105

Exhibit___(TD-1)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

Thomas A. D'Ambrosia
Supervisor of Accounting and Finance
Office of Accounting and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

EX 105

105

TESTIMONY

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Midstate Telephone Corporation, Case 28110, March 1982.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Niagara Mohawk Power Corporation, Cases 28225 et al., September 1982.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Telephone Corporation, Case 28361, March 1983.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Use of Revenues Under Section 107 of the Public Service Law of the Rochester Telephone Corporation, Case 27420, August 1983.

Joint Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Use of Revenues Under Section 107 of the Public Service Law of the Rochester Telephone Corporation, Case 27420, August 1983.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Telephone Corporation, Case 28695, April 1984.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Telephone Corporation, Case 28990, May 1985.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Joint Petition of Rochester Telephone Corporation Rochester Holding Corporation and Rotelcom, Subsidiary, Inc. for Authority to Effect a Corporate Reorganization, Case 29086, September 1985.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Telephone Corporation, Case 29551, April 1987.

TESTIMONY

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Telephone Corporation, Case 89-C-022, June 1989.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 89-E-166 et al., December 1989.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Use of Revenues Under Section 107 of the Public Service Law and the Issuance of Securities under Section 69 of the Public Service Law, and for Approval of Accounting and Rate Treatment of the Brooklyn Union Gas Company, Case 89-G-126, April 1990.

Joint Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Use of Revenues Under Section 107 of the Public Service Law and the Issuance of Securities under Section 69 of the Public Service Law, and for Approval of Accounting and Rate Treatment of the Brooklyn Union Gas Company, Case 89-G-126, April 1990.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 90-E-647 et al., December 1990.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation and Petition for Permission to Defer Incremental Costs Incurred for The March 1991 Ice Storm, Cases 91-E-0765 et al., November 1991.

Policy Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 92-E-0739 et al., February 1993.

Rate Plan Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 92-E-0739 et al., February 1993.

TESTIMONY

Integrated Resource Management Incentive Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 92-E-0739 et al., February 1993.

Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Petition of Rochester Telephone Corporation for Approval of Proposed Restructuring Plan, Case 93-C-0103, June 1994.

Gas Settlement Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission on Motion of the Commission to Investigate the Practices of Rochester Gas & Electric Corporation in the Acquisition of Pipeline Capacity and Related Costs, Cases 94-G-1048 et al., September 1995.

Policy Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 95-E-0673 et al., January 1996.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 95-E-0673 et al., January 1996.

Policy Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Rochester Gas & Electric Corporation's Plans for Electric Rates and Restructuring Pursuant to Opinion 96-12, Cases 96-E-0898, April 1997.

Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 02-E-0898 et al., September 2002.

Multi-Year Rate Panel Testimony on behalf of the Staff of the Department of Public Service before the State of New York Public Service Commission In the Matter of Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Rochester Gas & Electric Corporation, Cases 02-E-0898 et al., September 2002.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
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State of New York
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Three Empire State Plaza
Albany, New York 12223-1350

03-E-0765 03-G-0766

Exhibit___(TD-2)

Thomas A. D'Ambrosia
adjustments to RG&E corrected amounts

	Ice storm	2003 Ginna Outage	2005 Ginna Outage	2003 Pension costs	2004 Pension costs	COB2 ROE sharing/NM2	Merger Costs	Merger Costs
Line Item	Amortization	Amortization	Amortization	Amortization	Amortization	Amortization	Amortization	Amortization
Electric/Gas	E	E	E	E	G	E	E	G
Expense								
RG&E	$ 3,276.0	$ 5,662.0	$ (4,546.0)	$ 2,179.0	$ 685.0	$ 27,619.0	$ (2,970.0)	$ (1,096.0)
Adjustment	$ (524.5)	$ (5,662.0)	$ -	$ (2,179.0)	$ (685.0)	$ (4,409.6)	$ (878.0)	$ (585.3)
Staff	$ 2,751.5	$ -	$ (4,546.0)	$ -	$ -	$ 23,209.4	$ (3,848.0)	$ (1,681.3)
Rate Base								
RG&E	$ 14,741.0	$ 14,155.0	$ -	$ 3,464.0	$ 2,025.0	$ 177,621.0	$ 15,887.0	$ 2,458.0
Adjustment	$ 11,398.3	$ (14,155.0)	$ (6,251.0)	$ (3,464.0)	$ (2,025.0)	$ (28,384.7)	$ (10,791.0)	$ (1,531.0)
Staff	$ 26,139.3	$ -	$ (6,251.0)	$ -		$ 149,236.3	$ 5,096.0	$ 927.0
ADFIT								
RG&E	$ -	$ (5,644.3)	$ -	$ (1,381.3)	$ (807.5)	$ (62,166.0)	$ (6,335.0)	$ (980.1)
Adjustment	$ (9,874.5)	$ 5,644.3	$ 2,492.6	$ 1,381.3	$ 807.5	$ 9,933.3	$ 4,302.9	$ 610.5
Staff	$ (9,874.5)	$ -	$ 2,492.6	$ -	$ -	$ (52,232.7)	$ (2,032.0)	$ (369.6)

	State taxes	State taxes	Excess DOE liability	Pension credit	Pension credit	Nuclear Fuel in Service	Plant additions	Plant additions	Operating reserves	Operatin reserves
Line Item	Amortization	Amortization	Amortization	Amortization	Amortization	Working capital	Net Plant/ Depreciation	Net Plant/ Depreciation	SIR Reserve	SIR Reser
Electric/Gas	E	G	E	E	G	E	E	G	E	G
Expense										
RG&E	$ -	$ -	$ -	$ -	$ -		$ -	$ -		
Adjustment	$ (1,410.3)	$ (1,340.0)	$ (4,165.0)	$ (495.0)	$ (330.0)		$ (943.7)	$ (530.8)		
Staff	$ (1,410.3)	$ (1,340.0)	$ (4,165.0)	$ (495.0)	$ (330.0)		$ (943.7)	$ (530.8)		
Rate Base										
RG&E	$ -	$ -	$ (4,165.0)	$ (495.0)	$ (330.0)	$ 20,837.0	$ -	$ -	$ (4,955.0)	$ (1,952.
Adjustment	$ (3,525.8)	$ (3,350.0)	$ 2,082.5	$ 247.5	$ 165.0	$ (776.6)	$ (4,190.6)	$ (2,357.2)	$ (3,446.0)	$ (1,316.
Staff	$ (3,525.8)	$ (3,350.0)	$ (2,082.5)	$ (247.5)	$ (165.0)	$ 20,060.4	$ (4,190.6)	$ (2,357.2)	$ (8,401.0)	$ (3,267.
ADFIT										
RG&E	$ -	$ -	$ 1,660.8	$ 197.4	$ 131.6		$ -	$ -	$ 1,975.8	$ 778.
Adjustment	$ 1,405.9	$ 1,335.8	$ (830.4)	$ (98.7)	$ (65.8)		$ 1,671.0	$ 939.9	$ 1,374.1	$ 524
Staff	$ 1,405.9	$ 1,335.8	$ 830.4	$ 98.7	$ 65.8		$ 1,671.0	$ 939.9	$ 3,349.9	$ 1,302.

Exhibit___(TD-3)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

Thomas A. D'Ambrosia
Supervisor of Accounting and Finance
Office of Accounting and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

ROCHESTER GAS & ELECTRIC CORPORATION
UNBUNDLED ELECTRIC INCOME STATEMENT
FOR THE RATE YEAR ENDED APRIL 30, 2005
($Millions)

