

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

EXHIBIT COPY
Not to be taken away

OPINION NO. 92-15

- CASE 91-E-0765 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service.
- CASE 91-E-0766 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Street Lighting Service.
- CASE 91-G-0767 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service.

OPINION AND ORDER DETERMINING REVENUE
REQUIREMENT AND RATE DESIGN

Issued and Effective: June 25, 1992

TABLE OF CONTENTS

	<u>Page</u>
APPEARANCES	
INTRODUCTION	1
ICE STORM EXPENDITURES	6
ELECTRIC PAYROLL EXPENSE	17
OPEBS EXPENSE	25
RETURN ON EQUITY	27
INTEREST COVERAGE AND MIRROR CWIP CREDITS	31
ELECTRIC REVENUE ALLOCATION	38
ELECTRIC RATE DESIGN	42
ALLOWANCE FOR DECOMMISSIONING	43
CONCLUSION	45
ORDER	45
APPENDICES	

APPEARANCES

Peter McGowan, Staff Counsel, and Mary E. Butler, Staff Counsel, Three Empire State Plaza, Albany, NY 12223, for Department of Public Service Staff.

Nixon, Hargrave, Devans & Doyle, Esqs. (by Richard N. George, and Stanley W. Widger, Jr., Esqs.), Clinton Square - P.O. Box 1051, Rochester, NY 14603, for Rochester Gas and Electric Corporation.

Huber, Lawrence & Abell, Esqs. (by Susan M. Kramer, Esq.), 605 Third Avenue, New York, NY 10158, for Rochester Gas and Electric Corporation.

Richard M. Kessel, Executive Director (by Alfred Levine and Anne Curtin, Intervenor Attorneys), One Commerce Plaza, Suite 1020, Albany, NY 12210, for New York State Consumer Protection Board.

Couch, White, Brenner, Howard & Feigenbaum, Esqs. (by Robert M. Loughney and Michael B. Mager, Esqs.), 540 Broadway, P.O. Box 22222, Albany, NY 12201-2222, for Multiple Intervenors.

Hon. Robert Abrams, Attorney General (by K. Wade Eaton, Eugene Welch, and Richard W. Golden, Assistant Attorneys General), 120 Broadway, New York, NY 10271, for New York State Department of Law.

Anthony Obiajulu, Esq. (by Carol Thomas,), City Hall, 30 Church Street, Rochester, NY 14614, for City of Rochester.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

COMMISSIONERS:

Peter Bradford, Chairman
Harold A. Jerry, Jr.
Gail Garfield Schwartz
James T. McFarland
Henry G. Williams

- CASE 91-E-0765 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service.
- CASE 91-E-0766 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Street Lighting Service.
- CASE 91-G-0767 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service.

OPINION NO. 92-15

OPINION AND ORDER DETERMINING REVENUE
REQUIREMENT AND RATE DESIGN

(Issued and Effective June 25, 1992)

BY THE COMMISSION:

INTRODUCTION

On August 2, 1991, Rochester Gas and Electric Corporation (RG&E or the company) filed proposed changes to its electric, electric street lighting, and gas tariffs to become effective September 1, 1991. For the rate year July 1, 1992 through June 30, 1993, the proposed tariff amendments, which are

CASES 91-E-0765, 91-E-0766 and 91-G-0767

predicated on an overall rate of return of 10.01% (12.5% on equity), would produce additional electric revenues of \$38,501,000 (including a \$138,000 increase in street lighting revenues) and additional gas revenues of \$17,380,000. The percentage increase in electric revenues would be 6.0%; for gas, the increase would be 5.7%. By various orders the proposed rates have been suspended through June 29, 1992.

RG&E renders electric service to approximately 336,000 customers in the cities of Rochester and Canandaigua and in numerous villages and towns in Allegany, Cayuga, Livingston, Monroe, Ontario, Wayne, and Wyoming counties. Service is provided under nine service classifications contained in P.S.C. No. 14 - Electricity. The company also provides street lighting service to approximately 340 customers under P.S.C. No. 13 - Electricity (Street Lighting), in 85 cities, villages, and towns, as well as and six school districts, throughout the company's service territory. Gas service is provided to approximately 268,000 customers in the City of Rochester and surrounding areas in Genesee, Livingston, Monroe, Ontario, Orleans, Wayne, and Wyoming counties under three service classifications contained in P.S.C. No. 11 - Gas.

A public statement hearing was held in Rochester on October 17, 1991 before Commissioner James T. McFarland and

CASES 91-E-0765, 91-E-0766 and 91-G-0767

Administrative Law Judge Joel Yohalem. Judge Yohalem conducted further hearings in Albany on six days between October 28, 1991 and January 9, 1992. Evidence in support of the proposed tariff changes and in opposition thereto was presented by various parties, including the company, staff of the Department of Public Service (staff), the Consumer Protection Board (CPB), a group of industrial customers known as Multiple Intervenors (MI), and National Fuel Gas Distribution Corporation (NFGDC). The record consists of 2,455 transcript pages and 180 exhibits.

After the conclusion of the hearings herein, settlement discussions were conducted, and several of the parties negotiated a stipulation, which is Exhibit 180. The stipulation reflects numerous adjustments to the company's original filing which, collectively, and together with adjustments to which the company acceded prior to the stipulation, significantly reduce the company's claimed revenue requirements. It also provides for certain changes in gas rate design (including the introduction of a weather normalization clause that will apply to gas space heating customers); for the establishment of an in-house legal department; for periodic reporting by the company on work management efforts associated with nuclear engineering and on legal services; and for undertakings by the company to investigate electric-to-gas fuel switching incentives as part of

CASES 91-E-0765, 91-E-0766 and 91-G-0767

its DSM program and to conduct a gas cost-of-service study. The stipulation is fully endorsed by staff and the company; CPB has signed the stipulation, but with a notation that it neither endorses nor opposes any aspect thereof; and MI and NFGDC have subscribed to specific aspects of the stipulation (MI to the Gas Cost Allocation and Rate Design provision and NFGDC to the Demand Side Management provision). The only challenges to any aspect of the stipulation are MI's claims that the amounts agreed upon for electric department payroll expense and for other post employment benefits (OPEBs) are excessive; these claims are discussed below.

Judge Yohalem prepared a Recommended Decision, which was issued on March 30, 1992. The Judge recommended that RG&E be allowed to increase its electric rates by 3.4% so as to produce an additional \$21.5 million of annual revenues. He also recommended a 4% increase in gas rates, which would translate into approximately \$11.9 million of additional annual revenue for the company. These recommendations reflect, among other things, the disallowance of some \$8.2 million of the claimed ice storm-related expenditures, an overall rate of return of 9.25% (10.7% on common equity) and the use of some \$8 million of mirror CWIP

credits.¹ The use of the mirror CWIP credits would have the effect of temporarily reducing the company's cash revenue requirement for electric service by approximately \$12 million per annum but would mean that rates would need to be increased in the future when the current balance in the mirror CWIP account (approximately \$24 million) is exhausted.

At RG&E and MI's suggestion, and over staff's objection, Judge Yohalem recommended an across-the-board allocation of the electric rate increase, rather than a greater-than-average increase for industrial customers and a lesser-than-average increase for residential users. He also recommended that the industrial (S.C. 8) rate structure be modified so as to reduce the energy charges in relation to the demand charge.

Exceptions to Judge Yohalem's Recommended Decision have been filed by RG&E, staff, DOL, CPB, and Multiple Intervenors, each of which has also filed a reply to the exceptions of others. RG&E believes Judge Yohalem erred in several respects in recommending that the company's proposed rates be reduced. Staff quarrels with what it regards as the Judge's excessive reliance on mirror CWIP credits and with his electric revenue allocation

¹ Mirror CWIP is the designation given to the accounting mechanism whereby the return of CWIP included in rate base is recorded in a separate account so that savings in plant costs provided by the lower AFDC accruals may be applied over a period different from the plant's useful life.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

and rate design recommendations. CPB, DOL, and MI object to Judge Yohalem's failure to disallow various aspects of the company's claimed revenue requirement, including a larger portion of the ice storm expenditures.

The various exceptions are discussed below. As will be seen, the resolutions reached suggest an increase in electric rates somewhat greater than that recommended by the Judge (approximately \$32 million, or 5.2%), largely because of a smaller mirror CWIP offset. The Judge's across-the-board electric revenue allocation recommendation is adopted, but his position on S.C. 8 rate design is rejected. On the gas side, our decision provides for an increase of \$12.3 million, or 4.1%, approximately the same as that recommended by the Judge.

ICE STORM EXPENDITURES

RG&E spent approximately \$36 million to restore electric power service following the March 1990 ice storm. It has requested permission to capitalize and include in rate base approximately \$7 million of this amount and to defer the remainder (less the associated income tax savings) and amortize the deferred amount, plus carrying charges, over 25 years. Several parties have objected to various aspects of the company's proposal and have advanced proposals of their own.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

Judge Yohalem endorsed staff's and CPB's contentions that the company had fallen short of providing safe and adequate service in failing to prepare for, and in responding to, the ice storm. He also endorsed staff's claim that, as a consequence, some \$6.4 million, representing the equivalent of 75 basis points of return on equity, should be deducted from the portion of RG&E's expenditures that the company had requested permission to defer and amortize. In addition, the Judge agreed with staff's argument that another \$1.8 million of the amount proposed to be deferred and amortized should be disallowed because it represented unnecessary overtime pay that the company had spent only because in the midst of the storm and its aftermath it hastily amended its established overtime policy in order to avoid possible morale problems. However, he rejected CPB's proposal for disallowance of approximately \$32 million of the ice storm expenditures and DOL's proposal for disallowance of "at least half" of the total expenditures (i.e., approximately \$18 million), believing that adjustments so large were not warranted considering all of the circumstances. He also rejected DOL's proposal to shorten the amortization period from 25 years to ten years.

Judge Yohalem's view that the company failed to provide safe and adequate service in connection with the ice storm was

CASES 91-E-0765, 91-E-0766 and 91-G-0767

based on the complementary propositions (1) that RG&E had failed to prepare for a serious storm emergency, even though it had been told to do so and even though it represented that it had done so, and (2) that the company should not be heard to contend that this failure made no difference in its actual performance.

Acknowledging that no one can be certain of what might have happened had RG&E been fully prepared, Judge Yohalem concluded that it was "altogether reasonable to assume that if RG&E had been better prepared for a major storm, its actual performance in the face of the storm would have been better."¹ On the other hand, this very uncertainty as to what might have happened was a reason, in his view, to limit the size of any financial adjustment.

