



ROCHESTER GAS AND ELECTRIC CORPORATION • 89 EAST AVENUE, ROCHESTER, N.Y. 14649-0001

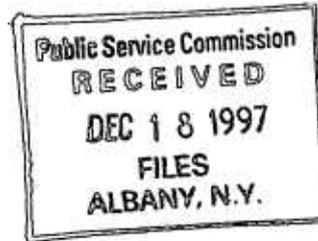


AREA CODE 716 724-8757

MARK KEOGH
Treasurer

December 17, 1997

Public Service Commission
Empire State Plaza
Albany, New York 12223



Attention: Mr. John C. Crary, Secretary

Re: Petition of Rochester Gas and Electric Corporation to issue and sell under Section 69 of the Public Service Law, not to exceed \$100,000,000 of securities for the purpose of redeeming one or more series of its outstanding Preferred Stock, and for such consent and approval as may be required under Section 107 of the Public Service Law for the use of utility revenues for such purpose and related transactions.

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Gentlemen:

Rochester Gas and Electric Corporation, Petitioner herein, hereby requests authority to issue and sell under Section 69 of the Public Service Law, not to exceed \$100,000,000 of securities (the "New Securities") for the purpose of redeeming one or more series of its outstanding Preferred Stock (the "Old Preferred Stock"), and for such consent and approval as may be required under Section 107 of the Public Service Law for the use of utility revenues for such purpose and related transactions. Depending on market conditions and other considerations discussed herein, the New Securities would be issued either as (i) Cumulative Preferred Stock (\$100 par value) ("New Preferred Stock"), (ii) taxable debt obligations, or (iii) unsecured subordinated taxable debt obligations with interest deferral provisions or other forms of securities with debt and quasi-equity characteristics ("Hybrid Securities"). The New Securities will provide funds:

- (1) For the reimbursement of moneys actually expended from income or from any other moneys in the treasury of Petitioner not secured by or obtained from the issue of stocks, bonds, notes or other evidences of indebtedness, which moneys so expended were used for statutory purposes as specified in Section 69 of the Public Service Law, for the construction, completion, extension or improvement of its facilities;
- (2) For the discharge or refunding of any outstanding obligations of Petitioner, the proceeds of which were or will be so used;

- (3) For further additions to utility plant; or for any or all of the foregoing purposes, provided however that such portion of the proceeds not immediately required for the purposes herein specified may be invested temporarily in high quality securities selected by Petitioner.

In support thereof, Petitioner respectively shows:

1. Petitioner is a corporation duly organized and existing under the Transportation Corporation Law of the State of New York, having its principal office in the City of Rochester, County of Monroe, State of New York. Petitioner produces and distributes electricity and distributes gas in parts of nine counties centering around the City of Rochester and is authorized to carry on its operations in any counties in the State of New York.

2. In connection with this application, the following exhibits are herein incorporated by reference to Petition A exhibits filed concurrently with this Petition requesting authority to issue not to exceed \$50,000,000 aggregate principal amount of Long Term Debt :

<u>Exhibit</u>	<u>Description</u>
A	Statement of Financial Condition
B	Utility Plant Additions
C	Utility Plant Depreciation
D	Capital Expenditures Schedule
G	Reimbursement Margin
I	Resolutions authorizing corporate action
J	Statement of Capital and Funding Requirements Year 1996 and three-Year Forecast 1997-1999

3. The following exhibits are enclosed for filing with the Commission in connection with this application:

<u>Exhibit</u>	<u>Description</u>
E	Affidavit re: 16-NYCRR 37.3 (d)
F	Affidavit re: 16-NYCRR 37.1 (o)
H	Affidavit re: 16-NYCRR 37.6 (j)

4. In compliance with 16-NYCRR37.1 (n), the Petitioner advises that no franchise, or any right to own, operate or enjoy any franchise, or any contract for consolidation or lease is proposed to be capitalized directly or indirectly under the programs herein outlined.

5. To strengthen the financial position of the Company by adding equity at a cost less than Common Stock, Petitioner has maintained a preferred stock component in its capital structure. Petitioner's presently authorized capital stock as provided in its Restated Certificate of Incorporation and outstanding at November 30, 1997 consists of the following:

Capital Stock	Shares Authorized at <u>November 30, 1997</u>	Par Value	Outstanding at <u>November 30, 1997</u>
Common Stock	50,000,000	\$ 5	38,858,719
Preferred Stock	2,000,000	\$100	920,000
	4,000,000	\$ 25	None
Preference Stock	5,000,000	\$ 1	None

6. Any redemption of the Old Preferred Stock would be effected by means of any one or a combination of redemption calls, tender offers (including an exchange offer for New Securities), negotiated transactions or open market purchases. At the present time, tender offers, negotiated transactions or open market purchases appear to be more advantageous than optional redemptions because current market prices for the Old Preferred Stock suggest that most series of the Old Preferred Stock could be purchased at a discount from par (albeit at some premium over current market prices). Moreover, any redemption of Old Preferred Stock would enhance the Company's flexibility to obtain unsecured short-term borrowing as the amount of Old Preferred Stock outstanding declined. As long as Old Preferred Stock is outstanding, Petitioner's Charter provides that unsecured debt may not exceed 15 percent of Petitioner's total capitalization (excluding unsecured debt). In addition, the Company would have the opportunity to reduce its cost of capital by refinancing Old Preferred Stock with taxable debt obligations or Hybrid Securities.