	RG&E	Staff	~~FINAL SETTLEMENT~~ Rate Year		
Operating Revenues	Total	Adjustments	Total	Supply	Delivery
Retail Customers	$522.9	-$2.3	$520.6	$214.0	$306.6
Other Utilities	120.2	0.0	120.2	120.2	0.0
Late Payment	1.8	0.0	1.8	0.9	0.9
Other Revenues	3.3	0.0	3.3	0.0	3.3
Total Operating Revenues	**648.2**	**-2.3**	**645.8**	**335.1**	**310.8**
Operating Deductions					
Supply Costs	185.2	-5.8	179.4	179.4	0.0
Revenue Taxes	7.2	0.0	7.2	3.8	3.5
Total Operating Deductions	192.4	-5.8	186.6	183.2	3.5
Gross Margin	**455.7**	**3.5**	**459.3**	**151.9**	**307.3**
Total Other Operating Expense	206.4	-20.3	186.1	107.8	78.3
Depreciation/Amortization					
Amortization	51.7	13.1	64.8	-7.9	72.7
Depreciation	81.0	-36.9	44.1	14.9	29.1
Decommissioning	28.7	-23.7	4.9	4.9	0.0
Total Depreciation/Amort.	**161.4**	**-47.6**	**113.8**	**12.0**	**101.8**
Taxes Other Than Income					
Property Taxes	44.1	-4.1	40.0	7.2	32.7
Payroll Taxes	8.6	-0.5	8.0	4.4	3.6
Other Taxes	1.7	0.0	1.7	0.4	1.3
Taxes Other Than Income	54.3	-4.6	49.7	12.0	37.7
Total Operating Rev. Deduction	**422.1**	**-72.5**	**349.6**	**131.8**	**217.8**
Net Operating Revenues	**$33.7**	**$76.0**	**$109.7**	**$20.2**	**$89.4**
Income Taxes					
Total Income Taxes	-1.4	29.4	27.9	6.2	21.7
Net Income Available for Return	**$35.1**	**$46.7**	**$81.7**	**$14.0**	**$67.7**
Rate Base	**$1120.5**	**-$65.1**	**$1055.4**	**$152.2**	**$903.1**
Rate of Return	**3.1%**	**4.6%**	**7.7%**	**9.2%**	**7.5%**
Return on Equity	**-0.4%**		**10.1%**	**11.0%**	**9.5%**

Exhibit___(TD-4)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

Thomas A. D'Ambrosia
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Office of Accounting and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): **November 25, 2003**

Commission file number	Exact name of Registrant as specified in its charter, State of incorporation, Address and Telephone number	IRS Employer Identification No.
1-14766	**Energy East Corporation** (A New York Corporation) P. O. Box 12904 Albany, New York 12212-2904 (518) 434-3049 **www.energyeast.com**	14-1798693
1-672	**Rochester Gas and Electric Corporation** (A New York Corporation) 89 East Avenue Rochester, New York 14649 (585) 546-2700	16-0612110

Not Applicable
(Former name or former address, if changed since last report.)

Item 5. Other Events

See report on Form 10-Q for Energy East Corporation and Rochester Gas and Electric Corporation (RG&E) for the quarter ended September 30, 2003, Item 2(a) Liquidity and Capital Resources, Sale of Ginna Station.)

Sale of Ginna Station:

On November 25, 2003, RG&E a utility subsidiary of Energy East Corporation issued a news release concerning the sale of its R.E. Ginna Nuclear Generating Station. The news release is attached as Exhibit 99-1 to this document.

Item 7. Financial Statements and Exhibits

(c) Exhibits

99-1 Rochester Gas and Electric Corporation's news release dated November 25, 2003.

Forward-looking Statements: This Form 8-K contains certain forward-looking statements that are based on management's current expectations and information that is currently available. Whenever used in this report, the words "estimate," "expect," "believe," "anticipate," or similar expressions are intended to identify such forward-looking statements. For a discussion of the risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Forward-looking Statements" in Energy East's and RG&E's Annual Report on Form 10-K for the year ended December 31, 2002.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERGY EAST CORPORATION
(Registrant)

Date: November 25, 2003

By /s/Robert D. Kump
Robert D. Kump
Vice President, Treasurer
and Secretary

ROCHESTER GAS AND ELECTRIC CORPORATION
(Registrant)

By /s/Joseph J. Syta
Joseph J. Syta
Controller and Treasurer

Exhibit 99-1

Contact: Clyde Forbes
585.771.4802

RG&E TO SELL GINNA NUCLEAR GENERATING STATION TO CONSTELLATION GENERATION GROUP LLC

FOR IMMEDIATE RELEASE

Rochester, NY, November 25, 2003 - RG&E (Rochester Gas and Electric Corporation) a utility subsidiary of Energy East Corporation [NYSE:EAS] announced today that it has signed an agreement to sell the R. E. Ginna Nuclear Generating Station to Constellation Generation Group LLC for $422.6 million (including nuclear fuel). The closing of the sale is targeted for June 30, 2004 and is contingent on the company securing a 20-year license extension from the Nuclear Regulatory Commission (NRC). Cash proceeds from the sale will be used to pay down debt.

"Clearly, Constellation sees the value in Ginna, and its outstanding employees," said Jim Laurito, RG&E's president. "The agreement between RG&E and Constellation marks the end of a successful competitive auction conducted in consultation with the staff of the New York State Department of Public Service. Constellation is an experienced nuclear operator with an excellent reputation for safe and reliable operations. In addition, the sale is consistent with the New York State policy for electric utilities to divest generation assets and transform into energy delivery companies."

RG&E will transfer to Constellation approximately $202 million in decommissioning funds, an amount expected to fully meet the NRC's decommissioning funding requirements for the plant. The sale agreement also includes a 10-year purchase power agreement to ensure that RG&E's customers continue to receive the benefit of power from Ginna.

The sale of Ginna is subject to approvals by several regulatory agencies including the New York State Public Service Commission, the NRC and the Federal Energy Regulatory Commission.

Ginna, powered by a pressurized, light water nuclear reactor, is located on Lake Ontario, in the Town of Ontario, in Wayne County. Westinghouse designed the plant and Bechtel constructed it. Ginna's current NRC operating license expires in 2009. The process to extend the license to 2029 is well under way. A decision on the license extension is expected by June 2004.

J.P. Morgan Securities Inc. and Concentric Energy Advisors, Inc. acted as advisors to RG&E for this transaction. Huber Lawrence & Abell and LeBoeuf, Lamb, Greene, & MacRae, LLP acted as legal counsel.

About RG&E: *RG&E serves approximately 355,000 electricity customers and 291,000 natural gas customers in the areas in and around Rochester, New York. RG&E is a wholly owned subsidiary of RGS Energy, which merged with Energy East Corporation [NYSE:EAS] in 2002.*

About Energy East: *Energy East is a respected superregional energy services and delivery company that our customers can depend on every day. We are a motivated and skilled team of professionals dedicated to creating shareholder value through our focus on profitable growth, operational excellence and strong customer partnerships. We serve 3 million customers (1.8 million electricity, 900,000 natural gas and 300,000 other retail energy customers) throughout upstate New York and New England.*

Exhibit___(TD-5)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
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December 2003

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Office of Accounting and Finance
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Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
Estimated Amount to be Removed from Fixed Costs Upon the Sale of Ginna Station
$Millions

Ginna Fixed Costs (a)		Ginna per Unbunding Filing	Pro-Forma Staff Adjustments	Staff As Adjusted
Pre-Tax Return on Equity				
Rate Base Differences	(b)	$ 169.6	$ 197.7	$ 367.3
Common Equity Ratio		52.8%	-3.0%	49.8%
Equity Component of Rate Base		$ 89.5	$ (5.9)	$ 182.9
Return on Equity		13.3%	-2.3%	11.0%
Total		$ 11.9	$ 8.2	$ 20.1
Preferred Dividend		$ -	$ -	$ -
Federal & State Income Taxes		$ 7.2	$ 4.9	$ 12.1
Interest Expense		$ 5.4	$ 6.2	$ 11.5
O&M Expenses		$ 83.5	$ 2.2	$ 85.7
Amortizations	(c)	$ 2.1	$ (2.1)	$ 0.0
Depreciation	(d)	$ 30.8	$ (21.5)	$ 9.3
Ginna Decommissioning		$ 28.7	$ (23.7)	$ 5.0
Taxes Other than Income & Revenue Taxes		$ 9.2	$ 1.4	$ 10.6
Total		$ 178.8	$ (24.4)	$ 154.3
Estimated Monthly Amount of Avoided Costs		$ 14.9	$ (2.0)	$ 12.9

(a) Excludes fuel costs which are being reconciled in Electric Supply Reconciliation Mechanism (ESM)
(b) From Asset Sale Gain Account Exhibit___(TD-6), includes ASGA credit.
(c) Excludes $5.7 million amortization of 2003 outage Ginna replacement power costs
(d) Staff amount includes Common/General depreciation

Rochester Gas and Electric Corporation
Comparison of Staff and RG&E Ginna Estimated Fixed Cost Amounts
$Millions