With respect to the challenged overtime expense, Judge Yohalem reasoned that the company had an overtime policy that it presumably believed reasonable (the policy had been adopted only three years earlier) and that it should have stayed with it. He noted that if RG&E had prepared a comprehensive plan for coping with a serious storm emergency, it might have spotted what it now describes as a "tremendous disparity" in the established overtime policy and might have dealt with that disparity at a cost of less than \$1.8 million--for example, by explaining to its employees

¹ R.D., p. 14.

why the disparity was not in fact inequitable, or by changing the overtime policy in a way that would have reduced payroll expense instead of increasing it.

In its exceptions, RG&E contends that it should be allowed to recover all of its expenditures associated with the ice storm. It claims that, despite admitted planning and training deficiencies, it restored its customers' service as rapidly as possible--or, at most, only one day later--in the face of unprecedented devastation. The company acknowledges the possibility that it could be penalized for its admitted planning failure but asserts that "a penalty is not needed" because, in response to the Commission's decision in last year's rate case, "the Company has . . . treated the matter with utmost seriousness."¹

RG&E argues at some length that there was no connection between its admitted planning and training deficiencies and its actual performance in the face of the storm. It suggests that because the storm and the damage it wrought were unprecedented, no amount of planning and preparation would have helped the company to cope with the circumstances it confronted. RG&E also argues that there are good reasons why it took longer to restore customers than did several neighboring utilities. First, the

¹ RG&E's Brief on Exceptions, pp. 8-9.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

company claims, the storm damage was much more severe in its service territory, and a much larger percentage of RG&E's customers were left without service (62%, versus 8% for Niagara Mohawk Power Corporation (Niagara Mohawk) and 7% for New York State Electric & Gas Corporation (NYSEG)). RG&E notes that whereas Niagara Mohawk and NYSEG called in 250 and 76 foreign line crews, respectively, representing 62% and 31% of each of those utility's own complement of line crews, RG&E was required to call in 278 foreign crews representing 480% of its own crew complement. Second, RG&E's system, unlike that of its neighbors, is characterized by considerable rear lot construction, which cannot be serviced by the bucket trucks that are used to service road-side facilities.

Challenging a central element of staff's and CPB's evidentiary presentations, RG&E argues that it called for outside assistance as rapidly as possible. The company quarrels with staff's and CPB's claim that a more rapid build-up of foreign crews was possible, noting that staff and CPB would have required the company to accommodate a nine-fold increase (from 74 crews on March 4 to 657 crews by March 6) in two days. RG&E says that such a build-up would have been impossible and would still be impossible, notwithstanding that the company now has an updated emergency plan and has conducted training under the plan.

Summarizing its position, RG&E states:¹

Although the Company acknowledges that it did not do the planning and training required of it, and acknowledges the seriousness of that failure, and although the Company agrees that its failure could result in a penalty, we believe that no penalty -- particularly at the level recommended by the RD -- is needed. The Company believes that a penalty for its actual restoration performance would be wholly unwarranted and inconsistent with the record.

With respect to the overtime pay issue, RG&E argues that "[i]t is fundamentally unfair to label the Company's discovery and prompt correction of an unanticipated pay policy short-coming as 'poor planning,' and to thereby inflict a further, large penalty upon the company by disallowing \$1.8 million of actual costs."² The company claims that increased pay for the affected employees (almost all of whom were office workers pressed into extended shifts at storm-related duties such as telephone answering, data entry, etc.) was absolutely necessary if all personnel were to be treated equitably, because line crews and other employees engaged in field operations were receiving more generous overtime treatment. It also argues that the deficiency in the established overtime policy was in the

¹ RG&E's Brief on Exceptions, p. 19.

² Id., p. 23.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

nature of a hidden defect that had never before been apparent (because there had never been a storm like this one in the past) and would not have been discovered through the storm planning process (which, the company asserts, would not even have addressed the subject of employee compensation).

CPB excepts to the Judge's rejection of its proposed \$32 million adjustment. The adjustment was based on a customer survey estimating the foregone value of the earlier restoration of service that CPB and staff say should have been achieved. Judge Yohalem mentioned four considerations that weighed against CPB's proposal: (1) the possibility that RG&E was correct that its planning and training deficiencies had little effect on its actual performance; (2) the loss of at least \$2.5 million that RG&E's shareholders already had absorbed as a result of lost sales and waivers of late payment charges attributable to the storm; (3) inherent doubts about customers' estimates of the value of faster restoration; and (4) the preferability, as a matter of regulatory policy, of an adjustment related to the allowed return to shareholders as compared to an adjustment based on estimated loss of value by customers. CPB addresses each of these considerations.

CPB contends, first, that "speculation" that the company's planning and training deficiencies did not affect its

response "cannot be credited" and is "totally inconsistent with the statutory burden of proof requiring that the utility affirmatively justify its costs."¹ Second, CPB says that the \$2.5 million loss incurred by RG&E as a result of the ice storm should have no bearing on the size of the disallowance of claimed storm-related costs. Third, it defends its customer survey, contending, inter alia, that survey results have been used as evidence in other cases (including a Niagara Mohawk proceeding in which a survey was used to determine the dollar value associated with service outages); that the survey results here are confirmed by the costs associated with alternate lodging, food, and other essentials; and that there is no merit to RG&E's claims that the survey was biased and based on unrepresentative sampling. Finally, CPB argues that it has "reasonably and realistically quantified the direct dollar impact of RG&E's abysmally poor performance" and that this direct approach is superior to an "indirect qualitative" equity return disallowance. In this regard, CPB contends that the Recommended Decision understates the seriousness of the company's actions and omissions, which it characterizes as "willful imprudence." CPB says RG&E's management "intentionally risked a severe and prolonged loss of

¹ CPB's Brief on Exceptions, pp. 6-7.

service . . ." and that a 75-basis-point return on equity disallowance is far too small a penalty.¹

DOL argues that Judge Yohalem's recommended \$6.4 million adjustment for service deficiencies is inadequate and no better explained than DOL's measure of "at least one half" which the Judge rejected because DOL had failed to connect it to the qualitative considerations supporting a disallowance. DOL says "[n]one of [Judge Yohalem's] rationales is based on a quantifiable measure"² and that qualitative considerations ignored by the Judge support a larger disallowance. Noting that "real people suffered real injuries,"³ it calls attention to the testimony of several individuals in the proceeding instituted to investigate utility performance during the storm and its aftermath.⁴ DOL observes that one reason for the suffering was RG&E's "repeated public assurances that power would return in a short while,"⁵ assurances that turned out to be mistaken. Urging adoption of its "at least one half" disallowance, DOL

¹ CPB's Brief on Exceptions, pp. 17-18, emphasis in original.

² DOL's Brief on Exceptions, p. 3.

³ Id., p. 5.

⁴ Case 90-E-0445, Proceeding on Motion of the Commission to Investigate the Disruption of Upstate Utility Services Resulting from the March 4, 1991 Ice Storm.

⁵ DOL's Brief on Exceptions, p. 8.

contends that the Judge "regrettably failed to give sufficient weight to the human suffering involved in this case" and that "[t]he Commission, however, should render a decision that will be accepted as fundamentally fair by RG&E's customers and the public."¹

Judge Yohalem's recommendations are adopted in most respects. As the Judge explained, RG&E's inexcusable failure to prepare for a serious storm itself warrants a significant monetary adjustment even without a showing that the company's planning and training deficiencies were translated directly into a subpar performance in the face of the storm. The \$6.4 million amount recommended by trial staff and endorsed by the Judge is large enough to ensure that RG&E's senior management will learn from this experience, but not so large as to risk impairing the company's financial integrity. For the reasons given by Judge Yohalem, the \$1.8 million of overtime expense claimed by the company also will be disallowed. Contrary to the Judge's recommendation, however, RG&E will be required to amortize the non-capitalized portion of its ice storm expenditures over ten years rather than 25 years. Shortening the amortization period in this way will reduce the financial uncertainty inherent in

¹ Id., p. 10.

delaying the recovery of current expenses over extended periods without appreciably increasing the current revenue requirement.¹

CPB's and DOL's proposed adjustments are excessive. CPB's proposal, in particular, is contrary to the Commission's general practice of relying on cost-of-service, not value-of-service, as the benchmark for setting just and reasonable rates for electric utilities. To disallow a portion of the costs legitimately incurred by RG&E in reliance on a value-of-service theory would conflict with the Commission's usual approach to ratemaking. And such a theory, if applied when the value of service to customers exceeds a utility's costs, could lead to higher than necessary rates.

Moreover, to have achieved a more rapid recovery (by calling for assistance earlier) might well have cost RG&E more, not less. It would be anomalous to disallow a portion of the costs actually incurred on the theory that the company should have spent an even greater amount. Finally, the suffering and the damage that occurred were in large part the products of the storm, not of RG&E's misfeasance or non-feasance. While RG&E may not have done all that it could have done to remedy the devastation wrought by the storm, it would be a mistake to punish

¹ DOL originally advocated a ten-year amortization period but did not except to the Judge's rejection of its proposal.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

RG&E's shareholders for what may fairly be described as a natural disaster.

Of course, to the extent customers can prove that there was wilful misconduct or gross negligence on the part of RG&E, they would be entitled to recover damages for any losses caused by such conduct. Nothing here is intended to limit in any way the availability of this damage remedy.

ELECTRIC PAYROLL EXPENSE

Judge Yohalem reduced the claimed rate year allowance for electric payroll expense by \$1.9 million, which represents the difference between pay raises calculated at the forecast rate of inflation (3.6%) and the higher pay raises (5.5% in 1992 and 4.5% in 1993) reflected in the company's calculation. In making this adjustment, Judge Yohalem relied in part on evidence adduced by MI in support of its own, larger, adjustment and in part on RG&E's failure to respond. He noted that MI had questioned the relationship between the company's payroll and the rate of inflation and that "it would not have been inappropriate for the company to explain why the 1992 and 1993 wage and salary increases are projected at rates higher than the anticipated inflation rate."