7. As the market for Hybrid Securities has developed over the past three to four years, the structure and documentation has continued to change to reflect evolving tax, credit rating, accounting, administrative and other considerations. Hybrid Securities are intended to be instruments that will be characterized for credit rating purposes as equity (which is supportive of higher ratings for Company debt), but for tax purposes as debt (for which interest deductions are permitted). The Company's determination of the ratings effect and tax treatment of a Hybrid Security will be made at the time of issue based on contemporaneous discussions with the principal rating agencies regarding their ratings policies and the Company's analysis of then current interpretations of existing tax law. There can, of course, be no assurance that such policies, interpretations or law will not change in the future.

8. The initial Hybrid Securities deals involved the issuance by a company of a promissory note to a special purpose corporate subsidiary located in an offshore tax jurisdiction in return for the net proceeds resulting from the subsidiary's issuance to the public of "preferred securities". Variations on this structure have included a limited partnership, a limited liability company and a business trust as the conduit issuer. Some issuers have eliminated the conduit and issued directly to the public unsecured subordinated taxable debt obligations with interest deferral provisions. Given the dynamic nature of the market for Hybrid

Securities, Petitioner believes that a determination to issue a particular form of Hybrid Securities must be made close to the time of issue in light of a contemporaneous analysis of the relative costs and benefits of the various Hybrid Securities structures and other financing alternatives available to the Company, such as Preferred Stock or taxable long term debt. Accordingly, Petitioner has not submitted documentation for Hybrid Securities as part of this petition and instead proposes that New Securities issued as Hybrid Securities be subject to the Commission's non-abrogation procedures and that documentation for the Hybrid Securities be submitted to the Commission's staff in advance of issuance.

9. The costs of retiring Old Preferred Stock, including any call or tender offer premiums, underwriting costs, and other fees will vary depending on the method used to redeem. In any event, all such costs would be taken into account in determining whether meaningful savings could be achieved by issuing New Securities to redeem Old Preferred Stock. The authority requested herein will permit Petitioner to expand its opportunities to reduce capital costs beyond debt securities to preferred stocks.

10. Issuance of any New Securities is expected to occur over a five year period between January 1, 1998 and December 31, 2002. Because of uncertain market conditions, it has not been determined when a particular financing will take place.

11. A registration statement or statements will need to be filed by Petitioner with the Securities and Exchange Commission ("SEC"), and become effective, before Petitioner can make a public offering of any New Securities. Petitioner will file such registration statement or statements with the Commission as may be required.

12. Petitioner will submit for Commission review a schedule of estimated costs and expenses in advance of the issuance of any New Securities.

13. The utility property of Petitioner is stated at "original cost" as defined in Section 31.1 (f) of Title 16 of the Official Compilation of Codes, Rules and Regulations of the State of New York and there is not included therein any amount for a franchise, consent or right to operate as a public utility.

14. All communications and notices in relation to this application should be addressed to Mr. Mark Keogh, Treasurer, Rochester Gas and Electric Corporation, 89 East Avenue, Rochester, New York 14649 and to Mr. Joseph H. Reynolds, Nixon, Hargrave, Devans & Doyle, Suite 800, One Thomas Circle, Washington, DC 20005.

WHEREFORE, Petitioner, Rochester Gas and Electric Corporation, respectfully requests authority to issue and sell under Section 69 of the Public Service Law, not to exceed \$100,000,000 of New Securities in one or more transactions, for the purpose of refunding, in whole or in part, one or more series of Old Preferred Stock, in the form of New Preferred Stock, taxable debt obligations, or Hybrid Securities, sufficient to provide net proceeds equal to the cost and expense of refunding the Old Preferred Stock, and (i) such consent and approval as may be required under Section 107 of the Public Service Law for the use of utility revenues for such purpose and related transactions, and (ii) for such other and further relief as may be necessary, just and proper.

ROCHESTER GAS AND ELECTRIC CORPORATION

By



Mark Keogh
Treasurer

STATE OF NEW YORK)

SS.:

COUNTY OF MONROE)

WILLIAM J. REDDY, being duly sworn, deposes and says:

That he is the Principal Accounting Officer of Rochester Gas and Electric Corporation, the Petitioner herein; that to the best of his knowledge and belief the accounts of said Petitioner have been kept in accordance with the accounting order or orders of the New York State Public Service Commission applicable thereto, and since the effective date of such orders there have been no charges to asset accounts not in accordance therewith and that all required credits to such asset accounts have been made for the amount and in the manner prescribed therefor in such accounting orders.

William J. Reddy

Sworn to before me this
17th day of December 1997.

David J. Schake

DAVID J. SCHAKE
Notary Public, State of New York
No. 01SC5083378
Qualified in Ontario County
Commission Expires July 22, 1998

