BEFORE THE
NEW YORK STATE
PUBLIC SERVICE COMMISSION

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Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Electric Service	Case 09-E- ____
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Rochester Gas and Electric Corporation for Gas Service	Case 09-G- ____

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DIRECT TESTIMONY OF
THE REVENUE REQUIREMENTS PANEL

Steven R. Adams
Joseph J. Syta

September 17, 2009

REVENUE REQUIREMENTS PANEL

Q. Please state the names of the members on this Revenue Requirements Panel (the "Panel").

A. We are Steven R. Adams and Joseph J. Syta.

Q. Mr. Adams, please state your current position and business address.

A. My name is Steven R. Adams and I am Vice President - Regulatory Policy of Energy East Management Corporation. My business address is 52 Farm View Drive, New Gloucester, Maine 04260.

Q. Please summarize your educational background and work experience.

A. I have a Bachelor of Science Degree in Business Administration from James Madison University and I am a Certified Public Accountant in Virginia. In 1995, I joined New York State Electric & Gas Corporation ("NYSEG") in its Gas Rate Department. In 2001, I became Director - Rates and Regulatory Economics for Energy East Management Corporation. In 2005, I assumed my current position. From 1987 to 1995, I was employed at the Virginia State Corporation Commission where I worked on utility rate applications with primary responsibilities associated with accounting and tax issues for electric, gas and water utility filings.

Q. Have you previously testified in other proceedings before the New York State Public Service Commission ("PSC" or the "Commission") or any other state or federal regulatory agency or court?

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A. I have testified in Connecticut, Maine, New York and Virginia. Most recently, I testified before the Commission in Cases 09-E-0082, 09-G-0083, 09-E-0084 and 09-G-0085.

Q. Mr. Syta, please state your current position and business address.

A. My name is Joseph J. Syta and I am Vice President, Controller and Treasurer of NYSEG and Rochester Gas and Electric Corporation ("RG&E" or the "Company"). My business address is 89 East Avenue Rochester, New York 14649.

Q. Please summarize your educational background and work experience.

A. I have an undergraduate degree in management from Rensselaer Polytechnic Institute. I am also a graduate of the William E. Simon School of Business, University of Rochester, with an M.B.A. degree in Accounting. I have been employed by RG&E for over 24 years. I assumed my present position in 2004 with the responsibility for financial accounting and reporting, as well as other accounting functions. Before then, I held the position of Controller and Treasurer for RG&E and NYSEG.

Q. Have you previously testified in other proceedings before the Commission or any other state or federal regulatory agency or court?

A. I have testified before the Commission in numerous cased dating back to 1989. Most recently, I testified in Cases 09-E-0082, 09-G-0083, 09-E-0084 and 09-G-0085.

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Q. What is the overall purpose of the Panel's testimony?

A. The purpose of this Panel's testimony is to: (a) present the historic financial statements for the previous four calendar years and the Test Year ended June 30, 2009; (b) present the results of the forecast Delivery rate of return and revenue requirements for the Rate Year ended August 31, 2011 for both RG&E Electric and RG&E Gas; (c) describe the ratemaking adjustments proposed in the filing; and (d) describe requested accounting and ratemaking proposals. As the starting point for the Rate Year revenue requirement, we present the historic rate of return results for the Test Year, i.e., the twelve months ended June 30, 2009. The forecast Rate Year is the twelve months beginning September 1, 2010 to August 31, 2011. In addressing both the historic and forecasted results, we describe the significant adjustments to those results. In that process, we present the historic and Rate Year Operating and Maintenance ("O&M") expenses, other taxes, income taxes, depreciation, rate base, and the forecast Rate Year capital structure and cost rates, all of which are summarized and included in the forecasted Rate Year revenue requirement.