RG&E excepts. It asserts that MI's proposed adjustment constituted "ratemaking by formula" and that in the face of MI's acknowledgement that its proposal was not linked to a specific payroll expense item, such as head count, wage rates, or the amount of overtime, "one would have thought it unnecessary to expend the resources of company personnel in an exhaustive effort to rebut [the MI witness'] approach."¹ RG&E claims that the Judge's recommendation, in effect, would require it to "prove a negative, i.e., that the inflation rate is not an appropriate substitute for evidence that actually relates to payroll expense." According to RG&E, a party cannot establish its position "merely by making conclusory, unsubstantiated allegations . . . that payroll expense is increasing at an 'excessive' rate."²

The company goes on to contend that MI's "analysis" and what it terms the Judge's "adoption of it" are flawed because they amount to retroactive ratemaking. According to RG&E, "MI is essentially arguing that an 'excessive' increase in the prior

¹ RG&E's Brief on Exceptions, p. 30. MI's approach was to limit RG&E's payroll to a flat \$88.5 million (RG&E's proposed allowance was approximately \$91 million) on the theory that number represented a very generous premium over where the payroll would have been had it grown at no more than the rate of inflation since the 1990 rate case.

² RG&E's Brief on Exceptions, pp. 30-31.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

case warrants a compensating adjustment in the current case."¹ The company also takes issue with the details of MI's evidence, contending that the rate of increase in electric payroll expense is in fact lower than it seems and that the reasons for the rate of increase have been fully explained.

Finally, the company argues that the 1992 and 1993 wage and salary increases which Judge Yohalem criticized as unexplained are in fact reasonable. It compares the increases (and earlier increases in 1990 and 1991) to wage and salary increases implemented and projected by Niagara Mohawk Power Corporation and New York State Electric & Gas Corporation, contending that RG&E's increases are more conservative than those of these neighboring utilities. The company also points to Judge Yohalem's decision not to recommend an adjustment of the company's projected rate year gas payroll, which was computed on the same basis as the electric payroll, as evidence that the 5.5% and 4.5% increases are not unreasonable per se. RG&E observes that the recommended adjustment would come on top of other adjustments to payroll expense agreed to by the company in its stipulation with other parties (not including MI on this point), and it argues that "the fact that these parties found common

¹ Id., pp. 32-33.

ground and were able to develop a compromise position . . . should be entitled to considerable weight."¹

MI and staff defend Judge Yohalem's reasoning, although staff equivocates on this matter.² Both argue that the Judge properly faulted RG&E for not responding to MI's showing that electric payroll expense was increasing at a much greater rate than the rate of inflation. Staff says "[t]he Judge's decision was correctly premised on the requirement that the company must demonstrate why the claimed allowance for payroll expense is reasonable in light of the inflation rate" and that staff "fully supports the notion that the company should be held to its burden of proof."³ MI agrees and adds that the company's attempt to defend the 1992 and 1993 increases in its exceptions comes too late.

¹ Id., p. 41.

² Staff notes that although it did not itself challenge the "4.5% wage increase update for 1992" it "was troubled by the level of the wage increase" but felt that the stipulation, which provided for other adjustments to RG&E's proposed rate year payroll expense, represented a fair compromise. Staff concludes its discussion of this issue by stating that it "continues to support the Stipulation." (Staff's reference to a 4.5% increase in 1992 presumably refers to the non-"merit" portion of what the Judge correctly notes is a 5.5% increase for that year, overall.)

³ Staff's Brief on Exceptions, p. 3.

The Judge's recommended adjustment will be adopted. MI squarely raised the issue of the relationship between the rate of growth in electric payroll expense and the rate of inflation, and RG&E failed to respond. The company's claim that it thought it unnecessary to do so is unpersuasive. The rate of inflation obviously is significant in evaluating increases in various utility expenses, and once an argument has been advanced that an expense is improperly outpacing inflation, the utility has an obligation to respond. The utility is not required to prove a negative; it merely is required to demonstrate that despite the relatively low rate of inflation, there is a valid reason for the expense that has been challenged. Such a demonstration cannot be made merely by showing how the expense was calculated; rather the utility must address the inflation benchmark and explain why the expense is growing more rapidly. Where, as here, the more rapid growth is in part attributable to wage and salary level increases that exceed the rate of inflation, those increases should be explained and defended.

RG&E contends that MI never made its argument in a manner that would require such a response. It notes that MI's witness compared the "overall" payroll increase (reflecting such items as changes in complement (head count) and overtime, as well as changes in wage and salary levels) to the inflation rate but

CASES 91-E-0765, 91-E-0766 and 91-G-0767

never "separately questioned" the 1992 and 1993 wage and salary increases. But RG&E did not respond to any aspect of MI's argument, and it would be justifiable--at least in a procedural sense--for us to adopt MI's proposed adjustment in full, based on burden of proof considerations. Limiting the adjustment--as the Judge did--by focusing on one element of the MI argument does not infringe RG&E's rights in any way.

The company also errs in claiming that the adjustment recommended by the Judge amounts to retroactive ratemaking. The adjustment relates solely to RG&E's projection of future costs (although the 1992 increase is now in effect) and applies only to future rates. No attempt has been made to adjust RG&E's rates for any past period, nor is there anything in the Recommended Decision to suggest that Judge Yohalem adopted MI's proposed remedy (or did anything else) in an attempt to "compensate" for "excessive" allowances in prior cases.

Nor is RG&E persuasive in its untimely attempt to defend its wage and salary increases by comparing such increases to those negotiated by two other utilities. The comparisons set forth in the company's exceptions were not advanced on the record and cannot now be tested either for accuracy or for context. Moreover, the table in the exceptions describes RG&E's 1992 increase as 4.5% when, in fact, as noted above (and in the

Recommended Decision), it is 5.5%. While RG&E acknowledges that its comparison does not reflect "merit or promotional increases" (i.e., the increases that account for the missing one percent in RG&E's case), that fact alone renders the comparison questionable. Finally, if RG&E's wage and salary rates are increasing at what appears to be an excessive rate, it is no answer to argue that so are those of other utilities. The Commission attempts to treat all utilities fairly and even-handedly, but that does not mean that it should require customers of Utility A to pay excessive rates merely because it may have failed to recognize that customers of Utility B also were being overcharged.

RG&E suggests that if it were not to provide "increases competitive with those of its neighbors, the Company would find it difficult to attract and keep qualified employees."¹ In this period of high unemployment and corporate downsizing, the claim that RG&E needs to offer increases significantly higher than the inflation rate in order to recruit and retain qualified personnel is not convincing. Had RG&E advanced this argument through a witness, it would have been possible and appropriate to have ascertained the level of response to the company's recruitment

¹ RG&E's Brief on Exceptions, p. 39.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

efforts and to have explored attrition rates and the reasons therefor.

Similarly, there is no merit to the company's claim that Judge Yohalem's failure to adjust the claimed allowance for gas payroll expense undermines his adjustment on the electric side. The Judge acknowledged that the logic of his electric payroll adjustment suggested the need for a parallel adjustment on the gas side; but he explained that because MI had not suggested such an adjustment and because the company's gas payroll expense has not risen as rapidly as the electric payroll, he would not make such an adjustment. Fairly construed, the Recommended Decision is generous to RG&E in this respect. RG&E's reliance on the Judge's failure to recommend an adjustment to the gas payroll is misplaced.

The company's final contention--that the stipulation is evidence that the 1992 and 1993 wage and salary increases are not unreasonable--also is unpersuasive, particularly in light of staff's acknowledgement that it was "troubled" by the level of the 1992 increase. The acquiescence of some parties (not including MI) in the stipulation does not explain why RG&E should raise wages and salaries by more than the inflation rate. The parties may have thought that they were negotiating a reasonable

CASES 91-E-0765, 91-E-0766 and 91-G-0767

compromise, but the Commission is not bound by that compromise, and the case for an adjustment is otherwise sound.

OPEBS EXPENSE

In the last RG&E rate case, the Commission authorized the company to switch from a cash (or pay-as-you-go) approach in computing its expense for retiree benefits other than pensions (OPEBs) to an accrual approach, as had then been proposed by the Financial Accounting Standards Board (FASB).¹ Under the accrual approach, the company recognizes on a current basis the cost of benefits currently being earned but not yet being paid. It also begins amortizing the cost of benefits earned in the past but not yet being paid. FASB has now formally adopted its proposal but has left room for regulated utilities to continue using cash accounting for OPEBs if, but only if, the regulatory agency with rate jurisdiction certifies that it will allow the company to recover all future cash outlays for OPEBs from future customers.

In this case, RG&E again computed its OPEBs expense on an accrual basis. Judge Yohalem agreed that this was appropriate and rejected MI's argument that the company should be required to return to the pay-as-you-go approach for ratemaking purposes

¹ Cases 90-E-0647, et al., Rochester Gas and Electric Corporation - Electric and Gas Rates, Opinion No. 91-13 (issued June 15, 1991), pp. 31-32.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

until the Commission has issued a definitive policy statement concerning OPEBs. MI excepts to this determination.

MI argues that inasmuch as the rule adopted by FASB (SFAS 106) leaves room for use of the pay-as-you-go approach on the part of regulated utilities and inasmuch as the Commission has not yet issued a definitive policy statement on this issue, the pay-as-you-go approach should be required here. MI argues that last year's decision permitting RG&E to switch to accrual accounting is not binding here and should not be followed. It notes that use of the pay-as-you-go approach would reduce RG&E's current revenue requirement by approximately \$4 million.

Judge Yohalem correctly agreed with RG&E's characterization of MI's argument as calling for a regulatory "flip-flop" on this issue. Nothing has changed since the adoption of Opinion No. 91-13 to warrant a reversal of direction. MI's exception is denied.

The company is to apply the accounting specified in Opinion No. 91-13 to the allowance for OPEBs being granted herein. Once the Commission issues its definitive policy statement on OPEBs, the company will be expected to conform to it.

RETURN ON EQUITY

In the Recommended Decision, Judge Yohalem concluded that RG&E's allowed return on equity should be set at 10.7%. He reached this result by relying on a company-specific DCF retention growth analysis in which the yield component (7.60%) was calculated using a 20-day average stock price and a forward-looking dividend and the growth component (3.09%) was calculated by applying a 12% investor-expected return to the book value of the company's stock, a 24.3% internally consistent retention ratio, and an SV adjustment to reflect sales of stock at prices above book value. RG&E excepts on the ground that the recommended ROE is inadequate, while CPB challenges the Judge's use of the SV factor in calculating the return allowance.