Ginna Fixed Costs (a)	Ginna per Syta Affidavit	Staff As Adjusted	Differences
Pre-Tax Return on Equity			
Rate Base	$ 74.3	$ 367.3	$ (293.0)
Common Equity Ratio	46.4%	49.8%	-3.4%
Equity Component of Rate Base	$ 34.5	$ 182.9	$ (148.4)
Return on Equity	7.7%	11.0%	-3.3%
Total	$ 2.7	$ 20.1	$ (17.5)
Preferred Dividend	$ -	$ -	$ -
Federal & State Income Taxes	$ 1.4	$ 12.1	$ (10.7)
Interest Expense	$ 2.3	$ 11.5	$ (9.2)
O&M Expenses	$ 75.1	$ 85.7	$ (10.6)
Amortizations	$ 1.9	$ 0.0	$ 1.9
Depreciation	$ 7.9	$ 9.3	$ (1.4)
Ginna Decommissioning	$ 7.3	$ 5.0	$ 2.3
Taxes Other than Income & Revenue Taxes	$ 10.5	$ 10.6	$ (0.1)
Total	$ 109.1	$ 154.3	$ (45.3)
Estimated Monthly Amount of Avoided Costs	$ 9.1	$ 12.9	$ (3.8)

Exhibit___(TD-6)

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Office of Accounting and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
Estimated Amount to be Credited to Asset Sale Gain Account
$Millions

	Rate Year As Filed	Staff Adjustments	As Adjusted by Staff	
Net Proceeds:				
Initial Purchase Price from Constellation			$ 422.6	
Decommissioning overfunding			$ 61.1	
Capital Gains tax due			$ (92.1)	
Total Net Proceeds				$ 391.6
Plant and Fuel				
Plant - Generation	$ 144.7	$ 21.5	$ 166.2	
Plant - Common/General	$ 24.7	$ -	$ 24.7	
Construction Work In Progress	$ 7.8		$ 7.8	
Retirement Work In Progress	$ 1.9		$ 1.9	
Nuclear Fuel (net)	$ 20.8		$ 20.8	
Total Net Plant and Fuel	$ 200.0	$ 21.5	$ 221.4	$ 221.4
Working Capital/Prepayments	$ 10.0		$ 10.0	$ 10.0
Deferred Debits and Credits				
Nuclear Decommissioning Internal Reserv	$ (35.9)		$ (35.9)	
Total Deferred Debits and Credits	$ (35.9)	$ -	$ (35.9)	$ (35.9)
Transaction Related Costs				
Net Curtailment Gain/Loss OPEBs (a)	$ -	$ -	$ -	
Other Transaction Costs @ 5% gross	$ -		$ 21.1	
Total Transaction Related Costs	$ -			$ 21.1
Total Investments and Costs				$ 216.7
Estimated ASGA Credit due Ratepayers				**$ 174.9**

(a) OPEB reserve used to write down OPEB-TBO

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Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

<u>Information Request</u>

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-44)

RG&E Response No.: <u>0447</u>

Request Date: August 28, 2003

Information Requested of: Lahtinen/Syta

Reply Date: October 1, 2003

Responsible Witness: Lahtinen/Syta

QUESTION:

According to Energy East Corporation's, Form 10-Q for quarterly period ending June 30, 2003, "Integration savings, previously estimated at over $80 million, annually, are now expected to be approximately $100 million annually by 2006" (see Energy East Corporation, Item 2. Section (a)).

Please provide a schedule in a format similar to Appendix A of the Merger Joint Proposal which shows these new savings amounts (i.e., by year and by company).

RESPONSE:

No such schedule is available nor is it relevant to this proceeding, given the time frame indicated in the 10-Q report (2006) which is well after the end of the rate year in this proceeding. Appendix A of the Merger Joint proposal covers all of the savings that RG&E, NYSEG and the Commission have agreed to reflect in rates during the period shown on the Appendix (which includes the period through 2006). The Merger Joint Proposal makes clear that electric and gas customers shall be entitled to 50% of the net savings shown on Appendix A. As such, RG&E has reflected in its filing the appropriate customer share of the Appendix A net savings. To the extent that the Company achieves net savings greater than the net savings indicated in Appendix A, an earnings sharing mechanism would insure that customers would receive 50% of any additional net savings produced.

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-45)

RG&E Response No.: 0448

Request Date: August 28, 2003

Information Requested of: Lahtinen/Syta

Reply Date: October 1, 2003

Responsible Witness: Lahtinen/Syta

QUESTION:

According to Energy East Corporation's Form 10-Q for quarterly period ending June 30, 2003:

"Integration savings and other cost control efforts added 12 cents per share to earnings" (see Energy East Corporation, Item 2. Section (b)).

In the Energy East Electric Delivery Business section, it refers to a "$26 million decrease [in operating expenses] due to integration savings and other cost control efforts."

No mention of "integration savings" appears in Energy East's Gas Delivery Business section.

Did Energy East realize any "integration savings" from its Gas Delivery Business? If so, please state the amount.

RESPONSE:

The amount of the experienced savings is irrelevant to specific ratemaking around those savings in this current proceeding. Appendix A of the Merger Joint Proposal clearly covers all savings that the Company and the Commission have agreed to reflect in rates during the period shown on Appendix A. That Appendix identifies savings for both the electric and gas businesses of the Company. The Company has reflected those savings in its filing.

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-46)

RG&E Response No.: 0449

Request Date: August 28, 2003

Information Requested of: Lahtinen/Syta

Reply Date: October 1, 2003

Responsible Witness: Lahtinen/Syta

QUESTION:

According to Energy East Corporation's Form 10-Q for quarterly period ending June 30, 2003:

"Integration savings and other cost control efforts added 12 cents per share to earnings" (see Energy East Corporation, Item 2. Section (b)).

In the Energy East Electric Delivery Business section, it refers to a "$26 million decrease [in operating expenses] due to integration savings and other cost control efforts."

No mention of "integration savings" appears in Energy East's Gas Delivery Business section.

In the New York State Electric and Gas Corporation (NYSEG) Electric Delivery section of the above Form 10-Q, it states the "decrease in operating expenses for the six months was primarily the result of a $12 million decrease due to integration savings and cost control efforts."

No mention of "integration savings" appears in NYSEG's Gas Delivery Business section, RG&E's, or Central Maine Power Company's (CMP) respective disclosures.

- Did RG&E realize any "integration savings" from its Electric or Gas Delivery Businesses? If so, please state the amount of integration savings for each.
- Did CMP realize any "integration savings" from its Electric or Gas Delivery Businesses? If so, please state the amount of integration savings for each.
- Did NYSEG's gas delivery business realize any "integration savings"? If so, please state the amount of integration savings realized by NYSEG gas.

RESPONSE:

See response to RGE0448. The same comments apply to the Company's Electric Delivery business. Information regarding companies other than RG&E is irrelevant to this proceeding.

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-47)

RG&E Response No.: 0450

Request Date: August 28, 2003

Information Requested of: Lahtinen/Syta

Reply Date: October 1, 2003

Responsible Witness: Lahtinen/Syta

QUESTION:

According to Energy East Corporation's, Form 10-Q for quarterly period ending June 30, 2003:

"Integration savings and other cost control efforts added 12 cents per share to earnings" (see Energy East Corporation, Item 2. Section (b)).

In the Energy East Electric Delivery Business section, it refers to a "$26 million decrease [in operating expenses] due to integration savings and other cost control efforts."

No mention of "integration savings" appears in Energy East's Gas Delivery Business section.

The New York State Electric and Gas Corporation (NYSEG) Electric Delivery section of the above Form 10-Q, it states the "decrease in operating expenses for the six months was primarily the result of a $12 million decrease due to integration savings and cost control efforts."

No mention of "integration savings" appears in NYSEG's Gas Delivery Business section, RG&E's, or Central Maine Power Company's (CMP) respective disclosures.

- Did NYSEG's gas delivery business realize any "integration savings"? If so, please state the amount of integration savings realized by NYSEG gas.
- Did CMP realize any "integration savings" from its Electric or Gas Delivery Businesses? If so, please state the amount of integration savings for each.

RESPONSE:

See response to RGE0449.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

Thomas A. D'Ambrosia
Supervisor of Accounting and Finance
Office of Accounting and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

<u>Information Request</u>

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-43)

RG&E Response No.: <u>0366</u>

Request Date: July 22, 2003

Information Requested of: Ryan/Syta/Vanderwege/Wierzba

Reply Date: September 10, 2003

Responsible Witness: Ryan/Syta/Vanderwege/Wierzba

QUESTION:

According to page 5 of Energy East's 2002 Annual Report to Shareholders, Energy East has "initiated three major merger-related efforts-*Integrating Excellence, Project Spartan,* and *Information Technology and Supply Chain Optimization.*"

a) Are any capital or O&M costs associated with any of the above or any similar or related Energy East initiatives included in RG&E's rate case forecasts?

b) If so, please identify all amounts and itemize the related cost categories where such costs are included (e.g., plant in service, O&M expense-payroll, etc.).

c) If so, are costs to achieve the above or any similar or related Energy East initiatives expected to be allocated to RG&E or are the costs expected to be directly incurred by RG&E?

d) If any of the above costs are expected to be allocated to RG&E, please describe the cost allocation method(s) and provide the supporting computations for such allocations.

e) Has RG&E forecast any cost savings or avoided costs in the rate case related to any of the above or any similar or related Energy East initiatives other than those identified in Exhibits 9-10, Schedule E as "merger synergy savings"?

f) If so, please identify references to the savings in the rate filing (e.g., workpapers, exhibits, and information request responses).

