	Average Yield on 30-Year Treasury (%)	Average Yield on Moody's Utility Long-Term Bond Indices (%)			Spread Between Moody's Indices and 30-Year Treasury (Basis Points)		
		Aa	A	Baa	Aa	A	Baa
	[a]	[b]	[c]	[d]	[e]=[b]-[a]	[f]=[c]-[a]	[g]=[d]-[a]
2007							
Jan	4.85	5.78	5.96	6.16	93	111	131
Feb	4.82	5.73	5.90	6.10	91	108	128
Mar	4.72	5.66	5.85	6.10	94	113	138
Apr	4.87	5.83	5.97	6.24	96	110	137
May	4.90	5.86	5.99	6.23	96	109	133
June	5.20	6.18	6.30	6.54	98	110	134
July	5.11	6.11	6.25	6.49	100	114	138
Aug	4.93	6.11	6.24	6.51	118	131	158
Sept	4.79	6.10	6.18	6.45	131	139	166
Oct	4.77	6.04	6.11	6.36	127	134	159
Nov	4.52	5.87	5.97	6.27	135	145	175
Dec	4.53	6.03	6.16	6.51	150	163	198
2008							
Jan	4.33	5.87	6.02	6.35	154	169	202
Feb	4.52	6.04	6.21	6.60	152	169	208
Mar	4.39	5.99	6.21	6.68	160	182	229
Apr	4.44	5.99	6.29	6.81	155	185	237
May	4.60	6.07	6.28	6.79	147	168	219
June	4.69	6.19	6.38	6.93	150	169	224
July	4.57	6.13	6.40	6.97	156	183	240
Aug	4.50	6.09	6.37	6.98	159	187	248
Sept	4.27	6.13	6.49	7.15	186	222	288
Oct	4.17	6.95	7.56	8.58	278	339	441
Nov	4.00	6.83	7.60	8.98	283	360	498
Dec	2.87	5.92	6.52	8.11	305	365	524

Sources: Treasury Yields from US Treasury Department
Moody's Utility Bond Indices Yields available from Mergent Bond Record through October 2008.
Moody's Bond Indices Data from November and December 2008 from Bloomberg.

Morgan Stanley

Credit and Capital Issues Affecting the Electric Power Industry

Anthony Ianno
Managing Director
Head of Energy & Utilities Global Risk Capital Markets