Q. Is this Panel sponsoring any exhibits?

A. Yes. This Panel is presenting the following exhibits:

Exhibit __ (RRP-1): Historic Financial Statements

Exhibit __ (RG&E Elec. RRP-2): Operating Results and Revenue Requirement

Exhibit __ (RG&E Gas RRP-2): Operating Results and Revenue Requirement

Exhibit __ (RG&E Elec. RRP-3): O&M Expenses

Exhibit __ (RG&E Gas RRP-3): O&M Expenses

Exhibit __ (RG&E Elec. RRP-4): Forecasted Rate Base

Exhibit __ (RG&E Gas RRP-4): Forecasted Rate Base

Exhibit __ (RRP-5): Forecasted Capital Structure & Costs and Cash Flow

Exhibit __ (RRP-6): Software Capitalization Policy

Exhibit __ (RRP-7): Index to Work papers

Q. Please identify the schedules to Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2).

A. The schedules to Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2) include:

Schedule A: Rate of Return Statement

Schedule B: Revenue Statement

Schedule C: Operation & Maintenance Expense

Schedule D: Depreciation and Amortizations

Schedule E: Operating Taxes

Schedule F: Other Income & Deductions

Schedule G: Income Taxes

Schedule H: Rate Base

Schedule I: Normalizing and Forecasting Adjustments

Schedule J: Calculation of Rate Increase

SUMMARY OF DELIVERY REVENUE REQUIREMENT

Q. Can you briefly describe the Delivery revenue requirement increase that RG&E Electric is requesting for the Rate Year?

A. RG&E Electric is requesting an increase of $87.4 million in Delivery revenue.

Q. Please summarize the Delivery revenue requirement increase that RG&E Gas is requesting for the Rate Year.

A. RG&E Gas is requesting an increase of $62.9 million in Delivery revenue.

Q. What are the primary financial drivers for the proposed rate increases?

A. The rate increase for RG&E Electric is driven by increased property taxes, the reduction in sales, increased pension and other post-employment benefit ("OPEB") costs, increased uncollectible costs, proposed new vegetation management programs, increased costs to cover environmental remediation, and the costs to provide an adequate rate of return using a stand-alone capital structure. The utilization of the Positive Benefit Adjustment ("PBA") to offset regulatory assets, as further described below, helps to offset the requested rate relief.

RG&E's Gas rate increase is driven by similar factors to RG&E Electric such as property taxes, the reduction in sales and increased pension and uncollectible costs, as well as the increase in rate base since rates were last set in 2004. RG&E Electric and Gas are also filing a depreciation study and are requesting changes in their depreciation rates.

REVENUE REQUIREMENTS PANEL

OVERVIEW

Q. Please explain how you developed the Rate Year Delivery revenue requirement for RG&E Electric and RG&E Gas.

A. The Rate Year Delivery revenue requirement for RG&E Electric and RG&E Gas, as well as the supporting exhibits and associated work papers, were prepared in a manner consistent with the Commission's <u>Statement of Policy on Test Periods in Major Rate Proceedings</u>, issued on November 23, 1977. The revenue requirement forecast started from actual historic Test Year results. Various adjustments were then made to normalize the historic Test Year results and to create a verifiable link from the historic Test Year to the forecast Rate Year.

SUMMARY OF REVENUE REQUIREMENT EXHIBITS

Q. Please describe the format of the various RG&E Electric and RG&E Gas revenue requirement exhibits.

A. Exhibit __ (RRP-1)'s schedules are as follows: Schedule A "Balance Sheet"; Schedule B "Income Statements"; Schedule C "Retained Earnings"; Schedule D "Operating Income"; Schedule E "Plant"; Schedule F "Cash Flow" and Schedule G "U9C-3 and U5S Equivalent Data."

Q. The information included on Schedule B of Exhibit __ (RRP-1) indicates there were merchandising revenues (Account 415) during the latest three years and the Test Year, averaging about $12,000 per year. Please describe these revenues.

REVENUE REQUIREMENTS PANEL

A. These revenues reflect net proceeds from sales made to customers under the Company's "Storm Safe" surge protector program. More detailed information regarding the Storm Safe program is available on the Company's website.

Q. What are the next exhibits?

A. Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2) consist of a single cover page and the schedules listed previously. The RRP-2 Exhibits are Rate of Return and revenue requirement schedules.

Q. What is the source of the data set forth in Schedule A to Exhibit __ (RG&E Elec. RRP-2)?

A. Column 1 sets forth the actual Delivery operating results as booked for the historic Test Year ended June 30, 2009. This column reflects all revenues and costs as booked. It has not been adjusted to exclude non-operating, non-recurring or out-of-period revenues and costs that were booked during the year. It has also not been adjusted to synchronize the interest expense with the amount of debt supporting the Rate Base. The adjustments set forth in Column 2 and detailed on Schedule I include: (a) normalizing adjustments to exclude these non-operating, non-recurring and out-of-period revenues and costs, and (b) adjustments to reflect the forecast changes in revenues and costs through the Rate Year. These adjustments, when added to Column 1, produce the forecast Rate Year operating results, at existing rates, set forth in Column 3. The adjustments in Schedule I are supported either by this Panel or other Company witnesses. Column 4 presents the rate relief and associated taxes and other costs needed to earn the requested return as calculated on Schedule J and are shown in Column 4 of Schedule A. Column 5 sets forth the forecasted operating results, including rate relief, for the Rate Year.