RESPONSE:

a) Yes.

b) Integrating Excellence - $1.695 million, included in plant in service.
Implementation of ERP - $5.590 million, included in plant in service.
Any operating expense or savings associated with these investments are subsumed within the amounts included in Appendix A of the Merger Joint Proposal.

c) To a large extent, these costs are expected to be allocated to RG&E.

Please refer to RG&E Response No. 0365, Response d).

e) No.

f) N/A.

Exhibit___(TD-9)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Three Empire State Plaza
Albany, New York 12223-1350

Case 96-E-0898
Rochester Gas and Electric Corporation
Responses to DPS
Information Request

ROE-18

Q.

In the "Operating Results for the Electric Delivery Business" section of Rochester Gas & Electric Corporation's June 10-Q (see pages 36-39) it states "Operating expenses increased…due to…a $10 million writedown of software development cost that management determined to have no future economic value."

In response to INF-195 c), RG&E stated that: "Management relied on an outside consultant to determine the future usefulness of various components of the PRIDE software. The consultant indicated that several modules would, for the most part, be useful in the future and that several modules, for the most part, would not be useful."

a. According to the above statements, management determined that certain modules of the PRIDE project had "no future economic value…[and] would not be useful." What cause the modules to lose economic value?

b. What changes caused these modules to be no longer useful?

c. Did these modules work properly—did they work as they were intended? If completed, was it the company's expectation that the modules would perform as intended?

d. Were these modules incompatible with other RG&E and/or other Energy East or its affiliate's information systems?

e. Were any of these modules modified or curtailed because they were no longer economic to operate?

A. a. The loss of economic value was caused in part by the ability/inability to use all or a part of a module in the potential ongoing enterprise solution.

b. There were no specific changes. Overall, a determination was made that a common systems and process approach across the enterprise is desirable.

c. None of the modules had been fully tested at the time the project was suspended, so it is not possible to say at this point that the modules worked as intended. If completed, the Company's expectation is that the modules would perform as intended.

d. The modules were being designed to interface with all appropriate RG&E information systems. The modules were not designed to be compatible with other affiliates' information systems, and as Energy East is still evaluating enterprise level information systems solutions, the modules could not have been designed to interface with systems not yet determined.

e. No.

Respondent:	Joseph J. Syta
Date:	April 17, 2003

Exhibit___(TD-10)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Supervisor of Accounting and
Finance
Office of Accounting and
Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-10)

RG&E Response No.: 0079

Request Date: June 4, 2003

Information Requested of: S. Ryan

Reply Date: 06/12/03

Responsible Witness: Sean Ryan

QUESTION:

Merger Costs

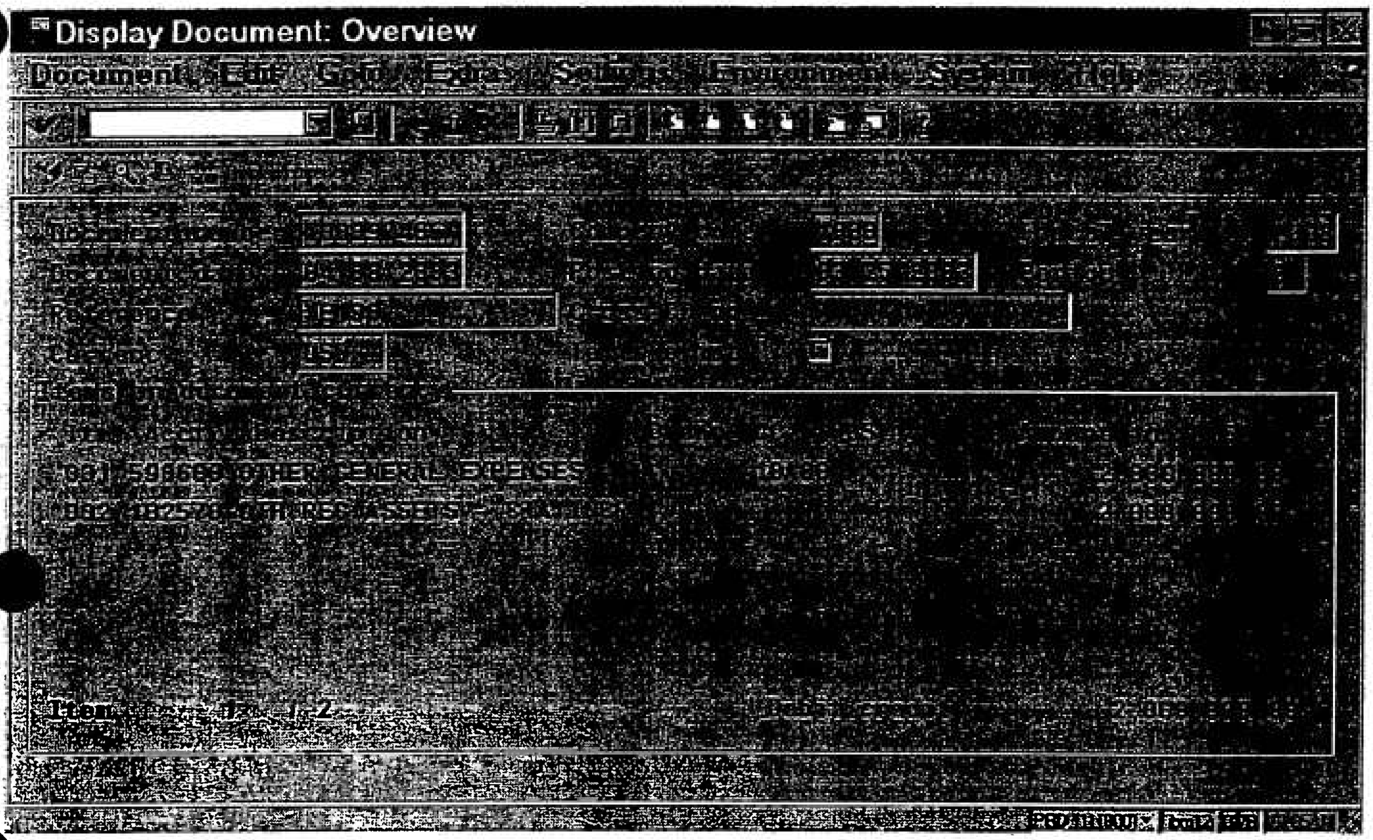
According to the Revenue Requirement Panel testimony, page 29, line 21 - page 30, line 1 "The amount of costs deferred exceeded the cap that the Order established for such deferrals. Therefore, the amount of the deferred costs in excess of the cap was reversed for book and rate purposes."

Please provide initial journal entry(ies) that were made to reverse costs in excess of the cap and state the month in which such entries were made.

NOTE: If all the information is not immediately available, please forward the information, as it becomes available.

RESPONSE:

1. Below is the March 2003 journal entry made to reverse deferred costs in excess of the cap.


Display Document: Overview
OTHER GENERAL EXPENSES

Exhibit___(TD-11)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: D'Ambrosia (TAD-1)

RG&E Response No.: 0006

Request Date: May 28, 2003

Information Requested of: J. Syta

Reply Date: June 6, 2003

Responsible Witness: Syta / Miller

QUESTION:

According to RG&E's SEC 10-K Report for December 31, 2002, "As of July 1, 2002, Mr. [Thomas] Richards retired as an officer of the Company."

B. Exhibit 10-27 of RG&E's June 30, 2002 SEC 10-Q (Separation and General Release) indicates a severance payment of $4,101,974 was payable to Mr. Richards (see Exhibit B). In RG&E's SEC 10-K Report for December 31, 2002, it indicates that "Mr. Richards received a payment of $6,389,984 pertaining to an agreement he had with the company regarding his termination of employment." Please provide a breakdown of the $6,389,984 payment referred to in the December 2002 10-K.