January 13, 2009

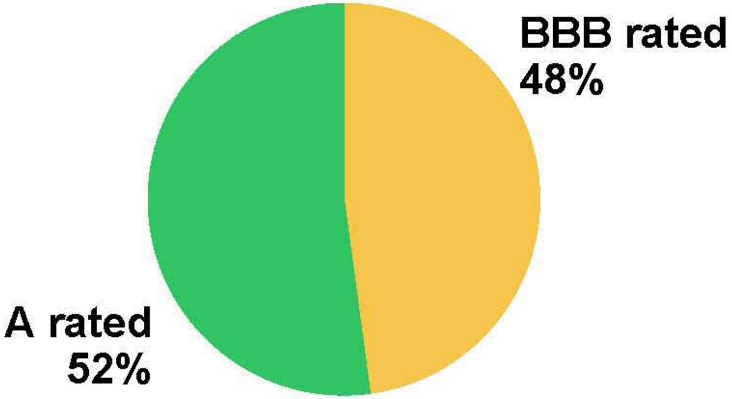
2008 Utility Issuance by Credit Rating

Before and After the Lehman Bankruptcy

Exhibit __ (PP- 2)
Page 2 of 2

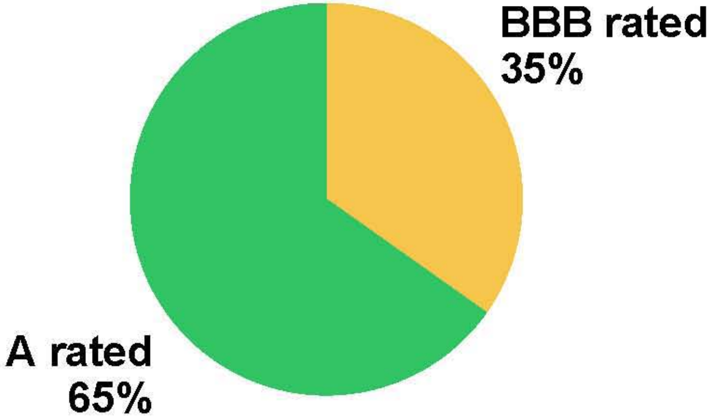
Pre-Lehman Bankruptcy

$36.2Bn Issued between Jan 1 and Sept 14



Post-Lehman Bankruptcy

$13.6Bn Issued between Sept 15 and Dec 31



CREDIT AND CAPITAL ISSUES AFFECTING THE ELECTRIC POWER INDUSTRY

FERC TECHNICAL CONFERENCE

Garry Brown, Chairman, New York State Public Service Commission & Chairman, Committee on Electricity, National Association of Regulatory Utility Commissioners — January 13, 2009

Good afternoon and thank you for the opportunity to address this important conference. Today, I will be speaking to you as both Chairman of the New York State Public Service Commission and as Chairman of the NARUC Committee on Electricity.

As you may know, the New York Commission is responsible for setting rates and ensuring adequate electric service is provided by New York's utilities. The NARUC Committee's role is to develop and advance policies that promote reliable, adequate, and affordable supply of electricity. Through strong collaboration with the Federal Energy Regulatory Commission and related Federal agencies, the Committee also seeks ways to improve the quality and effectiveness of regulation through education, cooperation, and exchange of information.

We have just heard from a number of experts representing investors and various electric power industry participants. It is quite evident that there are many challenges facing the industry as a whole.

At the outset, I want to note that it is typically the responsibility of State utility regulators to assure that the state's electric utilities provided safe and reliable service at a reasonable price. This requires utilities to make investments, some of which are very substantial. Utilities generally desire certainty from regulators that they can recover their investments including a reasonable return.

With that said, it is important to recognize the economic realities of a recession and expect utilities to take a hard look at their capital programs with an eye toward prioritizing. This not only reduces utility exposure to the volatile financial markets but also helps to relieve upward pressure on rates to end-use customers caused by an increase in the utility asset investment base (rate base). For example, those projects that are essential to safety and reliability must go forward while those that are discretionary and can be deferred should be evaluated on a case by case basis as to whether customers are best served by going forward with the projects at this time.

I note that there are several potential drivers of utility investment on the horizon — transmission and distribution upgrades due to aging infrastructure and to meet new needs, requirements to create a smart grid, energy efficiency investments, renewable energy mandates, and, in some parts of the country, capital for new power plant construction. These potential investments will require billions of dollars to support.

Large capital programs such as the ones noted make it very important that electric utilities continue to have access to the financial markets, and regulatory policies should support utilities' ability to raise capital.

Speaking parochially from a New York perspective our policies over the years, while not always viewed by some as investor-friendly, have nonetheless resulted in no New York electric utility currently being rated less than BBB+ (Con Edison, Orange & Rockland, Central Hudson, are in the A category while NYSEG and Rochester Gas & Electric are BBB+).

In the last two months, New York electric utilities have raised about $800 million in the markets — ($600 million for Con Edison, $150 million for Rochester Gas & Electric, and about $50 million for Central Hudson.) Thus, our utilities have been able to raise capital even in these difficult financial times. That said, however, the interest costs associated with new utility debt issues has been extremely high relative to yields on comparable treasury securities.

I should note that there is a clear relationship between a utility's bond rating and its ability to borrow at a reasonable cost, especially in times of economic distress as we are now facing.

For example, in New York, we have, for many years, considered the question of what the most cost effective electric utility bond rating is for ratepayers. While the Commission has never formally stated a particular policy, I think most experts would say that over the last 15 years the answer probably was some place in the BBB-A range, depending on the assumptions employed in the analysis. While this may be a good answer over the long run, it flies in the face of current reality.

Given current economic realities, 100-200 basis point premiums on the yield for BBB debt over A debt may indicate that A is cheaper to ratepayers now. The policy question for utilities and regulators to grapple with is how long the current situation will continue and how often we can expect similar situations in the future.

While there is a large difference between A and BBB, there is an even brighter line between Investment Grade (BBB-/Baa3 bond ratings by S&P/Moody's and higher) and non-Investment Grade (Junk) (BB+/Ba1 and lower). The cost of issuing non-investment grade debt, assuming the market is receptive to it, has in some cases been hundreds of basis points over the yield on investment grade securities. To me this suggests that you do not want to be rated at the lower end of the BBB range because an unexpected shock could move you outside the investment grade range.