Q. What is the source of the data set forth in Exhibit __ (RG&E Gas RRP-2)?

A. The methodology and source of the data is identical to the methodology for Exhibit __ (RG&E Elec. RRP-2), except that it is based on the books of RG&E Gas.

Q. What is the source of the "Adjustments" set forth in Column 2 of Exhibit __ (RG&E Elec. RRP-2) and detailed on Schedule I to that exhibit?

A. The sources of the adjustments are as follows:

- The adjustment to Retail Revenues is the difference between the Retail Revenues in the Test Year and the forecast revenues as set forth on Schedule B. The Delivery revenue amounts are supported by the Electric and Natural Gas Deliveries and Revenue Panel.
- The adjustment to Late Payments tracks the change in Retail Revenues at the same rate as experienced in the Test Year. That adjustment is supported by this Panel.
- The adjustments to Other Electric Revenues are supported by this Panel and described on Schedule I.

Q. What other items does this Panel support?

A. This Panel also supports and addresses the following:

- O&M Expenses are detailed on Schedule C, as well as on Exhibit __ (RG&E Elec. RRP-3) and Exhibit __ (RG&E Gas RRP-3) and are supported by this Panel or other witnesses.
- This Panel and Company witness Earl M. Robinson support the Depreciation costs on Schedule D.
- Operating Taxes as set forth on Schedule E are supported by this Panel.
- Other Income and Deductions as listed on Schedule F are supported by this Panel.
- Income Taxes, as developed on Schedule G, are also supported by this Panel.
- Rate Base is developed on the top half of the summary Schedule H and on Exhibit __ (RG&E Elec. RRP-4) and Exhibit __ (RG&E Gas RRP-4).
- This Panel calculated the Net Plant based on the actual plant balances at the end of the Test Year and forecast capital expenditures as set forth in the testimony and exhibits of the Capital Expenditures, Reliability and Operations Panel ("CRO Panel").
- This Panel supports the remaining components of Rate Base.
- The Equity Component of Rate Base and Interest Expense are based on the above-referenced Rate Base and the Common Equity Ratio, and average cost of debt.
- This Panel supports the projected debt amounts and costs and relies on the testimony of Dr. Makholm and the testimony of Susan D. Abbott to

further support the capital structure, including the equity percentages and recommended return on equity ("ROE").

Q. Please describe the adjustments to Interest Expense from the book amounts in Column 1 of Schedule A of Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2).

A. Detailed information about the cost of capital, including Interest Expense, can be found on Exhibit __ (RG&E RRP-5). Interest Expense includes interest on debt and accrued interest on the PBA and certain other regulatory assets and/or liabilities as provided for in prior Commission Orders. These accruals are not part of the current Revenue Requirement and are therefore excluded from calculation of the revenue requirements. RG&E accounts for Interest Expenses as Electric and Gas operating costs. However, part of the Capital Structure supports Interest-bearing Construction Work in Progress ("CWIP") and Non-Utility assets, neither of which is in Rate Base. Therefore, for regulatory purposes, it is necessary to synchronize (i.e., allocate) these costs of capital among Electric Rate Base, Gas Rate Base and Items Not in Rate Base in proportion to the amount of capital supporting each of these groups of assets. The Interest Expense for the historic Test Year and forecast Rate Year have been synchronized accordingly. There has been an increase in outstanding long term debt balances of approximately $135 million from the Test Year to the Rate Year, as well as a full year of the amortization of net hedge losses associated with certain interest rate hedges that occurred during late 2008 and mid 2009.

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SCHEDULE A – ACTUAL EARNINGS AND FORECAST REVENUE REQUIREMENTS

Q. What does Schedule A to Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2) demonstrate?

A. Schedule A summarizes the actual historical results and the forecasted Rate Year revenue requirement for RG&E Electric and RG&E Gas, respectively.

Q. What are the earnings results for RG&E Electric set forth on Schedule A of Exhibit __ (RG&E Elec. RRP-2)?

A. The actual Delivery ROE for RG&E Electric for the historic Test Year ended June 30, 2009 was -1.87 %, including the effect of the required PBA adjustment. The actual Delivery ROE for the historic Test Year, after excluding the impact of the PBA adjustment, is approximately 5.0%.