RESPONSE:

Please see the attached letter.

The $4,101,974 amount is delineated in Exhibit B of Exhibit 10-27 of the June 30, 2002 10-Q. The difference between the $6,389,984 noted in the 10-K Report for 2002 and the $4,101,974 indicated in Exhibit 10-27 of the June 30, 2002 10-Q Report is $2,288,010. This is a gross-up amount that was paid to Mr. Richards in September, 2002, after the completion of an analysis by the Company's external auditors. This analysis determined that Mr. Richards would be liable for excise tax on the payments previously received. The Company was liable under the terms of Mr. Richards Employment Agreement to gross-up the payments made to Mr. Richards to cover his excise tax obligation.

Exhibit___(TD-12)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

<u>Information Request</u>

Requesting Party and Request No.: **D'Ambrosia (TAD-1)**

RG&E Response No.: <u>0005</u>

Request Date: May 28, 2003

Information Requested of: J. Syta

Reply Date: June 6, 2003

Responsible Witness: Syta / Miller

QUESTION:

According to RG&E's SEC 10-K Report for December 31, 2002, "As of July 1, 2002, Mr. [Thomas] Richards retired as an officer of the Company."

1. Please provide Mr. Richard's Employment Agreement(s) under which the payments cited below were made.

RESPONSE:

Please see the attached letter.

Mr. Richards' Employment Agreement is available for your review at the Company offices at 89 East Avenue. Please contact Joseph Syta to arrange a time for review.

Exhibit___(TD-13)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Supervisor of Accounting and Finance
Office of Accounting and Finance
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Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: D'Ambrosia (TAD-1)

RG&E Response No.: 0004

Request Date: May 28, 2003

Information Requested of: J. Syta

Reply Date: June 6, 2003

Responsible Witness: Syta / Miller

QUESTION:

According to RG&E's SEC 10-K Report for December 31, 2002, "As of July 1, 2002, Mr. [Thomas] Richards retired as an officer of the Company."

1. Exhibit 10-27 of RG&E's June 30, 2002 SEC 10-Q (Separation and General Release) states "Energy East and RGS have agreed that [Mr. Richard's] termination will be treated as a termination by the Executive for Good Reason under Section 7.2 of the Employment Agreement." Please state the specific reasons Mr. Richards left employment at RGS.

RESPONSE:

Please see the attached letter.

Mr. Richards resigned from the Company effective June 28, 2002. The specific reasons are Mr. Richards' to discuss as he desires.

Exhibit___(TD-14)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Supervisor of Accounting and Finance
Office of Accounting and Finance
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Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: D'Ambrosia (TAD-30)

RG&E Response No.: 0236

Request Date: June 27, 2003

Information Requested of: Syta/Ryan/Vanderwege/Wierzba

Reply Date: July 11, 2003

Responsible Witness: Syta

QUESTION:

Mr. Thomas Richard's Employment Agreement was provided to Staff on June 20, 2003 in response to RG&E Response 0005. Exhibit 10-27 of RG&E's June 30, 2002 SEC 10-Q (Separation and General Release) states "Energy East and RGS have agreed that [Mr. Richard's] termination will be treated as a termination by the Executive for Good Reason under Section 7.2 of the." Section 17 (h) of the Employment Agreement on pages 13-14 states the meaning of "'Good Reason' for termination by the Executive" and five specific items are listed, numbered (i) through (v).

a. Please state the company's acts or failures to act (i.e., by item number under the Employment Agreement definition of "Good Cause" above) which were the cause of Mr. Richards termination of employment at RGS.

b. Please explain and justify all acts of the parent or the company which caused the executive to leave employment at RGS.

c. If "termination compensation and benefits" paid to Mr. Richards under Section 7 was not for one of the acts or failures to act as defined by Section 17 (h) of the Employment Agreement, please explain and justify why such termination compensation and benefits were paid by the Company.

RESPONSE:

The Company does not possess sufficient information to answer these questions.

Exhibit___(TD-15)

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

Thomas A. D'Ambrosia
Supervisor of Accounting and Finance
Office of Accounting and Finance
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

STATE OF NEW YORK DEPARTMENT OF PUBLIC SERVICE
THREE EMPIRE STATE PLAZA, ALBANY, NY 12223-1350
Internet Address: http://www.dps.state.ny.us

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DAWN JABLONSKI RYMAN
General Counsel

JACLYN A. BRILLING
Acting Secretary

December 31, 2003

VIA REGULAR MAIL

Mr. Joseph Syta
Controller & Treasurer
Rochester Gas & Electric Corporation
89 East Avenue
Rochester, New York 14649

Re: Cases 98-E-0898 and 98-G-1589 - Rochester Gas & Electric Corporation - In the Matter of Rochester Gas and Electric Corporation's Plans for Electric Rate/Restructuring Pursuant to Opinion No. 96-12 and In the Matter of Rochester Gas and Electric Corporation's Plans for Gas Rates and Restructuring - Computation of Regulatory Earnings for the Rate Year Ending June 30, 2002

Dear Mr. Syta:

By this letter, we are advising Rochester Gas and Electric of Staff's findings in the above-captioned matter. Enclosed is the Staff Report On Rochester Gas and Electric Corporation's Computation of Regulatory Earnings for the Rate Year Ending June 30, 2002.

Staff finds that RG&E's achieved regulatory return on common equity is 4.67% for electric and 7.05% for gas for the rate year ending June 30, 2002. As described in the attached report, based on Staff's regulatory earnings analysis, we conclude that RG&E's electric earnings shortfall computed in accordance with the Competitive Opportunities (COB2) Settlement[1] is (6.83%) or ($37.3 million) or ($62.1 million pre-tax) on a regulatory basis for the rate year ending June 30, 2002, the fifth and final rate year of that settlement.

---

[1] According to the COB Settlement, RG&E's allowed return on equity to be used determine the annual amount of excess or deficient earnings is 11.50% (see COB Settlement, Paragraph 10 and footnote 42).

Staff also found that RG&E recorded an insufficient level of Electric Regulatory Amortization Expense over the term of the COB2 Settlement. RG&E should apply this Amortization shortfall ($16.7 million as adjusted by Staff) to reduce the Nine Mile #2 Regulatory Asset.

Finally, we find that RG&E did not achieve a sufficient regulatory ROE (7.05%) for gas operations to produce any earnings sharing with consumers. As you recall, the 2001 Gas Rate Order called for a sharing of 90% of earnings in excess of 12.0% with consumers.

The recent Commission Order on RG&E's rate case (the 2003 Rate Order, see Case 02-E-0198 Rochester Gas and Electric Corporation Order Adopting Recommended Decision With Modifications page 103 (issued March 7, 2003), stated:

> "As a result of this decision, concerning Excess earnings, Rochester Gas & Electric is required to immediately write down deferred Nine Mile #2 regulatory assets as described above. The amount we adopt for excess earnings, however, will be subject to further possible modification, pending the result of the fifth-year excess earnings review process."

Staff's findings result in a $12.4 million ($7.5 million after-tax) increase in fifth year regulatory earnings when compared to the ($44.8 million) adopted by the Commission in the 2003 Rate Order. Accordingly, an additional write-down of the Nine Mile #2 regulatory asset will be necessary. After adjustment of the above amount for $1.5 million in interest (accrued at a rate of 8.5% per year until the conclusion of the current rate period January 14, 2004), and including the $16.7 million Amortization shortfall, the additional required write down of the NM2 regulatory asset will be $30.6 million.

Please contact me if you have any questions on this matter.

Sincerely,

Thomas A. D'Ambrosia
Supervisor of Accounting & Finance

Attachment

STATE OF NEW YORK
DEPARTMENT OF PUBLIC SERVICE

OFFICE OF ACCOUNTING & FINANCE

STAFF REPORT ON

ROCHESTER GAS AND ELECTRIC CORPORATION'S COMPUTATION OF REGULATORY EARNINGS FOR THE RATE YEAR ENDING JUNE 30, 2002

IN

CASE 98-E-0898 - ROCHESTER GAS & ELECTRIC CORPORATION - IN THE MATTER OF PLANS FOR ELECTRIC RATE/RESTRUCTURING PURSUANT TO OPINION NO. 96-12
&
CASE 98-G-1589 - ROCHESTER GAS & ELECTRIC CORPORATION - IN THE MATTER OF ROCHESTER GAS AND ELECTRIC CORPORATION'S PLANS FOR GAS RATES AND RESTRUCTURING

Prepared by:
Thomas A. D'Ambrosia
Supervisor of Accounting and Finance
Office of Accounting and Finance

December 31, 2003

BACKGROUND

As required by the (the COB2 Settlement, see Case 96-E-0898 Rochester Gas & Electric Corporation Opinion and Order Adopting Terms of Settlement Subject to Conditions and Changes, issued January 14, 1998), by letter dated September 30, 2002, RG&E submitted its computation of electric and gas regulatory earnings for the rate year ending June 30, 2002. For electric operations, RG&E's filing indicated that it achieved a 3.65% return on equity (ROE) or a shortfall of 7.85% ($43.5 million after-taxes or $72.4 million pre-tax) compared to the 11.5% allowed ROE. This shortfall reduced the $82.4 million of pre-tax excess earnings shown by the company for the previous four rate years (those ending on June 30, 1998-2001) of the COB2 agreement. In sum, the company indicated pre-tax excess earnings available for sharing of $9.9 million for the entire term of the COB2 agreement (see Attachment 1, Schedule A of RG&E's September 30 letter).