RG&E argues that Judge Yohalem's yield calculation was flawed by the use of an inadequate forward-looking dividend and that "at a minimum" the Commission should assume that the current quarterly dividend rate of 42¢ per share will be increased by the

CASES 91-E-0765, 91-E-0766 and 91-G-0767

DCF growth rate as of January 1993.¹ RG&E also argues that the Judge's growth rate is understated (1) because it is lower than the levels proposed by any witness other than staff witness Schmieder and lower than the 3.3% rate found reasonable by the Commission in RG&E's last case; (2) because the Judge failed to reflect, in his determination of the investor-expected return, his own recognition that the investment community is anticipating a general economic recovery and growth in earnings for RG&E; (3) because the Judge's SV adjustment, which is modeled on one applied to The Brooklyn Union Gas Company,² is inadequate and is applied in a fashion that is inconsistent with the yield calculation; and (4) because the Judge made no separate allowance for common stock issuance costs. RG&E does not argue for any specific ROE allowance, but it does maintain that the allowance

¹ Judge Yohalem calculated a 7.60% yield using a price of \$22.30 per share, which implies an annual dividend rate of \$1.695 per share. The current rate of \$0.42 per quarter would equate to \$1.68 per annum. It appears that Judge Yohalem assumed a dividend increase of 1-1/2¢ per share as of January 1, 1993 (*i.e.*, three quarterly dividends of 42¢ and one quarterly dividend at 43.5¢), although RG&E postulates that he may have assumed a 1/2¢ increase effective July 1, 1992 (*i.e.*, one quarterly dividend of 42¢ and three quarterly dividends at 42.5¢).

² Case 89-G-1050, The Brooklyn Union Gas Company - Rates, Opinion No. 90-29 (issued October 17, 1990), mimeo pp. 24-25).

CASES 91-E-0765, 91-E-0766 and 91-G-0767

should "exceed (or, at a minimum, equal) . . . the prior rate case allowance," which was 11.7%.¹

Staff, CPB, and MI all oppose RG&E's claim for a return allowance greater than that recommended by Judge Yohalem and, as noted above, CPB takes specific exception to the inclusion of any SV adjustment.

With respect, first, to the SV factor, the Judge correctly observed that in Brooklyn Union, supra, the Commission provided for an adjustment equivalent to one-half of the computed SV factor. The opinion explained that such an adjustment is a necessary adjunct to the DCF method because retention growth alone does not recognize the growth that enures to investors when shares of stock are sold at prices above book value (or, similarly, the dilution that occurs when stock is sold at prices below book value). On the other hand, the price of utility stocks over time should trend toward book value and, for this reason, an adjustment equivalent to only one-half of the computed SV factor was deemed appropriate.

CPB contends that no SV adjustment is warranted here because RG&E has no plan to issue new stock during the rate year and because, in any case, regulation should strive to establish rates that cause utility stocks to trade at book value, not above

¹ RG&E's Brief on Exceptions, pp. 46-47.

it. CPB claims that RG&E's stock is trading at prices above book value precisely because the company is perceived by investors to be earning at an excessive level. The remedy, according to CPB, is to lower the return allowance to the true cost of equity capital, not to increase it by resort to a device like the SV factor. CPB also asserts that Brooklyn Union is inapposite because the utility there involved, unlike RG&E, has extensive unregulated operations that affect the price at which its stock trades.

One of CPB's factual premises is incorrect, for the company does expect to issue equity during the rate year to fulfill obligations under its dividend reinvestment and optional cash investment programs. Moreover, because the yield component of the DCF calculation reflects a price above book value, it would be inconsistent here to employ a lower price in calculating the SV adjustment. CPB's exception is denied.

As for the overall DCF analysis, Judge Yohalem followed the regular practice of applying the DCF formula on a company-specific basis. The results of a company-specific DCF analysis, however, like those of any regulatory formula, must be checked for overall reasonableness. In this instance, the result fails that test, for the 10.7% return is substantially lower, without apparent cause, than the DCF-based return of 11.3% (to which was

CASES 91-E-0765, 91-E-0766 and 91-G-0767

added .15% for issuance costs) allowed less than three months ago to Central Hudson Gas & Electric Corporation, a company with financial characteristics similar to RG&E's.¹ Taking that comparison and the record as a whole into account, an allowed return of 11.0%--midway between the company-specific DCF result and the Central Hudson allowance--is just and reasonable as a matter of law and fair to all concerned.

Updating the uncontested capital structure to reflect an 11.0% return on equity results in a 9.31% overall rate of return as follows:

	<u>Percent of Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long Term Debt	49.06	8.24%	4.04%
Customer Deposits	.17	6.60	.01
Preferred Stock	7.98	6.94	.55
Common Equity	<u>42.79</u>	11.0	<u>4.71</u>
	100.00		9.31%

INTEREST COVERAGE AND MIRROR CWIP CREDITS

Mirror CWIP credits can be used in lieu of cash revenues to satisfy a utility's revenue requirement. Doing so reduces the rate increase that would otherwise be needed but also reduces the utility's cash interest coverage ratio.

¹ Case 91-E-0506, Central Hudson Gas & Electric Corporation - Electric Rates, Opinion No. 92-6 (issued April 9, 1992), mimeo pp. 19-23. No allowance for issuance costs is warranted here because RG&E, unlike Central Hudson, is not planning a public offering of common stock during the rate year.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

In RG&E's last two rates cases, the Commission utilized relatively small increments of the company's mirror CWIP credits (\$2.5 million in each case) in a conscious effort to improve RG&E's coverage ratio. In the 1990 case, we set a 2.5 times coverage target, noting that anything lower "would postpone the [company's] quest for an A rating, and could jeopardize the BBB+ rating."¹ In the 1991 case, a 2.6 times ratio was used in the expectation that would permit the company to raise capital at lower cost even if the bond rating did not immediately improve.²

RG&E currently has a mirror CWIP balance of approximately \$24 million. As part of its original proposal in this case, the company suggested that some \$7.9 million of this amount could be used to offset the need for higher rates. CPB argued that at least that amount should be used, while staff urged the use of only \$2.5 million of such credits, as in the two previous cases.

In the Recommended Decision, Judge Yohalem noted that the electric revenue requirement could be offset to a significant

¹ Cases 89-E-166, et al., Rochester Gas and Electric Corporation - Electric and Gas Rates, Opinion No. 90-17 (issued July 6, 1990), mimeo p. 27.

² Case 90-E-0647, supra, Opinion No. 91-13, mimeo p. 46.

extent by the aggressive use of mirror CWIP credits,¹ but he also recognized that resort to such credits would reduce the company's coverage ratio. In addition, he noted that once the credits had been fully utilized, a further rate increase would be necessary, even if costs and revenues did not otherwise change. The Judge concluded that given the difficult economic circumstances facing RG&E's customers, the use of \$8 million of mirror CWIP credits, which would reduce the rate year revenue requirement by approximately \$12 million, would be reasonable. He pointed out that the resulting coverage would be 2.6 times, a ratio he deemed sufficient, and that some \$16 million of credits would remain as a cushion against the need for future rate relief. He also mentioned the "possibility that when the current recession ends, growth in sales, productivity gains, and declining costs of capital may mitigate or offset any need for rate relief."²

Judge Yohalem also pointed out that under settlement agreements in earlier RG&E cases, the passback of mirror CWIP credits was to be completed by June 30, 1994. He took note of a CPB proposal to extend this deadline indefinitely but questioned

¹ Each dollar of credit reduces the company's need for cash revenues by approximately \$1.50.

² R.D., p. 46.

whether this could be accomplished without the company's consent. Assuming no extension were possible, Judge Yohalem suggested that use of the entire \$24 million in available mirror CWIP credits by June 30, 1994 might be sound policy.¹

Staff, RG&E, and CPB except. Staff continues to argue that only \$2.5 million of mirror CWIP credits should be used. Staff says it is important to bear in mind that there are approximately \$8.9 million of other one-time credits reflected in the rate year forecast and that Judge Yohalem's approach would build in a need for approximately \$21 million in future rate increases. Staff also expresses skepticism about the prospect of an improving economy obviating the need for future rate relief.

RG&E, meanwhile, attacks Judge Yohalem's 2.6 times coverage target as too low and objects to his reliance on the economic conditions facing RG&E's customers as a reason for limiting the company's interest coverage. Citing the Commission's 1980 Economic Impact Policy Statement,² RG&E

¹ To the extent mirror CWIP credits are not passed back, they would be removed from the company's balance sheet as of the June 30, 1994 deadline. As a result, the rate base would be lower than if the credits had been passed back. Thus, in either case, customers would benefit. The issue is essentially one of timing; passing back credits benefits today's customers, while reducing rate base benefits customers over an extended period.

² Statement of Policy Concerning Evidence of Economic Impact in Rate Cases (issued January 14, 1980).

insists the record here does not "establish the required 'nexus' between the general economic conditions . . . and RG&E's coverage levels." RG&E goes on to argue that coverage greater than 2.6 times is needed if the company is to achieve its objective of an A rating for its debt securities, an objective endorsed in the 1982 Generic Financing Proceeding.¹ The company notes that Judge Yohalem recognized that his recommended 2.6 times coverage target might not lead the rating agencies to an improvement in the company's current BBB+ rating, and it argues that the Commission has expressly recognized that BBB+ is not good enough.² RG&E also points out that Judge Yohalem's 2.6 times coverage target is related to his recommendation that \$8.9 million of mirror CWIP credits be used, and it argues that recommendation cannot be defended by reference to the company's original proposal to use \$7.9 million of such credits because the company, unlike Judge Yohalem, was envisioning a \$38.5 million increase in electric revenues when it made its proposal.

¹ Proceeding on Motion of the Commission to Investigate the Financing Plans for Major New York Gas and Electric Companies, Opinion No. 82-22 (issued October 18, 1982), 22 NYPSC 4331, 4339-40.

² RG&E notes CPB's argument for even lower coverage and argues that its own witness, Mr. Keogh, "put to rest any suggestion that a target of 2.3 times is adequate to maintain RG&E's current BBB+ rating or that rating agencies look favorably upon derailed efforts to improve coverage." RG&E's Brief on Exceptions, p. 50.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

Finally, RG&E argues that when the recession ends the cost of capital will likely increase, instead of declining as Judge Yohalem postulated.

