New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation

PSC Case No. 09-E-0082
PSC Case No. 09-G-0083
PSC Case No. 09-E-0084
PSC Case No. 09-G-0085

Information Request

Requesting Party and No.: (DPS-23) P. Barry

NYSEG / RGE Response No.: NYRGE-0023

Request Date: February 2, 2009

Information Requested of: Policy Panel

Reply Date: February 6, 2009

Responsible Witness: Policy Panel

QUESTION:

The Policy Panel claims, on Page 2 1 of their testimony, that Rochester Gas and Electric had lost authority to issue securities on December 31, 2007.

a) Please produce any correspondence with Staff that indicated that Rochester Gas & Electric's authority to issue financing expired on any other date than December 31, 2008.

b) Mr. Joseph Syta of Rochester Gas & Electric was in contact with Staff during the processing of Case 07-M- 1 194. Please provide any correspondence between Mr. Syta and Staff that indicated that Rochester was having financial problems related to its derivative contract.

RESPONSE:

a) The Company acknowledges that its authority to issue under 03-M-0178 extended to December 31, 2008. However, as shown in Exhibit DPS-23a1, it had limited authority remaining under that order- $52 million of “new money” and $15.5 million of “refinancing” authority. Small transaction size financings are less efficient, so the

Company filed for new authority in October 2007 and was planning an issuance in April 2008. Had the petition been addressed in a timely fashion an April issuance would have resulted in a substantially lower "all-in" cost of capital as demonstrated in Exhibit DPS-23a2.

b) No correspondence between Mr. Syta and Staff exists that indicates that Rochester was having financial problems related to its derivative trades, since Mr. Syta had no basis to communicate such information to Staff during the processing of Case 07-M-1194. As indicated in response to DPS-21 b, c and d the value of the hedge dropped rapidly in response to the precipitous drop in interest rates in November and December.

Activity Pursuant to 03-M-0178

	Issued	New Issue	Refunding	Matured	Redeemed	Comments
2007						
First Mortgage Bond Series UU					125,000	Called at par
First Mortgage Bond Series WW	**100,000**		100,000			
2004						
First Mortgage Bond Series TT					39,000	Redeemed in Open Market repurchase
5-year revolver	**75,000**	**75,000**				Five-year revolver
PCN Series 2004A	**10,500**		10,500		10,500	Issued to refund 1985A PCNs
PCN Series 2004B	**50,000**		50,000		50,000	Issued to refund 1985B PCNs
7.64% First Mortgage Bond of 2023					33,000	Redeemed in advance of Ginna Proceeds
7.67% First Mortgage Bond of 2023					12,000	Redeemed in advance of Ginna Proceeds
7.66% First Mortgage Bond of 2023					5,000	Redeemed in advance of Ginna Proceeds
7.45% First Mortgage Bond of 2023					40,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 4% Series F					12,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 4.1% Series H					8,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 4.75% Series I					6,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 4.1% Series J					5,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 4.95% Series K					6,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 4.55% Series M					10,000	Redeemed in advance of Ginna Proceeds
Preferred Stock 6.6% Series V Sinking Fund					1,250	Redeemed pursuant to sinking fund
Preferred Stock 6.6% Series V Sinking Fund					23,750	Redeemed in advance of Ginna Proceeds
2003						
6 3/8% FMBs due 2033	**75,000**	75,000				Issued to pay down STD and GC purposes

ORDER ISSUED Effective 8/1/2003 through 12/31/08

	Issued	New Issue	Refunding	Matured	Redeemed
Debt / Preferred Activity Since Order	310,500	150,000	160,500	-	386,500
Order Limits	378,000	202,000	176,000		
Remaining Authorization	67,500	52,000	15,500		
Expiration dates		12/31/08	12/31/08		

"Cost" of Petition Action Delay

	April 08 Issuance	December 08 Issuance
Principal	$ 150,000,000	$ 150,000,000
Maturity	25-years	25-years
Treasury	4.43%	2.54%
Spread (bps)	205	546
Coupon	6.48%	8.00%
Hedge gain / (loss) ($ millions)	($14.8)	($100.5)
Cost in bps over life	39.5	268.0
Underwriters fees (upfront in bps)	87.5	87.5
In bps over life	3.5	3.5
Mortgage recording tax (upfront in bps)	100	100
In bps over life	4.0	4.0
All-in Cost of funds	6.95%	10.76%