For gas operations, RG&E's filing indicated that it achieved a 4.90% return on equity (ROE) or a shortfall of 7.60% ($12.3 million after-taxes or $21.6 million pre-tax) compared to the 12.0% ROE cap for sharing for the rate year ending June 30, 2002 (the Gas Joint Proposal, see Case 98-G-1589 Rochester Gas and Electric Corporation Order Adopting Terms of Joint Proposal, (issued February 28, 2001). For gas operations, 90% of earnings above the 12% ROE cap would be shared with consumers.

In the then pending rate case (the 2003 Rate Order, see Case 02-E-0198 Rochester Gas and Electric Corporation Order Adopting Recommended Decision With Modifications (issued March 7, 2003), Staff disputed the company's regulatory earnings computations for the first four rate years on the basis of audit reports which it had released in prior years.[2] Since Staff did not have an adequate opportunity to audit the fifth year regulatory earnings filing while the rate case was pending, the Commission adopted a placeholder amount for the fifth year regulatory earnings and instructed Staff to complete its audit and present any further modifications.[3]

After reflecting adjustments proposed by Staff, the achieved ROE adopted as a placeholder by the Commission for the fifth year was 3.3% for electric operations. This indicated a Commission earnings shortfall of 8.2% ($44.8 million after-tax or $ 74.5 million pre-tax) for electric. For gas, the achieved ROE determined using the Commission basis, was 5.45%, which was lower than the 12.0% ROE cap. Thus, no sharing was required.

SUMMARY OF STAFF'S FINDINGS

Staff reviewed RG&E's regulatory common earnings and common equity, including RG&E's adjustments and certain other accounting information in order to determine its position on regulatory earnings. Based on our review, we find that RG&E's achieved regulatory ROE for the fifth rate year should be increased to 4.67% for electric and 7.05% for gas. The increase in electric regulatory ROE would increase the amount of excess earnings to be shared with ratepayers by $7.5 million ($12.4 million pre-tax). Interest of $1.5 million is applicable to this amount. No earnings sharing is indicated for gas operations.

The table below provides a summary of the Staff adjustments and the resulting regulatory ROE.

[2] See Exhibit 115 in Case 02-E-0198.
[3] See Ordering Clause 10 (a) of 2003 Rate Order.

Summary of Staff's Adjustments
$000s

Description	Total	Electric	Gas
Regulatory Earnings-PSC	$26,719	$18,042	$8,677
Staff Adjustments:			
1. PRIDE write-off	8,249	5,774	2,475
2. Amortizations	1,473	1,473	0
3. Workers Compensation	288	219	69
Total Staff Adjustments	10,010	7,466	2,545
Regulatory Earnings-Staff	$36,729	$25,508	$11,221
Regulatory Equity	$705,455	$546,227	$159,228
Regulatory ROE-Staff	**5.21%**	**4.67%**	**7.05%**

AUDIT SCOPE AND OBJECTIVES

The principal objective of this audit was to determine whether historical data employed by RG&E to develop its fifth year regulatory earnings was accurately, consistently, and properly handled. Essentially, we attempted to determine if the data contained in RG&E's regulatory earnings filing was consistent with and supported by the company's books (general ledger) and if the amounts on the company's books (general ledger) supporting regulatory earnings were consistent with and supported by their source documents (e.g., journal entries, invoices, etc.). Further, we reviewed regulatory earnings and its supporting documentation to determine if it was filed in compliance with the Commission's the Uniform System of Accounts (Chapter II-Electric Utilities and Chapter III Gas Utilities), the COB2 Rate Order, and the Gas Joint Proposal.

As in any audit, we employed a materiality standard and sampling techniques. In other words, issues may not have been raised in this report simply because the amount of money at stake was not significant enough to warrant the effort required to resolve such issues and/or because all transactions were not examined due to the use of sampling.

To be clear, we did not attempt to resolve any of the following matters :

- we did not evaluate the adequacy of RG&E's internal controls nor did we test them for compliance,
- we did not evaluate the effectiveness of the RG&E's purchasing function,
- we did not examine the "prudence" of the costs included in regulatory earnings,
- we did not perform a "management/operations audit."

DESCRIPTION OF FINDINGS

Finding #1. -The Company Expenses for an Abandoned Computer Development Project (PRIDE) Should Be Removed From the Regulatory Earnings for the Fifth Rate Year

In the month of June 2002, RG&E recorded a special journal entry that included a charge of $13.7 million to PSC accounts 588 and 880 Miscellaneous/Other Distribution Expenses. RG&E records indicate that it allocated 70% or $9.6 million of this charge to electric and 30% ($4.1 million) to gas. This charge to expense reduced fifth year regulatory earnings by approximately $5.8 million for electric and $2.7 million for gas (after-tax).

Staff's review of the facts and circumstances concerning this write off lead us to the conclusion that it was not proper for RG&E to include the write off and reduce 5th year regulatory earnings by $8.5 million for these costs. Specifically, our review reveals two major concerns with the inclusion of PRIDE costs in fifth year regulatory earnings. First, the write off was not properly accounted for (i.e., as an operating expense) and should not have affected operating earnings. Second, the demise of the PRIDE project, and thus the write off, was a direct consequence of the merger between RGS and

Energy East (the Merger Joint Proposal, see Cases 01-E-0359 and 01-M-0404 New York State Electric and Gas Corporation, et. al., Order Adopting Provisions of Joint Proposal With Modifications (issued January 27, 2002). Accordingly, pursuant to the Merger Joint Proposal, this write-off should be classified as a cost of the merger, not as an operating expense.[4]

During our review we became aware of certain information contained in RG&E's Form 10-Q to the Securities and Exchange Commission for the quarterly period ended June 30, 2002. That 10-Q indicated that electric "Operating expenses increased...due to...a $10 million writedown of software development cost that management determined to have no future economic value."[5]

Subsequent information provided by RG&E revealed that the above write-off was related to the Process Re-engineering Implementation for Deliver Energy (PRIDE) software development project. Prior to the above write-off, RG&E had recorded over $33.5 million in construction work in progress (CWIP) account 391.20 Office Furniture and Equipment-Data Processing Equipment for the PRIDE project (INF-198 a/b). After the write-off, RG&E estimated that it had $22.6 of remaining useful PRIDE capital expenditures on its books (INF-198 a/b). Approximately, $2.7 million of the amount written off was for a so-called "contract demobilization fee"[6] which remains unpaid as of April 17, 2003 (ROE-17 d.).

[4] The Merger Joint Proposal required that merger costs and savings be deferred and shared prospectively (see Merger Joint Proposal Paragraph III. B. 1.)
[5] See "Operating Results for the Electric Delivery Business section in Management's Discussion and Analysis of Financial Condition and Results of Operations" at pages 36-39 of RG&E's' June 2002 SEC 10Q. Similar language appears for gas.
[6] Staff assumes that a contract demobilization fee is another way of stating a contract cancellation penalty.

Through a series of data requests, Staff attempted to obtain information on this atypical write-off.[7] Staff reviewed the reasons for the write-off, including its timing, the amounts written off, the status of the project, and the appropriateness of RG&E's accounting treatment.

As for the reasons for the write off, according to RG&E, "the...PRIDE... project...was reviewed and portions of which were determined to have no future economic value" (INF-195 a.). RG&E explained that "Management relied on an outside consultant to determine the future usefulness of various components of the PRIDE software. The consultant indicated that several modules would, for the most part, be useful in the future and that several modules, for the most part, would not be useful" (INF-195 c.). RG&E declined to provide any of the consultant's documentation with Staff.