Q. What are the Earnings results for RG&E Gas set forth on Schedule A of Exhibit __ (RG&E Gas RRP-2)?

A. The actual Delivery ROE for RG&E Gas for the historic Test Year ended June 30, 2009 was -0.28%, including the effect of the required PBA adjustment. The actual Delivery ROE for the historic Test Year, after excluding the impact of the PBA adjustment, is approximately 5.1%.

Q. Please summarize the Rate Year Delivery revenue requirement for RG&E Electric.

A. A $87.4 million increase in sales revenues is required to cover the cost of providing Delivery service and earning an 11.43% return on equity using a 48% Common Equity Ratio.

Q. Can the Panel summarize the Rate Year Delivery revenue requirement for RG&E Gas?

A. A $62.9 million increase in sales revenues is required to cover the cost of providing delivery service and earning an 11.43% return on equity using a 48.0% Common Equity Ratio. The rate increase amounts are identified in Column 4 on Exhibit RRP-2, Schedule A for the respective businesses.

SPECIFIC RATE ADJUSTMENTS

Q. What are the Company's revenue adjustments shown on Schedule B of RRP-2 and described on Schedule I of RRP-2?

A. Section 1 of Schedule B represents the pro forma Delivery revenues supported by the Deliveries and Revenue Panel. Delivery revenues are first shown gross of economic development and low income discounts. For RG&E Electric, the Company is also proposing to transfer the revenues associated with the fixed component of the Non-Bypassable Charge ("NBC") to base delivery, as further discussed below. Delivery revenues are then shown net of the discounts and the Fixed NBC transfer. The total economic development program consists of rate discounts and non-rate program discounts. The rate discounts contain two components, discounts to delivery and electric supply. Each of these economic development rate discounts have been forecasted to the Rate Year levels based on existing customer agreements and provisions. The Rate Year rate discounts are forecast to be $1.16 million for RG&E Electric and $122,000 for RG&E Gas. The economic development non-rate program costs are shown in O&M and forecast to be $3.6 million for RG&E Electric and $100,000 for RG&E Gas. Support for the economic development amounts are included in the work papers of this Panel. Consistent with the current treatment of the economic development program, the Company proposes to track and annually reconcile total economic development discounts and non-rate program costs with the total amounts embedded in rates. Regarding the low income program, the Company proposes to expand the program to include all Home Energy Assistance Program ("HEAP") customers and provide for bill reductions and an arrears forgiveness program. The proposed Low Income Program is fully described in the Customer Service Panel testimony. The Company also requests that the Low Income Program be reconciled annually, since the number of customers receiving bill reductions, the amount of arrearage forgiveness, and the related administrative costs will vary depending on the number of participants.

Q. Please describe the "Transfer Fixed NBC Costs to Delivery" line item shown on Schedule B.

A. In the 2004 RG&E Electric Rate Joint Proposal, the Company created a fixed cost component of the NBC to collect fix supply costs associated with Company owned generation and generation related regulatory assets. Specifically, the costs components in the fixed NBC related to the Ginna nuclear facility, Russell coal-fired facility, Company-owned hydro facilities and supply-related regulatory assets and liabilities (namely Nine Mile II, Nine Mile II Mirror CWIP, Allegheny and Oswego regulatory assets). Since Ginna has been sold, Russell retired and we are proposing to offset the remaining balances of Nine Mile II and Nine Mile II Mirror CWIP regulatory assets and a portion of the Oswego regulatory asset with PBAs as further discussed below, it is no longer necessary or useful to have a fixed NBC. Therefore, the Company proposes to transfer the current fixed NBC revenues to base Delivery charges. This transfer is illustrated on Schedule B, and is reflected in both the Test Year and the Rate Year.

Q. Please discuss the System Benefit Charges ("SBC"), Energy Efficiency Portfolio Standards ("EEPS"), Temporary State Assessment Surcharge ("TSAS" or "18-a") and Renewable Portfolio Standard ("RPS") revenue line items shown in Schedule B of Exhibit RRP-2 for the respective businesses.

A. Schedule B identifies several "pass-through" revenue surcharges, specifically SBC, EEPS, the RPS and TSAS. Each of these revenue line items has an equal and offsetting expense amount reflected in Schedule C, O&M Expenses. All of the items are pass-through surcharges and therefore are designed not to have an impact on the determination of Delivery revenue requirements. This treatment is the same for both the RG&E Electric and Gas businesses.

Q. Can the Panel please describe the adjustments for the Retail Access Surcharge ("RAS"), Retail Access Credit ("RAC") and the Merchant Function Charge ("MFC") revenue adjustments?