CPB takes issue with Judge Yohalem's suggestion that use of the entire mirror CWIP balance by June 30, 1994 might make good sense if RG&E is unwilling to extend the deadline for completing the mirror CWIP passback. According to CPB, all of the remaining credits should be used "now," "in this case." CPB notes that although the deadline is a full two years off, a new rate proceeding may not be filed or decided before the deadline expires, and it argues that "[g]iven the severe recession affecting New York State, there should be no uncertainty about the Commission's ability to use MCWIP to moderate rate increases."¹

Judge Yohalem's willingness to use large amounts of mirror CWIP credits to hold down rates is understandable, but adopting his proposal would be unwise in the long run and ultimately hurt ratepayers more than it would help them. As staff notes, the company's revenue requirement already has been reduced substantially by other one-time credits, and using significant additional one-time credits, in the form of mirror

¹ CPB's Brief on Exceptions, p. 26.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

CWIP, would mean very strong upward pressure on rates when those credits expire.

Staff's proposal to pass back \$2.5 million of mirror CWIP credits offers a better balancing of short-term and long-term benefits and will be adopted. The resulting rate increase will be 5.1%, which is not so high as to cause major dislocations to customers. Meanwhile, the associated interest coverage is 2.88 times (2.75 times when the effects of the storm write-off are recognized), which should improve the company's financial position and may permit an improvement in its ratings. (Of course, improvement in interest coverage is not solely up to the Commission, and utilities wanting to improve coverage and bond ratings are expected to take needed steps on their own, such as increasing their equity ratios.)

In the longer run, the lower level of mirror CWIP passback recommended by staff will leave a larger balance that will provide the parties more flexibility in their ongoing efforts to negotiate a multi-year rate plan.¹ And, in any event, it will help avoid future rate shock when other one-time credits expire.

¹ Those negotiations can consider issues related to the deadline for the mirror CWIP passback.

Accordingly, staff's exception is granted and its proposal is adopted.

ELECTRIC REVENUE ALLOCATION

RG&E and MI proposed, and Judge Yohalem recommended, a uniform allocation of the revenue increase among the major classes of electric customers. In taking this position, and in rejecting staff's alternative proposal for an allocation that would impose a less-than-average increase on S.C. 1 (residential) users and a greater-than-average increase on S.C. 8 (industrial) customers, the Judge found that staff's cost allocation method (the so-called 60/40 method) seemed to increase the cost responsibility of high-load-factor customers in a way that RG&E's average and excess demand (AED) method did not.¹ He noted as well that staff's marginal cost study showed that residential customers were contributing less than their fair share of revenues. He also called attention to the testimony of two witnesses for MI--one an accounting official of General Motors, the other an engineer responsible for purchasing of utility

¹ The 60/40 method allocates 60% of production capacity costs in proportion to each class' total consumption and 40% of such costs in proportion to each class' non-coincident peak demand. The AED method allocates these costs by reference to a procedure which results in declining cost responsibility as the class load factor improves.

services for Eastman Kodak--who warned that higher electric rates would diminish the competitiveness of their employers' plants in the Rochester area. Noting that RG&E's industrial customers had experienced significant (and above-average) rate increases in 1990 and 1991, and pointing to the current business recession, Judge Yohalem suggested that an across-the-board allocation here might be more prudent than the approach advocated by staff.

Staff excepts. It defends the 60/40 method of cost allocation as more fairly reflective of system efficiency than the AED method. According to staff, high-load-factor classes of customers are not necessarily entitled to more favorable rate treatment than low-load-factor classes (as suggested by the Judge), because so long as the latter classes' peak demands do not coincide with the system peak, these demands may improve system efficiency. Staff argues that the virtues of the 60/40 method and the shortcomings of the AED method were demonstrated in RG&E's 1989 rate case, and it quotes from the recommended decision in that case to support its contention. Staff maintains that the 60/40 method "fairly makes high-load factor customers responsible for their relative usage of production plant."¹

Staff also recognizes that "the S.C. 1 class is not contributing revenues equivalent to its proportionate share of

¹ Staff's Brief on Exceptions, p. 11.

marginal costs," but it dismisses reliance on marginal costs for interclass revenue allocation because of their "volatility."¹ Staff says its hybrid cost study, which allocates embedded costs of production in proportion to marginal cost relationships while using embedded cost allocation principles for the utility's other cost elements, supports its proposed revenue allocation.

Staff also recognizes that higher electric rates "put some additional pressure on industrial customers," but it points out that its witness took this into account in recommending that such customers receive "only" a 1.25-times-average revenue allocation, rather than a 1.5-times-average allocation. Staff adds if the average systemwide rate increase were only 3.4%, as recommended by Judge Yohalem, the 1.25-times factor would not impose undue hardship on industrial customers. Moreover, it says, industrial customers may be able to ameliorate bill impacts by taking advantage of demand-side management (DSM) programs.

RG&E and MI oppose staff's exception. Both point to the considerations mentioned in the Recommended Decision, and MI makes several further points. It notes that RG&E's AED study was modified to make it more peak-sensitive than the method used in previous cases, and it calls attention to several errors in

¹ Id.

staff's marginal cost and "hybrid" cost studies.¹ MI also argues that staff's 60/40 study results are illogical because even though the S.C. 8 class suffered disproportionately large revenue allocations in the 1989 and 1990 rate cases, the indexed rate of return for the class (and for the so-called Transmission sub-class) is now lower than it was previously. Finally, MI cautions that "the ability of RG&E's industrial customers to bear repeatedly a disproportionate, unfair share of the revenue responsibility in RG&E's rate proceedings should not be taken for granted."² It adds that, ultimately, the price of electricity "could cause production (and jobs) to move from the RG&E service territory,"³ and it questions staff's claim that industrial customers can protect themselves by resort to DSM programs, noting correctly that staff's argument was not presented at any earlier stage in the proceeding.

Staff's preference for the 60/40 method of cost allocation, which produces results consistent with staff's recommended revenue allocation, properly rests on precedent. In

¹ Staff has acknowledged the errors but denies that they have much significance. MI says the sheer number of errors "casts doubt on Trial Staff's entire evidentiary presentation in this proceeding." MI's Reply Brief on Exceptions, p. 28, fn 18.

² MI's Reply Brief on Exceptions, p. 31.

³ Id., p. 32.

the current economic climate, however, much weight must be given to the Judge's admonition, reflecting the testimony of MI's witnesses, that continuing to impose greater-than-average increases on industrial customers could be risky. If all these factors are taken into account, an across-the-board uniform increase makes more sense at this time. This is not to say that the 60/40 method of allocation is flawed or that responsibility for future increases will not be apportioned in the manner suggested by staff in this case. The decision here merely reflects a considered judgment that given all the circumstances, a uniform allocation of responsibility for the revenue increase authorized here is reasonable and prudent.

ELECTRIC RATE DESIGN

Judge Yohalem accepted MI's argument that any decrease in the S.C. 8 revenue requirement below the level proposed by RG&E should be reflected in lower energy charges, which, according to MI, far exceed marginal energy costs. Staff excepts. It argues that MI's proposal is inconsistent with the decisions in the last two RG&E cases to recover fewer costs through demand charges and more costs through energy charges. Staff notes that one reason the energy charges are in excess of marginal energy costs is that they are designed to recoup some

CASES 91-E-0765, 91-E-0766 and 91-G-0767

demand costs, and it asserts that, even so, RG&E's demand rates, like its energy charges, are above the relevant marginal cost levels.

This issue is of limited practical effect, for the S.C. 8 revenue allocation approved herein (\$12.4 million) is not significantly below the level proposed by RG&E (\$14.8 million). Nevertheless, there is an underlying question of principle. It is appropriate, as staff contends, to signal some marginal capacity cost through the energy charges, especially the peak energy charge. There is no evidence that the S.C. 8 rate structure adopted in the last RG&E case is in need of modification. To the extent the S.C. 8 revenue requirement is lower than as proposed by RG&E, the company should design new rates that are consistent with its original filing and the foregoing discussion.

ALLOWANCE FOR DECOMMISSIONING

The rate allowance to provide for the future decommissioning of RG&E's 100% owned Ginna Nuclear Power Plant and its share of the cost of decommissioning Nine Mile Point 2 was not a contested issue in this proceeding. The company and staff agree on the projected cost of decommissioning these

CASES 91-E-0765, 91-E-0766 and 91-G-0767

plants, based on studies and methods submitted by the company and reviewed by staff.

The company, using the method introduced by staff in a previous RG&E rate case (Case 89-E-0166), estimates that the decommissioning of Ginna will cost \$145,824,000 in 1991 dollars. If this amount is inflated by 4% annually, the projected cost of decommissioning Ginna in 2009 is \$295,413,000. A study submitted by the company estimates that decommissioning of RG&E's 14% share of Nine Mile Point 2 will be \$33,494,000 in 1991 dollars. If this amount is inflated by 4% annually, the projected cost of RG&E's share in 2026 is \$132,168,000. The assumed after-tax interest rates projected to be earned by the amounts collected for decommissioning these plants are 5.28% for each plant's external fund established to qualify for a current tax deduction under Internal Revenue Service (IRS) rules and 4.85% for each plant's non-IRS qualified external fund. The rate allowance authorized here is based on the minimum funding provisions, as required by the Nuclear Regulatory Commission (\$273,062,000 for Ginna and \$110,197,000 for Nine Mile Point 2) using external funding methods.

The annual expense allowances granted here and based on external funding are \$7,745,000 for Ginna and \$1,130,000 for Nine Mile 2. These amounts remain effective in rates until changes in

CASES 91-E-0765, 91-E-0766 and 91-G-0767

a future proceeding and are to be deposited in separate external funds set up solely for the purpose of accumulating decommissioning funds for each plant. An additional \$122,000, based on internal funding, is also being allowed in rates for the removal of non-contaminated facilities related to Nine Mile Point 2.

CONCLUSION

On the basis of the foregoing discussion and the entire record in these proceedings, RG&E will be permitted to increase its rates for electric and gas service so as to recover additional annual revenues of \$32.2 million and \$12.3 million, respectively, as set forth in Appendices C and D, respectively.

The Commission orders:

1. Rochester Gas and Electric Corporation is directed to cancel, effective no later than June 29, 1992, on not less than one day's notice, the tariff amendments and supplements listed in Appendices A (electric) and B (gas).