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PSC Case No. 09-E-0084
PSC Case No. 09-G-0085

Information Request

Requesting Party and No.: (DPS-169)

NYSEG / RG&E Response No.: NYRGE-0169

Request Date: February 6, 2009

Information Requested of: Economic Policy Panel

Reply Date: February 14, 2009

Responsible Witness: S. Fetter

QUESTION:

169. On Page 16 of his testimony, Mr. Fetter describes S&P in a September 2008 publication pronouncing "[D]elays in recovering cash outlays combined with less supportive regulatory outcomes that could hurt cash flow and coverage metrics could precipitate lower ratings." Has Mr. Fetter seen the January 29, 2009 announcement by S&P announcing that Energy East was under review for a downgrade? What was the primary reason S&P instituted this review?

RESPONSE:

169. Mr. Fetter has seen the January 29, 2009 announcement. The reason S&P instituted this is set forth in S&P's subsequent formal report on Energy East and the Companies released on February 9, 2009. In that report, S&P explained:

"Current ratings on Energy East and its utility subsidiaries incorporate a level of support from Iberdrola and would likely be lower if Standard & Poor's were to view Iberdrola's strategic and financial commitment to have weakened since acquiring Energy East in 2008. Iberdrola has demonstrated its support for Energy East by suspending dividends and extending liquidity to the company as it faced the difficult capital markets in 2008. Resolution of the CreditWatch listings will depend upon our determination of the stand-

alone credit quality of Energy East and an assessment of Iberdrola's relationship with Energy East.

Energy East has strained its liquidity sources and has experienced difficulties in gaining access to capital markets to meet working capital needs and higher collateral postings related to hedging interest rates and costs associated with failures on auction rate securities. The dragging economy has produced sales declines, cost increases, and the need for greater contributions to medical and retirement benefit plans. Additional capital requirements resulting from the merger agreement have increased external financing needs.

The company's ability to improve its credit profile as it pursues expedited action by the New York Public Service Commission to increase rates by a total of $278 million by July 2009 will be an important factor in resolving the CreditWatch listing. If Energy East's independent credit profile going forward cannot support current ratings, we could lower the ratings, absent any affirmative action by its parent company to continue to support its U.S. subsidiary."

The full text of S&P's February 9 report is attached as part of Exhibit DPS-169.

Additionally, Fitch issued a release on February 10, 2009 affirming RG&E's "BBB-" rating, and noting that the Company's credit metrics would continue to decline without adequate regulatory relief in this proceeding. The full text of the Fitch report is attached as part of Exhibit DPS-169.

My Credit Profile

Table of Contents

? Rationale

Summary: Energy East Corp.

Publication date: 09-Feb-2009

Primary Credit Analysts: John Kennedy, New York (1) 212-438-7670; john_kennedy@standardandpoors.com

Todd A Shipman, CFA, New York (1) 212-438-7676; todd_shipman@standardandpoors.com

Rationale

The company's credit ratings remain on CreditWatch with negative implications as Standard & Poor's reviews its short-term and long-term financial position and its relationship with parent company Iberdrola S.A. (A-/Stable/A-2). Energy East's stand-alone financial condition has fallen since we affirmed ratings in September 2008. The outlook had been negative since a 2006 rate reduction in New York and remained negative as the acquisition by Iberdrola was pending. A weak liquidity position at its New York subsidiaries, which have fully drawn their bank facilities, has led New York State Electric & Gas (NYSEG) and Rochester Gas & Electric (RGE) to petition regulators for accelerated rate relief. Current ratings on Energy East and its utility subsidiaries incorporate a level of support from Iberdrola and would likely be lower if Standard & Poor's were to view Iberdrola's strategic and financial commitment to have weakened since acquiring Energy East in 2008. Iberdrola has demonstrated its support for Energy East by suspending dividends and extending liquidity to the company as it faced the difficult capital markets in 2008. Resolution of the CreditWatch listings will depend upon our determination of the stand-alone credit quality of Energy East and an assessment of Iberdrola's relationship with Energy East.