RG&E stated "generally, all hardware and hardware related implementation costs were considered useful, as was process redesign work. The modules, based on a fair value determination, that were estimated to have limited future use were the PRIDE Model Office Platform (29% useful), Work Management (41% useful), Mobile Dispatch (76% useful), and GIS (88% useful) modules" (INF-198 a/b).

When asked about the causes for the loss of economic value of the various PRIDE modules, RG&E explained "the loss of economic value was caused in part by the ability/inability to use all or a part of a module in the potential ongoing enterprise solution" (ROE-18 a.). RG&E also said, "there were no specific changes [that caused

[7] Because of this write-off, electric operating expenses for the month of June 2002 were approximately $10 million (60%) higher than any other month during the first six months of 2002.

modules to be useless]. Overall, a determination was made that a common systems and process approach across the [Energy East] enterprise is desirable" (ROE-18 b.).

It was further revealed that "the modules were being designed to interface with all appropriate RG&E information systems. The modules were not designed to be compatible with other affiliates' information systems, and as Energy East is still evaluating enterprise level information systems solutions, the modules could not have been designed to interface with systems not yet determined" (INF-18 d.).

Staff inquired about the timing of this write-off. The timing of the write off is important since it occurred at the conclusion of the fifth year of the COB2 Settlement. This timing benefited RG&E since it enabled RG&E to reduce the ultimate amount of excess earnings owed to ratepayers. Had the write off been taken post-June 2002, it would have fallen outside the measurement period for excess earnings.

As to the timing of the write off, RG&E explained that "as part of its preparation for its merger with Energy East, which was approved by the Public Service Commission in February, 2002, and which was completed on June 28, 2002, RG&E conducted a review of balances in several accounts and projects to assure the merger accounting would meet GAAP standards" (ROE-15 a.). RG&E explained that "the review that led to the write off commenced in or about the month of March, 2002, shortly after the approval of the merger by the Public Service Commission" (ROE-15 c.).

Notably, this review commenced only one month after RG&E submitted pre-filed testimony in the 2002 rate case indicating there would be over $85 million in future <u>benefits</u> from this project when it becomes operational (see Exhibit 11, page 2). In fact even as late as October 22, 2002, RG&E's PRIDE witness stated: "The company has suspended the [PRIDE] project pending evaluation...to determine whether it could be used for potential benefit across the Energy East enterprise" (Tr. 606).[8] The company informed Staff that as late as April 17, 2003 "the evaluation has not been completed [and] the PRIDE project suspension has not been lifted." (see ROE-16 a/f).

Given these facts, it is difficult to understand why the company wrote off the costs of a project that allegedly had enormous future benefits and whose status is currently undecided, other than to reduce the excess earnings owed to consumers.

RG&E explained the accounting treatment for the write-off as follows:

> "The Company utilized the 588 and 880 accounts as the Uniform System of Accounts delineates these accounts be used for, among other things, "the cost of labor, materials used and expenses incurred in distribution system operation not provided for elsewhere", and "development expense". The PRIDE project had planned benefits that would span primarily over both the electric and gas distribution areas, so the use of the 588 and 880 accounts was justified. The USOA also states in its instructions for writedown of Preliminary Survey and Investigation Charges "If the work is abandoned, the charge shall be made to account 426.50, Other Deductions, or the appropriate operating expense account". The Company believes the appropriate operating expense accounts were used" (ROE-17(b)).

As shown above, the company justified its accounting treatment using USOA language in operating expense (O&M) and Preliminary Survey and Investigation (PSI) accounts. However, the company's explanations are not on point. The PRIDE expenditures were charged to construction work in progress (CWIP), not PSI or O&M expenses. Therefore, the proper accounting treatment for these costs is governed by CWIP treatment, not the treatment afforded PSI or O&M expenses.

Notably, in a similar situation concerning the accounting treatment of RG&E's investment in a terminated project, rather than expensing the costs RG&E filed "a petition seeking authorization...to...amortize...the extraordinary property loss" (the

[8] Transcript as corrected by letter to ALJ from Mr. Miller dated November 15, 2002.

Sterling Loss, see Case 27794 Rochester Gas and Electric Corporation, et. al., Opinion and Order Establishing Ratemaking Principles Applicable to the Recovery of Sterling Expenditures (issued January 6, 1981).

The FERC USOA indicates that the costs of the cancelled PRIDE project should have been charged to Account 182.2 Unrecovered Plant and Regulatory Study Costs. The instructions for Account 182.2 states: "This account shall include:...when authorized by the Commission, significant unrecovered costs of plant facilities where construction has been cancelled..." The instructions further indicates that upon Commission approval, such costs shall be amortized to account 407, Amortization of Property Losses, Unrecovered Plant and Regulatory Study Costs. As an alternative, the USOA states "in the event that the recovery of costs included herein is disallowed in the rate proceedings, the disallowed costs shall be charged to account 426.5, Other Deductions, or account 435, Extraordinary Deductions, in the year of such disallowance."

Further, in order for any amount to be charged to operating expense or plant, it must be "just and reasonable and any payments or accruals by the utility in excess of just and reasonable shall be included in account 426.5, Other [Non-Operating] Deductions" (USOA Instructions 2. E.).

Staff concludes from its analysis of the USOA, that the PRIDE costs are not chargeable to expense as the company has done. Had the company received Commission approval, they would have been chargeable to Account 182.2 Unrecovered Plant and Regulatory Study Costs. However, since Staff is not aware of the required approvals by the Commission for the accounting for the PRIDE related costs, these costs should have been charged to account 426.5, Other Deductions and thus removed from regulatory income.

Finding #2.-The Company Retained $12 Million in Net Income Attributable to Amortization Expense Shortfalls.

The COB2 Agreement contained a provision (Paragraph 26) governing the treatment of Electric Amortization Expenses during the term of the Agreement. Paragraph 26 states:

> "Schedule B to this Settlement shows the items and the amounts thereof that will be deemed to have been amortized during the term of the Settlement. RG&E shall be permitted to record amortizations and unamortized balances as it deems appropriate over the five Rate Years of the Settlement; provided, however, that, at the conclusion of the Settlement period, any unamortized balance for a particular item shall not be greater than it would have been had the amortization been recorded as shown on Schedule B. For purposes of computing RG&E's regulatory earnings, the levels of amortization expenses shall be as indicated on Schedule B."

There are three issues concerning RG&E's treatment of Amortization Expenses in determining regulatory earnings. Of greatest a concern is RG&E's interpretation of the intent of the Amortization provision. RG&E has interpreted Paragraph 26 to mean that it retains the shortfall in Amortization expenses. Second, Staff disagrees with the amounts the company reported for DSM Amortization expenses. Finally, Staff takes exception to the amounts the company reported for Sales and Use Tax Audits.

To summarize Staff's findings on Amortization Expense, in recognition of Paragraph 26, Staff recognizes that the above Amortization Expense shortfall should not be considered in the determination of excess earnings and we have not considered it such. Rather, consistent with the COB2 Settlement, Staff recommends that RG&E immediately set up a deferred credit in the amount of the net Amortization shortfall ($16.7 million after Staff adjustment below). We recommend that this deferred credit be used to further reduce the Nine Mile 2 Regulatory Asset. This treatment would be consistent with the Commission's disposition of excess earnings in the RG&E's 2003 Rate Case.

We also find that booked Amortization Expense was understated by $0.8 million for DSM and $1.7 million for Sales and Use Tax Audits. Adjusting those items to the amounts recorded on the books, increases booked Amortization Expense to $86.6 million. In turn, this reduces the Amortization shortfall by a like amount to $16.7 million.

First, RG&E's interpretation of Paragraph 26 results in its retention of over $12 million ($19 million pre-tax) of favorable variances in Amortization expenses over the five years of the COB2 Agreement. Two items, DSM ($12 million) and Sales Tax Audits ($8 million) account for the $19 million variance. Schedule B indicated that $103 million of Amortization expenses were built into rates while RG&E's annual earnings filings show that RG&E recorded only $84 million of actual Amortization expenses during the COB2 term. Citing Paragraph 26, RG&E reduced regulatory earnings (and the earnings shared with customers) by the $19 million variance in Amortization expenses.[9]

The company's treatment of Amortization expenses is summarized below:

> "RG&E did not record and was not required to record the $12.420 million of amortization on its books after the term of the COB2 settlement per paragraph 26 of the settlement...The Company computed the amount of amortizations that were recorded on its books each rate year compared with the amortizations allowed under Schedule B... The Company did not record annual amortizations on its books at the level allowed under the settlement but did properly reflect the $12.420 million cumulative after tax adjustment in its regulatory earnings calculation, as shown on line 9 of Schedule A" (INF-285).