2. Rochester Gas and Electric Corporation is authorized to file, on not less than one day's notice, amendments to its tariff schedules consistent with this Opinion and Order. The company shall serve copies of its filing upon all parties

CASES 91-E-0765, 91-E-0766 and 91-G-0767

filing exceptions or replies to exceptions in these proceedings. Any comments on the compliance filing must be received at the Commission's offices within ten days of service of the company's proposed amendments. Amendments specified in the compliance filing shall not become effective on a permanent basis until approved by the Commission. The company is authorized to file the amendments to become effective on or after June 30, 1992, subject to refund if any showing is made that the revised rates are not in compliance with this Opinion and Order. The requirements of Section 66(12) of the Public Service Law and 16 NYCRR 136.70 and 270.70 that newspaper publication be completed before the effective date of the amendments authorized in this ordering clause are waived, but the company is directed to file with the Commission, within six weeks after the effective date of those amendments, proof that notice to the public of the changes produced by such amendments and their effective date has been published once a week for four successive weeks in a newspaper having general circulation in each county containing an area affected by the amendments.

3. Except as specified herein, the Stipulation and Resolution of Issues (Exhibit 180) is approved, and RG&E is directed to comply with all of the undertakings and commitments contained therein.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

4. Rochester Gas and Electric Corporation is authorized to use the following accounts, as appropriate, to record the principal amount, any authorized carrying charge, and the federal income tax effects of the items for which deferred accounting has been approved in this proceeding: Account 186, Miscellaneous Deferred Debits; Account 253, Other Deferred Credits; Account 190, Accumulated Deferred Income Taxes; and Account 283, Accumulated Deferred Income Taxes - Other. The amounts deferred for each of these items shall be recorded in separate subaccounts so as to remain readily identifiable, and the company shall maintain proper and easily accessible documentation for each entry made. The disposition or the amortization for each item shall be carried out according to the terms of this Opinion and Order and the stipulation approved herein, or as otherwise authorized by the Commission.

5. To the extent it is consistent with this Opinion and Order, the Recommended Decision of Administrative Law Judge Joel Yohalem, issued March 30, 1992, is adopted as part of this Opinion and Order. Except as here granted, all exceptions to that Recommended Decision are denied.

CASES 91-E-0765, 91-E-0766 and 91-G-0767

6. These proceedings are continued.

By the Commission

(SIGNED)

JOHN J. KELLIHER
Secretary

SUBJECT: Filings by ROCHESTER GAS AND ELECTRIC CORPORATION

Amendments to Schedule P.S.C. No. 14 - Electricity

First Revised Leaf No. 5
Fifth Revised Leaf No. 125
Eighth Revised Leaves Nos. 61, 101, 102, and 118
Ninth Revised Leaves Nos 97 and 106
Tenth Revised Leaves Nos. 98 and 119
Eleventh Revised Leaves Nos. 96, 105, 121, and 122

Supplements Nos. 39 and 41 to P.S.C. No. 14 - Electricity

Amendments to Schedule P.S.C. No. 13 - Electricity
(Street Lighting)

First Revised Leaf No. 4
Seventh Revised Leaf No. 38
Nineteenth Revised Leaf No. 22-A
Thirty-first Revised Leaf No. 30
Thirty-ninth Revised Leaf No. 23

Supplements Nos. 44 and 45 to P.S.C. No. 13 - Electricity
(Street Lighting)

SUBJECT: Filings by ROCHESTER GAS AND ELECTRIC CORPORATION

Amendments to Schedule P.S.C. No. 11 - Gas

First Revised Leaves Nos. 6 and 88
Second Revised Leaf No. 5
Fifth Revised Leaf No. 91
Sixth Revised Leaves Nos. 87 and 90
Seventh Revised Leaf No. 98
Eighth Revised Leaf No. 94
Eleventh Revised Leaf No. 92

Supplements Nos. 18 and 19 to P.S.C. No. 11 - Gas

ROCHESTER GAS AND ELECTRIC CORPORATION

Electric Department

Income Statement and Rate of Return

12 Months Ended June 30, 1993

(\$000's)

Appendix C
Schedule A
Page 1 of 3

	As Adjusted by ALJ		Post-Record and Commission Adjustments	As Adjusted	Commission Revenue Requirement	Rate Year Per Commission
<u>Revenues</u>						
Customers	\$625,984		\$0	625,984 (1)	\$32,220	658,204
Sales to Other Utilities	23,045		0	23,045	0	23,045
Miscellaneous	5,232 (2)		317	5,549	0	5,549
Unbilled Revenue	(4,862)		0	(4,862)	0	(4,862)
Total Revenues	649,399		317	649,716	32,220	681,936
Expenses	360,373 (3a)		609	360,982 (3b)	200	361,182
Depreciation/Amortization	71,460 (4)		(88)	71,372	0	71,372
Taxes--Local, State, Other	94,037 (5a)		(2)	94,035 (5b)	1,815	95,850
Operating Income Before FIT	123,529		(202)	123,327	30,205	153,532
Federal Income Taxes Payable	20,756 (6a)		712	21,468 (6b)	10,270	31,738
Provision for Def. FIT--Net	9,137 (7)		(223)	8,914	0	8,914
Total Federal Income Taxes	29,893		489	30,382	10,270	40,652
Operating Income	93,636		(691)	92,945	19,935	112,880
Mirror CWIP Passback	8,000 (8)		(5,500)	2,500	0	2,500
Balance for Return	\$101,636		(\$6,191)	\$95,445	\$19,935	\$115,380
Average Rate Base	\$1,242,583 (9a)		(\$3,292)	\$1,239,291 (9b)	\$25	\$1,239,316
Rate of Return	8.18%			7.70%		9.31%

ROCHESTER GAS AND ELECTRIC CORPORATION
Electric Department
Summary of Post-Record and PSC Adjustments
Income Statement
12 Months Ended June 30, 1993
\$(000)

<u>Description</u>	<u>Amount</u>
(1) <u>Customer Revenues</u>	
Revenue increase required to provide allowed rate of return	\$ 32,220
(2) <u>Miscellaneous Revenues</u>	
Post-record update	\$ 317
(3) <u>Expenses</u>	
(a) From Schedule B, Page 1, Column 2	\$ 609
(b) Uncollectibles and advertising expense associated with PSC revenue requirement adjustment	\$ 200
(4) <u>Depreciation/Amortization</u>	
Decrease in amortizations to reflect PSC's use of \$2.5M MCWIP	\$ (88)
(5) <u>Taxes - Local, State, Other</u>	
(a) Adjustment to Revenue Taxes	\$ (2)
(b) Revenue tax adjustment tracking Revenue Requirement	\$ 1,815
(6) <u>Federal Income Taxes Payable</u>	
(a) From Schedule C, Page 1, Column 2	\$ 712
(b) Income Tax associated with PSC revenue requirement	\$ 10,270
(7) <u>Provision for Deferred Federal Income Taxes</u>	
Ice Storm adjustment	\$ (223)
(8) <u>Mirror CWIP Passback</u>	
Decrease use of MCWIP by PSC	\$ (5,500)

C.91-E-0765, -0766

ROCHESTER GAS AND ELECTRIC CORPORATION
Electric Department
Summary of Post-Record and PSC Adjustments
Income Statement
12 Months Ended June 30, 1993
\$(000)

Appendix C
Schedule A
Page 3 of 3

Description

Amount

(9) Average Rate Base

(a) From Schedule D, Page 1, Column 2

\$(3,292)

(b) Uncollectibles and advertising effect of
PSC revenue requirement

\$ 25

ROCHESTER GAS AND ELECTRIC CORPORATION

Electric Department

Expenses

12 Months Ended June 30, 1993

(\$000's)

Appendix C

Schedule B

Page 1 of 2

	As Adjusted by ALJ		Post-Record and Commission Adjustments	As Adjusted	Commission Revenue Requirement	Rate Year Per Commission
Fuel--Nuclear	\$23,509		\$0	\$23,509	\$0	\$23,509
Fuel--Fossil	43,439	(a)	41	43,480	0	43,480
Purchased Power	41,200		0	41,200	0	41,200
Purchased Gas	2,717		0	2,717	0	2,717
Transmission--Wheeling	14,442		0	14,442	0	14,442
Oswego #6	3,726		0	3,726	0	3,726
NYS Power Pool Assessment	1,694		0	1,694	0	1,694
Amortization Items	7,398	(b)	539	7,937	0	7,937
Payroll	88,877		0	88,877	0	88,877
Pensions	5,449		0	5,449	0	5,449
401(k) Savings Plan	1,688		0	1,688	0	1,688
Life Insurance	625		0	625	0	625
Medical Insurance	4,996		0	4,996	0	4,996
Long Term Disability	162		0	162	0	162
Worker's Compensation	1,488		0	1,488	0	1,488
Complement Adjustment	152		0	152	0	152
Benefit Productivity Adj.	(147)		0	(147)	0	(147)
Post Employment Benefits	3,049		0	3,049	0	3,049
Transportation	1,828		0	1,828	0	1,828
Materials and Supplies--Stock	13,611		0	13,611	0	13,611
Contract. Services--Fly Ash Removal	1,038		0	1,038	0	1,038
Contract. Services--Tree Trimming	2,621		0	2,621	0	2,621
Contract. Services--Misc.	15,256		0	15,256	0	15,256
Contract--Security - Ginna	2,752		0	2,752	0	2,752
Contract--Security - Other	630		0	630	0	630
Legal Services	1,495		0	1,495	0	1,495
Consultants	11,243		0	11,243	0	11,243
Vouchers/Other	10,344		0	10,344	0	10,344
Telephone	1,863		0	1,863	0	1,863
Postage	896		0	896	0	896
Insurance	6,418	(c)	23	6,441	0	6,441
Research and Development	5,911		0	5,911	0	5,911
Demand Side Management	647		0	647	0	647
Nine Mile Point #2	22,652		0	22,652	0	22,652
Uncollectibles	3,433	(d1)	6	3,439	(d2) 177	3,616
-OTHER-						
PSC Assessment	1,754		0	1,754	0	1,754
Water for Power	300		0	300	0	300
Advertising	404		0	404	(e) 23	427
Energy Used By The Company	(153)		0	(153)	0	(153)
Bank Fees	864		0	864	0	864
Injuries and Damages	729		0	729	0	729
Other - Miscellaneous	9,373		0	9,373	0	9,373
Total Electric Expenses	<u>\$360,373</u>		<u>\$609</u>	<u>\$360,982</u>	<u>\$200</u>	<u>\$361,182</u>

ROCHESTER GAS AND ELECTRIC CORPORATION
Electric Department
Summary of Post-Record and PSC Adjustments
Expenses
12 Months Ended June 30, 1993
\$(000's)