Energy East has strained its liquidity sources and has experienced difficulties in gaining access to capital markets to meet working capital needs and higher collateral postings related to hedging interest rates and costs associated with failures on auction rate securities. The dragging economy has produced sales declines, cost increases, and the need for greater contributions to medical and retirement benefit plans. Additional capital requirements resulting from the merger agreement have increased external financing needs.

The company's ability to improve its credit profile as it pursues expedited action by the New York Public Service Commission to increase rates by a total of $278 million by July 2009 will be an important factor in resolving the CreditWatch listing. If Energy East's independent credit profile going forward cannot support current ratings, we could lower the ratings, absent any affirmative action by its parent company to continue to support its U.S. subsidiary.

Energy East is a holding company that owns regulated electric and gas utilities in the northeastern U.S. serving nearly three million customers. The ratings on Energy East and its regulated subsidiaries--Central Maine Power Co., NYSEG, Southern Connecticut Gas Co., Connecticut Natural Gas Corp., The Berkshire Gas Co., and RG&E--reflect an excellent business profile and a consolidated financial profile that is considered aggressive.

The excellent business profile is characterized by the low operating risk and geographic diversity of the company's electric and gas transmission and distribution (T&D) subsidiaries. Energy East's service territories span from central New York to southern Maine. The market diversity encompasses densely populated and affluent Connecticut markets as well as slower-growth, rural, upstate New York markets. Despite competition, Energy East's regulated utilities benefit from being the incumbent service provider in many of its markets.

The offsetting factors are a weaker regulatory environment for NYSEG and a consolidated financial profile that is being pressured over the intermediate term. This is exacerbated by the addition of off-balance-sheet debt obligations due to the purchase-power agreement with the owners of the Ginna nuclear power plant and expected regulatory lag in beginning the recovery of costs associated with an expanded capital program.

Energy East's financial performance is expected to deteriorate in the intermediate term due to the factors described above. Average adjusted funds from operations (FFO) interest coverage will be low for the

rating, at about 2.5x, and is projected to remain below 3x for the few years. Adjusted FFO to total debt will be low as well, below 10.0% in the same period. Standard & Poor's projects the $4 billion capital spending program (2009-2013) to require external financing.

Short-term credit factors

The short-term rating on Energy East is 'A-2'. The company's liquidity is currently constrained. Liquidity will continue to be pressured if collateral postings, higher working capital needs higher capital expenditure requirements persist without improved cash flow generation.

Energy East has two committed bank facilities totaling $775 million, which mature in 2011. The $300 million facility is available to Energy East, and the $475 million facility is available to the utilities, with various limits. The agreements don't contain material adverse change clauses or rating triggers, but a default with respect to any other debt in excess of $50 million is considered a default under its revolving credit facility.

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The McGraw-Hill Companies

Fitch Logo

Tagging Info

Fitch Affirms Rochester Gas & Electric Co.'s IDR at 'BBB-'; Outlook Stable Ratings

10 Feb 2009 11:53 AM (EST)

Fitch Ratings-New York-10 February 2009: Fitch Ratings affirms Rochester Gas & Electric Co.'s (RG&E) long-term Issuer Default Rating (IDR) and other debt ratings as follows:

--IDR at 'BBB-';
--First mortgage bonds at 'BBB+";
--Senior unsecured debt at 'BBB'.

The Rating Outlook is Stable.

The ratings reflect a relatively weak credit profile that is consistent with current ratings and the relatively low business risk of RG&E's regulated transmission and distribution operations, limited commodity price exposure and the availability of credit support from parent, Energy East Corp. (EAS), and ultimately EAS' parent, Iberdrola S.A.

Near-term liquidity is the primary credit concern. RG&E's $100 million credit facility is fully drawn and RG&E is dependent on borrowings from EAS for short-term cash needs. The rise in short-term borrowings is due, in part, to RG&E's temporary purchase of $40.7 million of its outstanding auction-rate tax-exempt securities due to the lack of bids from investors, the lingering effects of a five-year rate freeze that limits RG&E's ability to recover rising operating costs and earn its authorized rate of return, and the delay in a receipt of a financing order from the New York Public Service Commission (PSC). The PSC issued a financing order in December 2008 that restored capital market access and allowed RG&E to refinance $50 million of maturing debt and raise funds to unwind an out of the money forward interest rate swap. The financing order is also sufficient to meet 2009 maturities of $100 million.