[9] In order to compute regulatory earnings, RG&E substituted the higher phantom ($103 million) Amortization expense for the lower one ($84 million). This technique artificially increased expenses by the $19 million for computing regulatory earnings.

The company's position on the intent of Paragraph 26 is inconsistent with the COB2 Settlement. Paragraph 26 was intended to provide consumers assurance that RG&E would continue the current amortization schedule that the parties agreed to (see Schedule B). That assurance protected consumers in that it prevented the company from ceasing the amortization schedule in order to generate higher earnings. Had RG&E ceased the agreed upon amortization schedule, future ratepayers would have been burdened by regulatory assets that should have been written off during the term of the COB2 Settlement. RG&E also benefited from this provision because it was given the flexibility to adjust its amortization expenses in its financial statements to provide it with some earnings stability.

RG&E's interpretation of Paragraph 26 suggests that RG&E was only committed to zeroing out the expected Amortization balances while the correct interpretation is that RG&E committed to a Amortization expense level of $103 million (a level which the company did not achieve having booked only $84 million during the COB2 term). Consistent with the COB2 Settlement, RG&E is required to book an additional $16.7 million of regulatory amortizations to achieve the amortization levels it committed to in the COB2 Agreement.[10]

To Staff's knowledge, the intent of Paragraph 26 of the COB2 Agreement was not explained on the record of the COB2 proceeding. As a result, Staff reviewed its files and found that the language[11] in Paragraph 26 of the COB2 Agreement was copied *verbatim* from Paragraph 11 of RG&E's 1996 Rate Settlement (see Attachment, page 9, Case 95-E-0673 et. al., Rochester Gas and Electric Corporation Opinion and Order

[10] The additional amortization should be booked to the Nine Mile #2 Regulatory Asset.
[11] The amounts for the overlapping rate years (those ending in 1998-1999) were identical as well.

Concerning Revenue Requirement and Rate Design, (issued September 26, 1996). In the 1996 Rate Order the Commission characterized the Amortizations Paragraph 11 as "a schedule of required amortizations (par. 11 and Schedule B)" (see page 7, emphasis added). The Commission's statement that the amortization levels were required is consistent with Staff's view of the intent of Paragraph 26.

The relevance of the interpretation in the 1996 Rate Order is that the COB2 Agreement essentially was superimposed on the 1996 Rate Order. The 1996 Rate Order covered the rate years ending June 1997-1999. The COB2 Settlement essentially picked up from the 1996 Rate Order's second rate year (the rate year ending June 1998), essentially adopting many of its more important provisions, including the rate reductions, etc.

As for the $19 million variance, Staff has concerns with the amortization amounts shown by RG&E for two items—DSM and Sales Tax Audits. Staff concludes that RG&E has understated the amounts for Amortization expenses for these items and the variance should be reduced by $2.4 million to reflect the corrected amounts.

First, on the issue of DSM, RG&E has understated the amortization amount by $0.8 million due it its failure to include Accounts 442.11 and 442.41 DSM Credits. These accounts reduced income during the period for bill credits provided to commercial and industrial customers under the Large Customer Credit Program pursuant to Paragraph 42. In effect, these bill credits are direct subsidies provided to large customers who expend their own funds (rather than RG&E's) on demand reduction programs. Since these bill credits reduced income, it would be appropriate to include these as DSM Amortization expenses.

On the issue of Sales Tax Audits, RG&E regulatory earnings filings indicate that it recorded $0 for this amortization expense for the entire COB2 term. However, RG&E's response to Staff data request ROE-20 indicates that RG&E has in fact been assessed and paid over $1.6 million for NYS Sales Tax audits during the term of COB2.

Finding #3.-The Company Recorded $479,000 in Income Attributable to UMI Surplus Insurance Below the Line.

In December 2001, RG&E received a $479,000 distribution from UMI Insurance Company. RG&E recorded this distribution in Account 421 Miscellaneous Non-Operating Income. Because of this treatment, the UMI distribution was excluded from RG&E's regulatory earnings computation.

According to RG&E, the UMI distribution it received in 2001 was "a distribution of policyholder surplus (retained earnings) related to the demutualization of Utilities Mutual Insurance Company" (INF-140). The distribution represented RG&E's 4.396% allocated share of UMI's policyholder surplus for the quarter ending September 30, 2001.

UMI Insurance Company provides RG&E workers compensation insurance and RG&E recovers such insurance payments in operating expenses in the ratemaking process (INF-140).

The owners of mutual insurance companies are their policyholders (i.e., RG&E). Consequently, policyholder surplus can be returned to policyholder through lower policy premiums or as an immediate cash payment (dividends). Both methods of distribution result in a lower cost to the policyholder. The Commission has long held that dividends paid by insurers should be reflected in rates as a reduction in premium expense. Consequently, the return of such surplus to the insured should be credited against the workers compensation expenses, not recorded below the line where the entire benefit is retained by RG&E's shareholders.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

ROCHESTER GAS & ELECTRIC CORPORATION
Cases 03-E-0765 & 03-G-0766

December 2003

Prepared Exhibits of:

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Supervisor of Accounting and Finance
Office of Accounting and Finance
State of New York
Department of Public Service
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Albany, New York 12223-1350

Rochester Gas and Electric Corporation
2003 Electric and Natural Gas Rate Filing
NYPSC Case No. 03-E-0765
NYPSC Case No. 03-G-0766

Information Request

Requesting Party and Request No.: PSC-D'Ambrosia (TAD-40)

RG&E Response No.: 0363

Request Date: July 22, 2003

Information Requested of: Ryan/Syta/Vanderwege/Wierzba

Reply Date: July 31, 2003

Responsible Witness: Ryan/Syta/Vanderwege/Wierzba

QUESTION:

Unbundling-GRT

1. According to Exhibit 1 Schedule A of the Unbundled Revenue Requirements Panel, dated June 5, 2003 in support of RG&E's 2003 Electric Unbundling Filing "Revenue Taxes" are forecast to be $5.864 million for delivery and $3.307 for supply. Please provide workpapers supporting the computations of the above amounts.

RESPONSE:

Please see the attached worksheet.

Note that the GRT offset for the Power for Jobs Credit and GRT on Other Revenue were inadvertently allocated between Delivery and Supply in the June 5th filing. Both should be assigned 100% to Delivery. See reallocation on the right side of the attached worksheet.

Rochester Gas and Electric Corporation
Unbundled Electric Revenue Requirement
Gross Revenue Taxes
($ 000)

	Per Exhibit 1 as Filed						Reallocation of the PFJ Credit and GRT on Other Revenue				
	Retail Sales Revenue Excluding GRT (a)	Approximate Percent Residential / Non-Residential	Approximate Percent in Rochester / Villages	GRT Rate (b)	Allocation Base	GRT per Exhibit 9 Allocated Between Supply and Delivery (c)	GRT Without Other and PFJ Credit	Other	PFJ Credit	Total	Diff
Supply											
State	290,227	na	na	0.267%	777						
City of Rochester	290,227	na	30.038%	3.000%	2,696						
Village	290,227	na	5.199%	1.000%	152						
Total					3,625	3,307	4,240			4,240	933
Delivery											
State											
Residential	328,409	35%	na	2.083%	2,445						
Non-Residential	328,409	65%	na	0.354%	758						
City of Rochester	328,409	na	30.038%	3.000%	3,051						
Village	328,409	na	5.199%	1.000%	172						
Total					6,426	5,864	7,518	89	(2,676)	4,931	(933)
Total					10,051	9,171	11,758	89	(2,676)	9,171	0

	Commodity	T&D
(a) Retail Sales Revenue Excluding GRT		
Retail Revenue Including GRT	293,534	334,273
Exclude GRT	(3,307)	(5,864)
Retail Sales Revenue Excluding GRT	290,227	328,409
(b) NYS GRT Rate		
Residential		
2004	0.4000%	2.1250%
2005	0.0000%	2.0000%
Rate Year	0.2670%	2.0830%
Non-Residential		
2004	0.4000%	0.5313%
2005	0.0000%	0.0000%
Rate Year	0.2670%	0.3540%

(c) The GRT offset for the Power for Jobs Credit and GRT on Other Revenue were inadvertently allocated between Delivery and Supply in the June 5th filing. Both should be assigned 100% to Delivery. See reallocation on the right side of this schedule.