<u>Description</u>	<u>Amount</u>
(a) <u>Fuel -- Fossil</u>	
Post-record update	\$ <u>41</u>
(b) <u>Amortizations</u>	
Nuclear Fuel Disposal Cost update	\$ (30)
Nuclear Fuel Disposal Cost Passback update	(402)
DSM Incentive update	70
Other Deferred Projects update	(84)
D & O Insurance update	27
Ice Storm Recovery - 10 year	1,250
345 Kv Passback update	(<u>292</u>)
Total Amortizations	\$ <u>539</u>
(c) <u>Insurance</u>	
Post-record update	\$ <u>23</u>
(d) <u>Uncollectibles</u>	
(1) Post-record update	\$ <u>6</u>
(2) Uncollectibles associated with PSC revenue requirement	\$ <u>177</u>
(e) <u>Advertising</u>	
Additional expense associated with PSC revenue requirement	\$ <u>23</u>

ROCHESTER GAS AND ELECTRIC CORPORATION

Electric Department
Federal Income Tax
 12 Months Ended June 30, 1993
 (\$000's)

	As Adjusted by ALJ		Post-Record and Commission Adjustments	As Adjusted	Commission Revenue Requirement	Rate Year Per Commission
<u>Operating Income</u>	\$123,529		(\$202)	\$123,327	\$30,205	\$153,532
Interest on Long Term Debt	(55,107)	(a)	2,224	(52,883)	0	(52,883)
Interest on Short Term Debt	0	(b)	(528)	(528)	0	(528)
Customer Deposits Interest	(168)	(c)	36	(132)	0	(132)
<u>Operating Income before FIT</u>	68,254		1,530	69,784	30,205	99,989
<u>Add'l Income and Non-Deductibles</u>						
Nuclear Decommissioning	3,614		0	3,614	0	3,614
Interest Capitalized	5,167		0	5,167	0	5,167
Mortgage Recording Tax	(204)		0	(204)	0	(204)
Mirror CWIP Amort	1,095	(d)	(88)	1,007	0	1,007
Business Expenses	192		0	192	0	192
Pension	6,759		0	6,759	0	6,759
Construction Contributions	1,122		0	1,122	0	1,122
Add'l. Deductible Depreciation	62,229		0	62,229	0	62,229
345Kv Rentals	0	(e)	(292)	(292)	0	(292)
Nuclear Fuel Depreciation	1,118		0	1,118	0	1,118
Misc. Additions	18,820	(f)	70	18,890	0	18,890
Total Additions	99,912		(310)	99,602	0	99,602
<u>Add'l Deductions and Non-Taxable Inc.</u>						
Preferred Stock Dividends	(167)		0	(167)	0	(167)
Add'l. Ded. Property Taxes	(57)		0	(57)	0	(57)
Tax Depreciation	(95,131)		0	(95,131)	0	(95,131)
Nuclear Fuel Storage	(1,267)	(g)	(402)	(1,669)	0	(1,669)
Cost of Removal	(3,712)		0	(3,712)	0	(3,712)
Ice Storm	833	(h)	1,250	2,083	0	2,083
Misc. Deductions	(7,619)	(i)	27	(7,592)	0	(7,592)
Total Deductions	(107,120)		875	(106,245)	0	(106,245)
Total Income Adjustments	(7,208)		565	(6,643)	0	(6,643)
Taxable Income	61,046		2,095	63,141	30,205	93,346
Federal Income Tax at 34%	\$20,756		\$712	\$21,468	\$10,270	\$31,738

ROCHESTER GAS AND ELECTRIC CORPORATION
Electric Department
Summary of Post-Record and PSC Adjustments
Federal Income Tax
12 Months Ended June 30, 1993
\$(000's)

<u>Description</u>	<u>Amount</u>
(a) <u>Interest on Long Term Debt</u>	
To reflect adjustments to Rate Base & Capitalization	\$ <u>2,224</u>
(b) <u>Interest on Short Term Debt</u>	
To reflect adjustments to Rate Base & Capitalization	\$ <u>(528)</u>
(c) <u>Customer Deposits Interest</u>	
To reflect adjustments to Rate Base & Capitalization	\$ <u>36</u>
(d) <u>Mirror CWIP Amort</u>	
Decrease amortization to reflect PSC use of MCWIP	\$ <u>(88)</u>
(e) <u>345 Kv Rentals</u>	
Post-record update	\$ <u>(292)</u>
(f) <u>DSM Energy Savings</u>	
Post-record update	\$ <u>70</u>
(g) <u>Nuclear Fuel Storage</u>	
Post-record update	\$ <u>(402)</u>
(h) <u>Ice Storm</u>	
Adjustment of Ice Storm amortization	\$ <u>1,250</u>
(i) <u>D & O Liability Insurance</u>	
Post-record update	\$ <u>27</u>

ROCHESTER GAS AND ELECTRIC CORPORATION

Electric Department

Rate Base

12 Months Ended June 30, 1993

(\$000's)

Appendix C

Schedule D

Page 1 of 3

	As Adjusted by ALJ		Post-Record and Commission Adjustments	As Adjusted	Commission Revenue Requirement	Rate Year Per Commission
Net Plant	\$1,375,725	(a)	\$16	\$1,375,741	\$0	\$1,375,741
Preliminary Survey & Investigation	1,977		0	1,977	0	1,977
Ice Storm	7,103		0	7,103	0	7,103
Working Capital						
Materials and Supplies	10,318		0	10,318	0	10,318
Oil Stock	2,903		0	2,903	0	2,903
Coal Stock	6,279		0	6,279	0	6,279
Prepayments	21,865		0	21,865	0	21,865
Operation and Maintenance	36,822	(b1)	7	36,829	(b2) 25	36,854
Total Working Capital	78,187		7	78,194	25	78,219
Accumulated Deferred Income Taxes	(128,771)	(c)	321	(128,450)	0	(128,450)
Accumulated Deferred ITC	(49,810)		0	(49,810)	0	(49,810)
EBCAP	(3,533)		0	(3,533)	0	(3,533)
Unbilled Revenue Adj.	(325)		0	(325)	0	(325)
Charged to O & M Expense:						
Nuclear Fuel Storage	(68,088)	(d)	416	(67,672)	0	(67,672)
Nuclear Fuel Storage Passback	(634)	(e)	(201)	(835)	0	(835)
Ginna Reblade	330		0	330	0	330
Demand Side Management	101		0	101	0	101
Work Force Management Passback	(131)		0	(131)	0	(131)
Management Audit Fees	76		0	76	0	76
Research and Development	610		0	610	0	610
Pension Def'd Adjustment	(610)		0	(610)	0	(610)
HIECA	1,758		0	1,758	0	1,758
Insurance Reserve	(1,032)		0	(1,032)	0	(1,032)
NM2 Litigation Proceeds	(4,060)		0	(4,060)	0	(4,060)
NYS Use Tax #4 & #5	318		0	318	0	318
Nine Mile 2 Tax Credits	(8,770)		0	(8,770)	0	(8,770)
Ice Storm Costs	20,411	(f)	(625)	19,786	0	19,786
DSM Energy Savings	11,901		0	11,901	0	11,901
Other Def'd Projects	7,428	(g)	(373)	7,055	0	7,055
D & O Liability Insurance	(186)	(h)	13	(173)	0	(173)
Pension Liability	(12,613)		0	(12,613)	0	(12,613)
345Kv Rentals	0	(i)	(146)	(146)	0	(146)
Charged to Depreciation:						
Ginna Decommissioning	(21,498)		0	(21,498)	0	(21,498)
NMII Decommissioning	(388)		0	(388)	0	(388)
Charged to Other:						
Mirror CWIP Passback	36,631	(j)	(2,720)	33,911	0	33,911
Total Amortizations	(38,446)		(3,636)	(42,082)	0	(42,082)
Deferred Fuel	476		0	476	0	476
Total Average Rate Base	<u>\$1,242,583</u>		<u>(\$3,292)</u>	<u>\$1,239,291</u>	<u>\$25</u>	<u>\$1,239,316</u>

ROCHESTER GAS AND ELECTRIC CORPORATION
Electric Department
Rate Base
Summary of Post-Record and PSC Adjustments
12 Months Ended June 30, 1993
\$(000's)

<u>Description</u>	<u>Amount</u>
(a) <u>Net Plant</u>	
Post-record update	\$ 16
(b) <u>Working Capital</u>	
(1) Effect of PSC's adjustments to Operation & Maintenance expenses	\$ 7
(2) Uncollectibles and advertising expense associated with PSC's revenue adjustment	\$ 25
(c) <u>Accumulated Deferred Federal Income Taxes</u>	
To reflect PSC's Ice Storm amortization	\$ 212
D & O Liability Insurance post-record update	(4)
Nuclear Fuel Storage post-record update	63
345Kv Rentals post-record update	50
Total ADFIT adjustments	\$ 321
(d) <u>Nuclear Fuel Storage</u>	
Post-record update	\$ 416
(e) <u>Nuclear Fuel Storage Passback</u>	
Post-record update	\$(201)
(f) <u>Ice Storm Costs</u>	
To reflect PSC's Ice Storm amortization	\$(625)
(g) <u>Other Deferred Projects</u>	
Post-record update	\$(373)
(h) <u>D & O Liability Insurance</u>	
Post-record update	\$ 13

C.91-E-0765,-0766

ROCHESTER GAS AND ELECTRIC CORPORATION

Electric Department

Rate Base

Summary of Post-Record and PSC Adjustments

12 Months Ended June 30, 1993

\$(000's)

Appendix C

Schedule D

Page 3 of 3

Description

Amount

(i) 345Kv Rentals

Post-record update

\$(146)

(j) MCWIP Passback

To reflect PSC's use of MCWIP

\$(2,720)

ROCHESTER GAS AND ELECTRIC CORPORATION

Gas Department
Income Statement and Rate of Return
 12 Months Ended June 30, 1993
 (\$000's)