On Jan. 29, 2009, RG&E filed for a 24.9% delivery rate increase to be effective in July 2009. Without adequate regulatory relief credit measures will continue to decline and without continued liquidity support from EAS and Iberdrola S.A. would place negative pressure on RG&E's credit ratings. RG&E is a regulated transmission and distribution company serving approximately 360,000 electric and 297,000 natural gas customers in Rochester, NY and surrounding areas.

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New York State Electric & Gas Corporation
Rochester Gas and Electric Corporation

PSC Case No. 09-E-0082
PSC Case No. 09-G-0083
PSC Case No. 09-E-0084
PSC Case No. 09-G-0085

Information Request

Requesting Party and No.: (DPS-185) P. J. Barry

NYSEG / RG&E Response No.: NYRGE-0185

Request Date: February 6, 2009

Information Requested of: Policy Panel

Reply Date: February 13, 2009

Responsible Witness: Policy Panel

QUESTION:

On Page 19 of your testimony, you state that the volatility in the financial markets at times has made it impossible to issue long-term debt.

a) Is the Panel aware of any failed public offering of utility debt since the onset of the financial crisis?

b) If yes, please provide details of what utility was trying to issue, when it tried to issue, how much it was trying to issue, any rationale given for the failure, whether or not this debt was later issued and the terms of the issuance at that time. Please provide any source documentation for this information.

RESPONSE:

185.

a) When the markets deteriorated in late-2008, banks changed their approach to marketing bonds and adopted what they refer to as a "pre-sounding" process. In a pre-sounding, bankers would take a proposed deal on a "no names" basis to a small group of investors that they would expect to be lead investors in a specific type of transaction. They would

describe the offering, the ratings and other general characteristics of the deal and gauge interest. If a deal failed to secure interest from these investors, it would never launch publicly. By using pre-sounding techniques the banks were able to avoid the adverse consequences of a public failure of a deal. We understand from our discussions with bank that numerous deals were "pre-sounded" to the markets and never launched due to lack of interest. However, the Companies were not told who the potential issuers were that did not launch these deals.

b) See response above.

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PSC Case No. 09-E-0082
PSC Case No. 09-G-0083
PSC Case No. 09-E-0084
PSC Case No. 09-G-0085

Information Request

Requesting Party and No.: (DPS-186) P. J. Barry

NYSEG / RG&E Response No.: NYRGE-0186

Request Date: February 6, 2009

Information Requested of: Policy Panel

Reply Date: February 13, 2009

Responsible Witness: Policy Panel

QUESTION:

186. On Page 20 of your testimony, you state, "As a result of these cash flow and liquidity concerns, NYSEG and RG&E are without any "liquidity cushion" to ensure that they can respond properly to emergency situations such as major storms, as described in more detail in Section IV below."

a) Please provide any correspondence between NYSEG, RG&E or Energy East and a banking institution wherein these companies have attempted to increase their credit facilities.

b) Were the companies rejected for any credit facility? If so, please provide the correspondence indicating this rejection.

RESPONSE:

186.
a) Neither NYSEG, RG&E nor Energy East has attempted to increase their existing credit facilities or to obtain new ones. Given the significant capital destruction that banks experienced this year, and the fact that NYSEG had already added a $190 million credit facility earlier this year, it was the Policy Panel's view that the bank lending market was

not sufficiently strong to make a traditional bank loan a realistic way to remedy liquidity concerns for the Companies.

b) No. The point is not whether additional credit may or may not be unavailable. Rather, given the Companies' current financial condition, they cannot rely just on added debt (short-term or long-term) without risking downgrades and further limiting access to, and increasing the cost of, capital.

New York State Electric & Gas Corporation
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PSC Case No. 09-E-0082
PSC Case No. 09-G-0083
PSC Case No. 09-E-0084
PSC Case No. 09-G-0085

Information Request

Requesting Party and No.: (DPS-197) P. J. Barry

NYSEG / RG&E Response No.: NYRGE-0197

Request Date: February 6, 2009

Information Requested of: Policy Panel

Reply Date: February 17, 2009

Responsible Witness: Policy Panel

QUESTION:

197. The Panel states that if the Companies only spend the $540 million in capital expenditures required by the Commission versus the amounts assumed in their liquidity analysis that credit metrics would not be demonstrably different than those shown on Exhibit PP-4. Please demonstrate this.