Now turning to implications of the current financial environment on market players, I think you will hear from the Short-Term Electricity Markets panel shortly concerns regarding the need to tighten up credit requirements to reduce the risk of default in the markets.

For example, in New York, the rules for extending credit by NYISO are largely based on lagging data, such as ratings and prior financial statements that may not adequately capture the potential for the type of rapid financial deterioration that we've been seeing. While the cost of market defaults will ultimately be paid by consumers, the costs of potential remedies to avoid defaults, such as reducing load-serving entities unsecured credit lines or requiring accelerated cash payments, will also be born by consumers. It is therefore incumbent upon both State and Federal regulators to ensure that these rules provide balance and that the entities that administer these markets have the tools and ability to react quickly to changing conditions.

Anecdotally, we have heard that the current environment is leading to difficulties in raising capital for investors in certain renewable projects. Many states have RPS goals in place. Some of the projects rely partly on state and federal funding. If the current financial situation continues to persist, there may be an impact on the achievement of RPS goals. Regulators may need to consider how their funding for renewables should be changed to help achieve RPS goals.

Clearly, we are in uncharted waters. There remains a significant concern that some might try to use this opportunity to achieve other goals. We need to be diligent to ensure that what actions we might take today are indeed the best decision to ensure the safety and reliability of the electric power industry.

We regulators need to ask tough, pointed questions. We need to be watchful. Asking questions does not mean we are not supportive; it means we as regulators must continue to recognize that our primary responsibility is to ensure safety and reliability at just and reasonable rates.

2009 Funding Requirements ($000's)
No Rate Relief, Debt Funding

Description	NYSEG Total	75% NYSEG Electric	25% NYSEG Gas	RG&E Total	72% RG&E Electric	28% RG&E Gas
12/31/2008 Short Term Debt Balance						
-- Bank Line of Credit	117,000	87,750	29,250	97,040	70,160	26,880
-- Borrowing from Parent	19,000	14,250	4,750	91,500	66,155	25,346
Total Short Term Debt	136,000	102,000	34,000	188,540	136,314	52,226
Operating Cash Flow						
Net Income	73,723	55,682	18,041	38,067	30,244	7,823
Depreciation	112,357	89,557	22,800	70,432	51,070	19,362
Other Adjustments for Non-Cash Items	(57,685)	(48,616)	(9,070)	(16,834)	(19,241)	2,407
Total Operating Cash Flow	128,395	96,623	31,771	91,666	62,073	29,593
Less Capital Expenditures	(214,158)	(181,972)	(32,187)	(160,692)	(131,366)	(29,326)
Free Cash Flow	(85,764)	(85,348)	(415)	(69,026)	(69,292)	267
Dividend to Parent = 100% of Earnings	(73,723)	(55,682)	(18,041)	(38,067)	(30,244)	(7,823)
Long-Term Debt Redemption				(100,000)	(72,300)	(27,700)
Annual Funding Shortfall	(159,486)	(141,030)	(18,456)	(207,093)	(171,836)	(35,256)
Free up 50% of Existing Credit Facility	(37,000)	(27,750)	(9,250)	(47,040)	(34,010)	(13,030)
Repay Loan to EEC	(19,000)	(14,250)	(4,750)	(91,500)	(66,155)	(25,346)
Gross Funding Requirement	215,486	183,030	32,456	345,633	272,001	73,632
Funding Requirement less LTD Redemption	215,486	183,030	32,456	245,633	199,701	45,932
Ending Short-term Debt	80,000	60,000	20,000	50,000	36,150	13,850