	<u>As Adjusted by ALJ</u>		<u>Post Record and Commission Adjustments</u>	<u>As Adjusted</u>	<u>Commission Revenue Requirement</u>	<u>Rate Year Per Commission</u>
Revenues						
Customers	\$299,790		\$0	\$299,790 (1)	\$12,316	\$312.106
Unbilled Revenues	(3,616)		0	(3,616)	0	(\$3.616)
Miscellaneous Revenues	<u>1,765</u>		<u>0</u>	<u>1,765</u>	<u>0</u>	<u>\$1,765</u>
Total Revenues	297,939		0	297,939	12,316	310,255
Expenses						
Expenses	232,966	(2a)	(60)	232,906 (2b)	138	233,044
Depreciation/Amortization	11,501		0	11,501	0	11,501
Taxes -- Local, State, Other	<u>33,855</u>	(3a)	<u>5</u>	<u>33,860</u> (3b)	<u>803</u>	<u>34,663</u>
Operating Income Before FIT	19,617		55	19,672	11,374	31.045
Federal Income Taxes Payable	1,861	(4a)	125	1,987 (4b)	3,867	5,854
Provision for Def. FIT -- Net	<u>1,383</u>		<u>0</u>	<u>1,383</u>	<u>0</u>	<u>1,383</u>
Total Federal Income Taxes	<u>3,244</u>		<u>125</u>	<u>3,370</u>	<u>3,867</u>	<u>7,237</u>
Net Operating Income	<u>16,373</u>		<u>(70)</u>	<u>16,302</u>	<u>7,507</u>	<u>23,807</u>
Average Rate Base	<u>\$255.625</u>	(5a)	<u>(\$8)</u>	<u>\$255.617</u> (5b)	<u>\$17</u>	<u>\$255.634</u>
Rate of Return	<u>6.41%</u>			<u>6.38%</u>		<u>9.31%</u>

ROCHESTER GAS AND ELECTRIC CORPORATION
Gas Department
Summary of Post-Record and PSC Adjustments
Income Statement
12 Months Ended June 30, 1993
\$(000)

<u>Description</u>	<u>Amount</u>
(1) <u>Customer Revenues</u>	
Revenue increase required to provide allowed rate of return	<u>\$ 12,316</u>
(2) <u>Expenses</u>	
(a) From Schedule B, Page 1, Column 2	<u>\$(60)</u>
(b) Uncollectibles and advertising expense associated with PSC revenue requirement adjustment	<u>\$ 138</u>
(3) <u>Taxes - Local, State, Other</u>	
(a) Adjustment to Revenue Taxes	<u>\$ 5</u>
(b) Revenue tax adjustment tracking Revenue Requirement	<u>\$ 803</u>
(4) <u>Federal Income Taxes Payable</u>	
(a) From Schedule C, Page 1, Column 2	<u>\$ 125</u>
(b) Income Tax associated with PSC revenue requirement	<u>\$ 3,867</u>
(5) <u>Average Rate Base</u>	
(a) From Schedule D, Page 1, Column 2	<u>\$(8)</u>
(b) Uncollectibles and advertising effect of PSC revenue requirement	<u>\$ 17</u>

ROCHESTER GAS AND ELECTRIC CORPORATION

Gas Department

Expenses

12 Months Ended June 30, 1993

(\$000's)

Appendix D

Schedule B

Page 1 of 2

	As Adjusted by ALJ		Post Record and Commission Adjustments	As Adjusted	Commission Revenue Requirement	Rate Year Per Commission
Purchased Gas	178,239		0	178,239	\$0	178,239
Payroll	27,141		0	27,141	0	27,141
Payroll Comp. Adj. - Benefits	(45)		0	(45)	0	(45)
Pensions	1,689		0	1,689	0	1,689
401(k) Savings Plan	523		0	523	0	523
Life Insurance	194		0	194	0	194
Medical Insurance	1,550		0	1,550	0	1,550
Long Term Disability	50		0	50	0	50
Workers Compensation	462		0	462	0	462
Post Employment Benefits	945		0	945	0	945
Amortizations	370		0	370	0	370
Transportation	1,273		0	1,273	0	1,273
Consultants	1,048		0	1,048	0	1,048
Vouchers/Other	3,475		0	3,475	0	3,475
Legal Services	955		0	955	0	955
Contractors	2,458		0	2,458	0	2,458
Contractors - Security - Other	329		0	329	0	329
Materials and Supplies--Stock	2,633		0	2,633	0	2,633
Insurance	1,068	(a)	18	1,086	0	1,086
Research and Development	879		0	879	0	879
Telephone	648		0	648	0	648
Postage	610		0	610	0	610
Uncollectibles	3,255	(b1)	(78)	3,177	(b2) 130	3,307
ULIEP	425		0	425	0	425
-OTHER-						
PSC Assessment	859		0	859	0	859
Advertising	183		0	183	(c) 9	192
Energy Used By The Company	255		0	255	0	255
Bank Fees	298		0	298	0	298
Injuries and Damages	516		0	516	0	516
Building Services	(221)		0	(221)	0	(221)
Other - Miscellaneous	902		0	902	0	902
Total Gas Expenses	<u>\$232,966</u>		<u>(\$60)</u>	<u>\$232,906</u>	<u>\$138</u>	<u>\$233,044</u>

ROCHESTER GAS AND ELECTRIC CORPORATION
Gas Department
Summary of Post-Record and PSC Adjustments
Expenses
12 Months Ended June 30, 1993
\$(000's)

<u>Description</u>	<u>Amount</u>
(a) <u>Insurance</u>	
Post-record update	\$ <u>18</u>
(b) <u>Uncollectibles</u>	
(1) Post-record update	\$ (<u>78</u>)
(2) Uncollectibles associated with PSC revenue requirement	\$ <u>130</u>
(c) <u>Advertising</u>	
Additional expense associated with PSC revenue requirement	\$ <u>9</u>

ROCHESTER GAS AND ELECTRIC CORPORATION

Gas Department

Federal Income Tax

12 Months Ended June 30, 1993

(\$000's)

Appendix D

Schedule C

Page 1 of 2

	As Adjusted by ALJ		Post Record and Commission Adjustments	As Adjusted	Commission Revenue Requirement	Rate Year Per Commission
Operating Income Before	\$19,617		55	19,672	\$11,374	31,046
Interest - LTD	(10,829)	(a)	411	(10,418)	0	(10,418)
Interest - STD	0	(b)	(104)	(104)	0	(104)
Interest - Customer Deposit	(33)	(c)	7	(26)	0	(26)
Operating Income before FIT	8,755		369	9,124	11,374	20,498
<u>Add'l Income & Non-Deductibles</u>						
Interest Capitalized	201		0	201	0	201
Construction Contributions	182		0	182	0	182
Business Expenses	82		0	82	0	82
Pension Passback	1,241		0	1,241	0	1,241
Mortgage Recording Tax	(38)		0	(38)	0	(38)
Book Depreciation	11,967		0	11,967	0	11,967
Misc. Deferrals	1,953		0	1,953	0	1,953
	<u>15,588</u>		<u>0</u>	<u>15,588</u>	<u>0</u>	<u>15,588</u>
<u>Add'l Deductions & Non-Tax. Income</u>						
Preferred Stock Dividends	(30)		0	(30)	0	(30)
Add'l. Ded. Property Taxes	(334)		0	(334)	0	(334)
Tax Depreciation	(17,278)		0	(17,278)	0	(17,278)
Cost of Removal	(589)		0	(589)	0	(589)
Miscellaneous Deferrals	(638)		0	(638)	0	(638)
	<u>(18,869)</u>		<u>0</u>	<u>(18,869)</u>	<u>0</u>	<u>(18,869)</u>
Total Income Adjustments	<u>(3,281)</u>		<u>0</u>	<u>(3,281)</u>	<u>0</u>	<u>(3,281)</u>
Taxable Income	<u>5,474</u>		<u>369</u>	<u>5,843</u>	<u>11,374</u>	<u>17,217</u>
Federal Income Tax at 34%	<u>\$1,861</u>		<u>\$125</u>	<u>\$1,987</u>	<u>\$3,867</u>	<u>\$5,854</u>

ROCHESTER GAS AND ELECTRIC CORPORATION
Gas Department
Summary of Post-Record and PSC Adjustments
Federal Income Tax
12 Months Ended June 30, 1993
\$(000's)

<u>Description</u>	<u>Amount</u>
(a) <u>Interest on Long Term Debt</u>	
To reflect adjustments to Rate Base & Capitalization	\$ <u>411</u>
(b) <u>Interest on Short Term Debt</u>	
To reflect adjustments to Rate Base & Capitalization	\$ <u>(104)</u>
(c) <u>Customer Deposits Interest</u>	
To reflect adjustments to Rate Base & Capitalization	\$ <u>7</u>

ROCHESTER GAS AND ELECTRIC CORPORATION

Gas Department

Rate Base

12 Months Ended June 30, 1993

(\$000's)

	<u>As Adjusted by ALJ</u>		<u>Post Record and Commission Adjustments</u>	<u>As Adjusted</u>	<u>Commission Revenue Requirement</u>	<u>Rate Year Per Commission</u>
Net Plant	\$260,440		\$0	\$260,440	\$0	\$260,440
Working Capital						
Materials and Supplies	2,312		0	2,312	0	2,312
Prepayments	3,320		0	3,320	0	3,320
Empire Pipeline Gas Storage	4,675		0	4,675	0	4,675
Operation and Maintenance	6,795	(a1)	(8)	6,787 (a2)	17	6,804
Total Working Capital	17,102		(8)	17,094	17	17,111
Accumulated Deferred FIT	(17,596)		0	(17,596)	0	(17,596)
Accumulated Deferred ITC	(5,851)		0	(5,851)	0	(5,851)
EBCAP	(644)		0	(644)	0	(644)
Unbilled Revenue Adj.	5,117		0	5,117	0	5,117
Amortizations						
Charged to O & M Expense:						
Research and Development	124		0	124	0	124
Management Audit Fee	49		0	49	0	49
Insurance Reserve	(29)		0	(29)	0	(29)
HIECA	1,135		0	1,135	0	1,135
Pension Defd. Adj.	(319)		0	(319)	0	(319)
Pension Liability	(3,982)		0	(3,982)	0	(3,982)
Gas Main Rehab.	50		0	50	0	50
NYS Use Tax	29		0	29	0	29
Total Amortization	(2,943)		0	(2,943)	0	(2,943)
Deferred Gas Costs	0		0	0	\$0	\$0
Total Average Rate Base	<u>\$255,625</u>		<u>(\$8)</u>	<u>\$255,617</u>	<u>\$17</u>	<u>\$255,634</u>

C.91-G-0767

ROCHESTER GAS AND ELECTRIC CORPORATION
Gas Department
Rate Base
Summary of Post-Record and PSC Adjustments
12 Months Ended June 30, 1993
\$(000's)

Appendix D
Schedule D
Page 2 of 2

Description

Amount

(a) Working Capital

(1) Effect of Updates to Operation & Maintenance expenses	<u>\$(8)</u>
(2) Uncollectibles and advertising expense associated with PSC's revenue adjustment	<u>\$ 17</u>

8/10

C. 911E-02-6