RESPONSE:

197. Please see the attached schedules.

Credit Metric Comparison

Response 0197

	NYSEG		RGE		Moody's Baa Utilities with
	2009	2010	2009	2010	Medium Business Risk
Company Initial Filing - 1-27-09					
Funds flow coverage ratio	3.05	2.84	2.54	2.45	2.7 - 5.0
FFO/Debt ratio	9.0%	7.3%	8.7%	7.2%	13 - 25%
Based on Merger Order Capital Expenditures					
Funds flow coverage ratio	3.08	2.91	2.58	2.49	2.7 - 5.0
FFO/Debt ratio	9.3%	7.9%	9.1%	8.2%	13 - 25%

Response 0197

Exhibit__(PP_4)
Page 1 of 3

Capital Expenditures at Merger Order Level

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	74,638	56,400	18,238	38,968	30,967	8,001
Depreciation	111,618	88,972	22,646	69,935	50,684	19,251
Other Adjustments for Non-Cash Items	(57,685)	(48,616)	(9,070)	(16,834)	(19,241)	2,407
Total Operating Cash Flow	128,571	96,756	31,814	92,069	62,410	29,659
Less Capital Expenditures	(160,000)	(140,000)	(20,000)	(110,000)	(90,000)	(20,000)
Free Cash Flow	(31,429)	(43,244)	11,814	(17,931)	(27,590)	9,659
Dividend to Parent = 100% of Earnings	(74,638)	(56,400)	(18,238)	(38,968)	(30,967)	(8,001)
Long-Term Debt Redemption				(100,000)	(72,300)	(27,700)
Annual Funding Shortfall	(106,067)	(99,644)	(6,424)	(156,899)	(130,857)	(26,042)
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	162,067	141,644	20,424	295,439	231,021	64,418
Funding Requirement less LTD Redemption	162,067	141,644	20,424	195,439	158,721	36,718
Ending Short-term Debt	80,000	60,000	20,000	50,000	36,150	13,850

Response 0197

Capital Expenditures at Merger Order Level

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	61,129	45,551	15,578	34,505	27,701	6,804
Depreciation	115,460	92,194	23,266	70,875	51,306	19,569
Other Adjustments for Non-Cash Items	(57,685)	(48,615)	(9,069)	(18,500)	(20,922)	2,422
Total Operating Cash Flow	118,904	89,130	29,775	86,880	58,085	28,795
Less Capital Expenditures	(160,000)	(140,000)	(20,000)	(110,000)	(90,000)	(20,000)
Free Cash Flow	(41,096)	(50,870)	9,775	(23,120)	(31,915)	8,795
Dividend to Parent = 100% of Earnings	(61,129)	(45,551)	(15,578)	(34,505)	(27,701)	(6,804)
Annual Funding Shortfall	(102,225)	(96,421)	(5,803)	(57,625)	(59,616)	1,991
Total Funding Requirement	102,225	96,421	5,803	57,625	59,616	(1,991)
2009/2010 Cumulative Funding Requirement	264,292	238,065	26,227	353,064	290,637	62,427

Capital Expenditures at Merger Order Level

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

	NYSEG 2009	NYSEG 2010	RGE 2009	RGE 2010	Moody's Baa Utilities with Medium Business Risk
Funds flow interest coverage					
Net income	74,638	59,691	38,968	34,505	
Interest	61,888	61,624	58,364	58,288	
Depreciation & Amortization	111,618	115,460	69,935	70,875	
Other	(57,685)	(57,685)	(16,834)	(18,500)	
Total Funds Flow	190,459	179,090	150,433	145,168	
Interest	61,888	61,624	58,364	58,288	
Funds flow coverage ratio	3.08	2.91	2.58	2.49	2.7 - 5.0
Funds from operations/total debt					
Cash from operations	128,571	117,466	92,069	86,880	
Beginning Long-term Debt*	1,136,549	1,298,616	662,512	957,950	
2008 Net Financing Post Test-Year			100,000		
Annual Funding Requirement	162,067	102,225	195,439	57,625	
Ending Short-Term Debt	80,000	80,000	50,000	50,000	
Total Ending Debt	1,378,616	1,480,841	1,007,950	1,065,576	
FFO/Debt ratio	9.3%	7.9%	9.1%	8.2%	13 - 25%

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