted under separate cover, dated March 1, 2007, to Jaclyn A. Brillling; Secretary, New York State Public Service Commission

**New York State Electric & Gas Corporation**  
**Annual Compliance Filing - GAS**  
**Year Four - 2006**  
**Net Uncontrollable Costs**  
**Schedule D**

**Category 1:**

	<u>Actual</u>	<u>Threshold</u>	<u>Deferral</u>
June 2006 Flood	(A) \$ 2,285,058	\$ 200,000	\$ 2,285,058
<b>Category 1 Total:</b>			<b>\$ <u>2,285,058</u></b>

**Category 2:**

	<u>Actual</u>	<u>Threshold</u>	<u>Deferral</u>
Environmental Remediation Costs	(B) \$ 4,679,633	\$ 1,250,000	\$ 3,429,633
Costs Resulting From the Unbundling Order - Case 00-M-0504	\$ 5,254	\$ 250,000	\$ 0
Outreach and Education Costs, Marketer Initiatives including the Marketer Survey, Aggregation Initiatives including the Low Income Aggregation Program	\$ 386,446	\$ 350,000	\$ 36,446
Economic Development Costs	\$ 165,556	\$ 180,891	\$ (15,335)
Incremental Security Costs			
O&M	\$ 9,288	\$ 260,000	\$ 0
Capital	\$ 0	\$ 300,000	\$ 0
Internal Research & Development Costs	\$ 1,192,232	\$ 1,400,000	\$ (207,768)
Revenue Loss / Program Costs from Phase 2 of Case 01-G-1668	\$ 0	\$ 0	\$ 0
Property Tax Expense	\$ 17,513,957	\$ 18,560,000	\$ 0
Annual General Inflation as measured by GDP Implicit Price Deflator	2.90%	4.00%	\$ 0
Pension Expense (Income) - I/S Amount			
2006 Amount	See Note (1)		\$ 6,500,894
Mandatory Regulatory, Legislative, Accounting and Tax Changes			
Sarbanes-Oxley	\$ 194,539	\$ 0	\$ 194,539
Pipeline Integrity Management	\$ 2,686	\$ 0	\$ 2,686
Pandemic Influenza Planning	(C) \$ 4,239	\$ 0	\$ 4,239
Advanced Metering Infrastructure	\$ 9,698	\$ 0	\$ 9,698
<b>Category 2 Total:</b>			<b>\$ <u>9,955,032</u></b>

(1) Beginning January 1, 2003, incremental or decremental financial market changes from the assumed 9% return on assets and the 6.75% discount rate will be deferred.

(A) Per Section XV.1.b.(i) NYSEG will be entitled to defer and recover all Category 1 costs, provided that Category 1 costs exceed \$200,000 annually in the aggregate.

(B) Year 2006 Environmental amount only. Excludes effect of a 2006 accounting entry to reclass 2004/05 costs as Environmental.

(C) Pandemic Influenza Planning was initiated by the U. S. Dept of Health and Human Services, based on the National Strategy for Pandemic Influenza, issued by President Bush November 1, 2005.

**New York State Electric & Gas Corporation**  
**Annual Compliance Filing - GAS**  
**Year Three - 2005**  
**Net Uncontrollable Costs**  
**Schedule D**

	<u>Actual</u>	<u>Threshold</u>	<u>Actual Deferral</u>
<b>Category 1:</b>			
Flood 2005	\$ 8,440	\$ 200,000	\$ 0

**Category 1 Total: \$ 0**

	<u>Actual</u>	<u>Threshold</u>	<u>Deferral</u>
<b>Category 2:</b>			
Environmental Remediation Costs (A)	\$ 1,572,830	\$ 1,250,000	\$ 322,830
Costs Resulting From the Unbundling Order - Case 00-M-0504	\$ 19,500	\$ 250,000	\$ 0
Outreach and Education Costs, Marketer Initiatives Including the Marketer Survey, Aggregation Initiatives Including the Low Income Aggregation Program	\$ 272,215	\$ 350,000	\$ 0
Economic Development Costs	\$ 180,891	\$ 250,000	\$ 0
Incremental Security Costs			
O&M	\$ 9,288	\$ 260,000	\$ 0
Capital	\$ 0	\$ 300,000	\$ 0
Internal Research & Development Costs	\$ 931,057	\$ 1,400,000	\$ (468,943)
Revenue Loss / Program Costs from Phase 2 of Case 01-G-1668	\$ 0	\$ 0	\$ 0
Property Tax Expense	\$ 17,047,509	\$ 17,850,000	\$ 0
Annual General Inflation as measured by GDP Implicit Price Deflator	2.70%	4.00%	\$ 0
Pension Expense (Income) - I/S Amount 2005 Amount	See Note (1)		\$ 5,889,043
Mandatory Regulatory, Legislative, Accounting and Tax Changes			
Sarbanes-Oxley	\$ 87,564	\$ 0	\$ 87,564
Purchase of Receivables (B)	\$ 0	\$ 0	\$ 0
<b>Category 2 Total:</b>			<b>\$ 5,830,494</b>