2010 Funding Requirements ($000's)

No Rate Relief, Debt Funding

Description	NYSEG Total	75% NYSEG Electric	25% NYSEG Gas	RG&E Total	72% RG&E Electric	28% RG&E Gas
Operating Cash Flow						
Net Income	57,586	43,092	14,494	32,437	26,215	6,222
Depreciation	117,970	94,197	23,773	72,807	52,867	19,940
Other Adjustments for Non-Cash Items	(57,685)	(48,615)	(9,069)	(18,500)	(20,922)	2,422
Total Operating Cash Flow	117,872	88,673	29,198	86,744	58,160	28,584
Less Capital Expenditures	(235,452)	(199,616)	(35,836)	(205,721)	(173,663)	(32,058)
Free Cash Flow	(117,581)	(110,943)	(6,638)	(118,976)	(115,503)	(3,474)
Dividend to Parent = 100% of Earnings	(57,586)	(43,092)	(14,494)	(32,437)	(26,215)	(6,222)
Annual Funding Shortfall	(175,167)	(154,035)	(21,132)	(151,414)	(141,718)	(9,696)
Total Funding Requirement	175,167	154,035	21,132	151,414	141,718	9,696
2009/2010 Cumulative Funding Requirement	390,653	337,065	53,588	497,047	413,719	83,328

2009/10 Key Financial Ratios
No Rate Relief, Debt Funding

	NYSEG		RGE		Moody's Baa Utilities with
	2009	2010	2009	2010	Medium Business Risk
Funds flow interest coverage					
Net income	73,723	57,586	38,067	32,437	
Interest	62,656	64,210	59,357	59,690	
Depreciation & Amortization	112,357	117,970	70,432	72,807	
Other	(57,685)	(57,685)	(16,834)	(18,500)	
Total Funds Flow	191,051	182,082	151,023	146,434	
Interest	62,656	64,210	59,357	59,690	
Funds flow coverage ratio	3.05	2.84	2.54	2.45	2.7 - 5.0
Funds from operations/total debt					
Cash from operations	128,395	117,872	91,666	86,744	
Beginning Long-term Debt*	1,136,549	1,352,035	662,512	1,008,145	
2008 Net Financing Post Test-Year			100,000		
Annual Funding Requirement	215,486	175,167	245,633	151,414	
Ending Short-Term Debt	80,000	80,000	50,000	50,000	
Total Ending Debt	1,432,035	1,607,202	1,058,145	1,209,558	
FFO/Debt ratio	9.0%	7.3%	8.7%	7.2%	13 - 25%

* Beginning 2009 LTD equals 9/30/2008 test year balance.

Exhibit __ (PP-5)

NY OpCo Credit Ratings
January 16, 2009

S&P	NYSEG	RG&E	ConEdNY	O&R	CH	NiMo	NFGC
Outlook	Stable	Stable	Stable	Stable	Stable	Stable	Negative Watch
Credit Rating	BBB+	BBB+	A-	A-	A	A-	BBB+
Senior Unsecured	BBB+		A-	A-	A		
Secured (FMB)		A					
Commercial Paper	A-2		A-1	A-1			A-2

Moody's	NYSEG	RG&E	ConEdNY	O&R	CH	NiMo	NFGC
Outlook	Negative Watch	Negative Watch	Negative Outlook	Negative Outlook	Negative Outlook	Negative Outlook	Stable
Long-Term Issuer Rating	Baa1	Baa1	A1	A2	A2	A3	
Senior Unsecured	Baa1		A1	A2	A2	A3	Baa1
Secured (FMB)		A3				A2	
Commercial Paper	P-2		P-1	P-1			P-2

Fitch	NYSEG	RG&E	ConEdNY	O&R	CH	NiMo	NFGC
Outlook	Negtaive Outlook	Stable					
Long-term Issuer Defeault Rating	BBB	BBB-	BBB+	A	A-		A-
Senior Unsecured	BBB+						
Secured (FMB)		BBB+					
Commercial Paper	F2		F1	F1			F2