(1) Beginning January 1, 2003, incremental or decremental financial market changes from the assumed 9% return on assets and the 6.75% discount rate will be deferred

Reasons for changes from prior filing:

- (A) Increase Environmental deferral, recorded in 2006. Includes the effect of a 2006 accounting entry to reclass 2004/05 costs as Environmental
- (B) Remove POR deferral, per August 21, 2006 POR filing to Honorable Jaclyn A. Brillig, Secretary.

**New York State Electric & Gas Corporation**  
**Annual Compliance Filing - GAS**  
**Year Two - 2004**  
**Category 2 - Net Uncontrollable Costs**  
**Schedule D**

	(A)	<u>Actual</u>	<u>Threshold</u>	<u>Deferral</u>
Environmental Remediation Costs		\$ 3,057,518	\$ 1,250,000	\$ 1,807,518
Costs Resulting From the Unbundling Order - Case 00-M-0504		\$ 11,508	\$ 250,000	\$ -
Outreach and Education Costs, Marketer Initiatives including the Marketer Survey, Aggregation Initiatives including the Low Income Aggregation Program		* \$ 113,360	\$ 350,000	\$ -
Economic Development Costs		\$ 180,861	\$ 250,000	\$ -
Incremental Security Costs				
O&M		\$ 9,288	\$ 260,000	\$ -
Capital		\$ 0	\$ 300,000	\$ -
Internal Research & Development Costs		\$ 1,151,555	\$ 1,400,000	\$ (248,445)
Revenue Loss / Program Costs from Phase 2 of Case 01-G-1668		\$ 52,600	\$ 0	\$ 52,600
Property Tax Expense		\$ 16,764,981	\$ 17,160,000	\$ -
Annual General Inflation as measured by GDP Implicit Price Deflator		2.10%	4.00%	\$
Pension Expense (Income) - I/S Amount				
2004 Amount			See Note (1)	\$ 4,748,335
2003 Adjustment to I/S Amount			See Note (1)	\$ (931,226)
Mandatory Regulatory, Legislative, Accounting and Tax Changes				
Sarbanes-Oxley		\$ 218,847	\$ 0	\$ 218,847
			<b>Category 2 Total:</b>	<b>* \$ <u>5,647,629</u></b>

(1) Beginning January 1, 2003, incremental or decremental financial market changes from the assumed 9% return on assets and the 6.75% discount rate will be deferred.

Reasons for changes from prior filing:

(A) Increase Environmental deferral, recorded in 2006. Includes the effect of a 2006 accounting entry to reclass 2004/05 costs as Environmental.

**New York State Electric & Gas Corporation**  
**Annual Compliance Filing**  
**Year One**  
**Category 2-Net uncontrollable costs**  
**Schedule D**

	Actual	Threshold	Deferral
<b>Environmental Remediation Costs</b>	(A) \$1,363,854	\$1,562,500	\$ -
<b>Costs Resulting from the Unbundling Order - Case 00-M-0504</b>		312,500	\$ -
<b>Outreach and Education Costs, marketer Initiatives including the marketer survey, Aggregation Initiatives including the Low Income Aggregation Program</b>	205,832	437,500	\$ -
<b>Economic Development Costs</b>	197,924	312,500	\$ -
<b>Incremental Security Costs</b>			
<b>O&amp;M</b>	12,926	325,000	\$ -
<b>Capital</b>		375,000	\$ -
<b>Internal R&amp;D costs</b>	1,549,517	1,750,000	\$ (200,483)
<b>Revenue/Loss Program Costs from Phase 2 of Case 01-G-1688</b>			
<b>Property Tax Expense</b>	21,064,378	20,630,000	\$ 434,378
<b>Annual General Inflation</b>	1.64%	5.00%	\$ -
<b>Pension Expense/(Income) - I/S amount</b>	(B)	See note (1)	\$ 4,801,774
<b>TOTAL</b>		<b>Total Revenue Adjustment Required</b>	<b>\$ 5,035,669</b>

(1) Beginning January 1, 2003, incremental or departmental financial market changes from the assumed 9% return on assets and the 6.75% discount rate will be deferred.

Reasons for changes from prior filing:

(A) Environmental revised 03/07. See SR-06-0021-NYSEG

(B) Pension revised 04/05 compliance filing

New York State Electric Gas Corporation  
Annual Compliance Filing  
Year Four – 2006  
Annual Financing Information  
Schedule E

Re: Case 93-M-0744      Petition of New York State Electric & Gas Corporation for authority to issue and sell long-term debt, preferred stock and common stock pursuant to a multi-year financing plan and to negotiate a Revolving Credit Agreement (and extended in Case Nos. 95-M-1195, 97-M-1915, 01-M-0404 and 01-E-0359)

**Annual Report Pursuant to Order # 8**

Reporting utility:      **New York State Electric & Gas Corporation**

Address:              Corporate Drive  
Kirkwood Industrial Park  
Binghamton, NY 13902-5224

Responsible official:      Joseph J. Syta  
VP-Controller & Treasurer

Date:                  As of March 1, 2007

Period covered:      January 1 - December 31, 2006

New York State Electric Gas Corporation  
Annual Compliance Filing  
Year Four – 2006  
Annual Financing Information  
Schedule E

Designation of security: \$12,000,000 Indiana County Industrial Development Authority  
Pollution Control Revenue Refunding Bonds Series 2006 (New  
York State Electric & Gas Corporation Project)

Date of Issuance: April 11, 2006

Principal amount: \$12,000,000

Consideration received: Cash

Case number / Date of order: Case 93-M-0744, issued and effective December 8, 1993

Use of proceeds: Proceeds from this transaction were used to refund  
\$12,000,000 outstanding aggregate principal amount of  
Indiana County Industrial Development Authority Pollution  
Control Revenue Refunding Bonds 1994 Series A (New York  
State Electric & Gas Corporation Project). The issuance of the  
Bonds has been applied to the \$979 million authorization  
under the Order.

New York State Electric Gas Corporation  
Annual Compliance Filing  
Year Four – 2006  
Annual Financing Information  
Schedule E

Designation of obligation: **\$475,000,000 REVOLVING CREDIT AGREEMENT among NEW YORK STATE ELECTRIC & GAS CORPORATION, ROCHESTER GAS AND ELECTRIC CORPORATION, CENTRAL MAINE POWER COMPANY, THE SOUTHERN CONNECTICUT GAS COMPANY CONNECTICUT NATURAL GAS COMPANY, BERKSHIRE GAS COMPANY, The Several Lenders from Time to Time Parties Thereto, WACHOVIA BANK, N.A., as Administrative Agent, JPMORGAN CHASE BANK, N.A., as Syndication Agent, and THE BANK OF NEW YORK, CITIBANK, N.A., SOVEREIGN BANK , as Co-Documentation Agents**

Date of Issuance: **June 2, 2006**

Name of payee: **New York State Electric & Gas Corporation**

Principal amount: **\$200,000,000 (sub-limit with respect to loans made to NYSEG)**

Rate of interest: **Variable**

Date of maturity: **Credit agreement terminates June 16, 2011; maturity of each borrowing under the facility is determined at the time such borrowing is made, but in any event is payable within one year of the date of borrowing and not later than June 16, 2011**

Consideration received: **Cash upon each borrowing under the facility**

Use of proceeds: **Proceeds from the revolving loans are used to provide credit support for the Company's commercial paper and for general corporate purposes. Facility amends 5-year credit facility that was to have expired on July 15, 2010. The Company has authorization under the Order to enter into a Revolving Credit Agreement.**

Case number / Date of order: **Case 93-M-0744, issued and effective December 8, 1993**

**New York State Electric Gas Corporation**  
**Annual Compliance Filing**  
**Year Four – 2006**  
**Annual Financing Information**  
**Schedule E**

**Designation of security:** \$100,000,000 New York State Electric & Gas Corporation  
5.65% Notes due 2016

**Date of Issuance:** December 19, 2006

**Principal amount:** \$100,000,000

**Consideration received:** Cash

**Case number / Date of order:** Case 93-M-0744, issued and effective December 8, 1993

**Use of proceeds:** Proceeds from this transaction were used to refund certain indebtedness which were issued to refinance the New York State Energy Research and Development Authority's \$25 million 5.90% pollution control note (NYSEG Project) that matured on December 1, 2006 and to pre-fund the \$77 million customer refund mandated in the recent NYSEG electric rate case and, to the extent any proceeds were not used for such purposes, the remaining portion of the proceeds were used for general corporate purposes and for working capital needs including the reduction in short term debt. The issuance of the Bonds has been applied to the \$979 million authorization under the Order.