2009 Funding Requirements ($000's)
With Rate Relief and Equity Investment

Description	NYSEG Total	75% NYSEG Electric	25% NYSEG Gas	RG&E Total	72% RG&E Electric	28% RG&E Gas
12/31/2008 Short Term Debt Balance						
– Bank Line of Credit	117,000	87,750	29,250	97,040	70,160	26,880
– Borrowing from Parent	19,000	14,250	4,750	91,500	66,155	25,346
Total Short Term Debt	136,000	102,000	34,000	188,540	136,314	52,226
Operating Cash Flow						
Net Income	125,806	94,846	30,960	84,848	59,997	24,851
Depreciation	112,357	89,557	22,800	75,539	52,453	23,086
Other Adjustments for Non-Cash Items	(45,113)	(45,576)	463	(23,915)	(23,453)	(463)
Total Operating Cash Flow	193,051	138,827	54,223	136,472	88,997	47,475
Less Capital Expenditures	(214,158)	(181,972)	(32,187)	(160,692)	(131,366)	(29,326)
Free Cash Flow	(21,108)	(43,145)	22,037	(24,220)	(42,369)	18,149
Dividend to Parent = 100% of Earnings	(125,806)	(94,846)	(30,960)	(84,848)	(59,997)	(24,851)
Long-Term Debt Redemption				(100,000)	(72,300)	(27,700)
Annual Funding Shortfall	(146,914)	(137,991)	(8,923)	(209,068)	(174,665)	(34,402)
Free up 50% of Existing Credit Facility	(37,000)	(27,750)	(9,250)	(47,040)	(34,010)	(13,030)
Repay Loan to EEC	(19,000)	(14,250)	(4,750)	(91,500)	(66,155)	(25,346)
Gross Funding Requirement	202,914	179,991	22,923	347,608	274,830	72,778
Funding Requirement less LTD Redemption	202,914	179,991	22,923	247,608	202,530	45,078
Amount Funded by Debt	104,765	92,929	11,835	131,405	107,482	23,923
Amount Funded by Equity*	98,150	87,062	11,088	116,202	95,047	21,155
Ending Short-term Debt	80,000	60,000	20,000	50,000	36,150	13,850

*48.37% for NYSEG, 46.93% for RGE

2010 Funding Requirements ($000's)
With Rate Relief and Equity Investment

Description	NYSEG Total	75% NYSEG Electric	25% NYSEG Gas	RG&E Total	72% RG&E Electric	28% RG&E Gas
Operating Cash Flow						
Net Income	110,060	82,222	27,838	79,253	56,002	23,250
Depreciation	117,970	94,197	23,773	77,914	54,251	23,664
Other Adjustments for Non-Cash Items	(45,113)	(45,576)	464	(25,582)	(25,134)	(448)
Total Operating Cash Flow	182,918	130,843	52,075	131,585	85,119	46,466
Less Capital Expenditures	(235,452)	(199,616)	(35,836)	(205,721)	(173,663)	(32,058)
Free Cash Flow	(52,535)	(68,773)	16,239	(74,136)	(88,544)	14,408
Dividend to Parent = 100% of Earnings	(110,060)	(82,222)	(27,838)	(79,253)	(56,002)	(23,250)
Annual Funding Shortfall	(162,595)	(150,996)	(11,599)	(153,388)	(144,546)	(8,842)
Total Funding Requirement	162,595	150,996	11,599	153,388	144,546	8,842
Amount Funded by Debt	83,948	77,959	5,989	81,403	76,711	4,692
Amount Funded by Equity*	78,647	73,037	5,610	71,985	67,836	4,150

*48.37% for NYSEG, 46.93% for RGE

2009/10 Key Financial Ratios
With Rate Relief and Equity Investment

	NYSEG 2009	NYSEG 2010	RGE 2009	RGE 2010	Moody's Baa Utilities with Medium Business Risk
Funds flow interest coverage					
Net income	125,806	110,060	84,848	79,253	
Interest	62,211	63,765	59,582	59,915	
Depreciation & Amortization	112,357	117,970	75,539	77,914	
Other	(45,113)	(45,113)	(23,915)	(25,582)	
Total Funds Flow	255,262	246,683	196,054	191,500	
Interest	62,211	63,765	59,582	59,915	
Funds flow coverage ratio	4.10	3.87	3.29	3.20	2.7 - 5.0
Funds from operations/total debt					
Cash from operations	193,051	182,918	136,472	131,585	
Beginning Long-term Debt*	1,136,549	1,241,313	662,512	893,917	
2008 Net Financing Post Test-Year			100,000		
Debt Portion of Annual Funding Requirement	104,765	83,948	131,405	81,403	
Ending Short-Term Debt	80,000	80,000	50,000	50,000	
Total Ending Debt	1,321,313	1,405,261	943,917	1,025,320	
FFO/Debt ratio	14.6%	13.0%	14.5%	12.8%	13 - 25%

* Beginning 2009 LTD equal to 9/30/2008 test year balance.