A. Unlike NYSEG Electric, NYSEG Gas and RG&E Gas, RG&E Electric does not have an MFC. In the 2004 RG&E Electric Rate JP an RAS and RAC were developed and created due to the structure of the Company's commodity program and the fixed price commodity option. The commodity program was modified in 2009 and is anticipated to be further modified to a pass through supply mechanism in 2010. As a result of the commodity program modifications and the need to appropriately unbundle supply-related costs, the Company is proposing to eliminate the RAS and RAC and to create an MFC for RG&E Electric. The MFC will recover supply related costs, namely supply related uncollectible expenses, supply procurement and administrative operating expenses, supply working capital and carrying costs on commodity hedge margin accounts. The development of the MFC will be a part of this proceeding through the rate design evaluation.

Q. Does RG&E Gas have an MFC?

A. Yes, RG&E Gas has an MFC. The Gas MFC is designed to collect gas supply related uncollectible expenses, supply procurement and administrative operating expenses and gas storage inventory carrying costs. The Company is proposing to expand the gas MFC collection to include gas supply working capital carrying costs on purchased gas supply, withdrawals of gas from storage and carrying costs on commodity hedged margin accounts. Since Exhibit RRP-2 is a Delivery-only revenue requirement, the Gas MFC revenues shown for the Rate Year include only the existing procurement and administrative operating expenses embedded in the Gas MFC. All other existing and proposed MFC supply-related revenues and costs (gas supply uncollectible expense, gas storage inventory carrying costs, gas withdrawal and supply working capital and carrying costs on hedging margins) are not included in the Rate Year amounts for purposes of this exhibit. The Company included in the Rate Year the component of the MFC revenue that collects existing operating expenses, since the supply-related operating expenses are included in O&M. The Revenue Allocation and Rate Design Panel will discuss the proposed changes to the Gas MFC and the proposed reset of operating expense collection as supported by the embedded costs of service studies.

Q. What is the RG&E Electric revenue line item adjustment for "Transfer to Commodity Uncollectibles from NBC to MFC?"

A. Currently, RG&E Electric supply related uncollectible expenses are collected through the NBC. The Company proposes to discontinue collecting supply related uncollectible expenses through the NBC and instead collect those costs through the MFC. This treatment would be consistent with MFC of NYSEG Electric and Gas and RG&E Gas. Since only Delivery-related uncollectible expenses are used in the development of Delivery revenue requirement, the revenue line item associated with electric supply uncollectible expenses has been set to zero in the Rate Year. This adjustment is shown on the line item titled "Transfer Commodity Uncollectibles from NBC to MFC."

Q. Please describe the Electric Other Revenue adjustments.

A. Reconnection charges, damage billings and intercompany revenues are unadjusted from the Test Year amounts. Rent revenue has been adjusted to reflect pro forma Rate Year amount.

The Company also received Purchase of Receivable ("POR") discount revenues from Energy Service Companies ("ESCOs") during the Test Year. The POR discount revenues are based on the POR Joint Proposal approved in Case 03-E-0765 and 03-G-0766, and reflect the Company's purchase of ESCO accounts receivables less a discount for uncollectible expense and negotiated incremental administrative costs. Since there are no ESCO supply uncollectible expenses included in the Rate Year, the Company has eliminated the POR discount revenues from the determination of Delivery revenue requirements.

Q. What is included in the revenue section on RRP-2, Schedule B, titled "Deferrals & Amortizations?"

A. The Company records in Other Revenue various revenue deferrals associated with items such as SBC/RPS Surcharges, RAS, EEPS and the TSAS. The Company also reconciles economic development program costs, records any earnings sharing and amortizes Delivery revenue offsets and 2003 State Income Tax amounts from the 2004 Electric JP in Other Revenue. All surcharge deferrals have been set to zero since the Rate Year surcharge revenues have equal and offsetting expense amounts. In addition, the economic development program deferral and RG&E Electric JP amortizations have also been set to zero since all economic development program costs are reflected as revenue discounts or operating expenses and the amortizations will discontinue with the establishment of new rates in this case.

Q. Turning to Exhibit __ (RG&E Gas RRP-2) Schedule B, can you please describe the revenue adjustments shown on that schedule?

A. Gas Delivery revenues are presented in a similar fashion as the Electric business. Gross base Delivery revenues are shown first and then reduced by low income and economic development discounts to calculate net base Delivery charges. The Rate Year Delivery revenues and economic development discounts are supported by the Sales and Revenue Panel and the Revenue Allocation and Rate Design Panel, respectively. The low income program, including the proposed bill reduction, is supported by the Customer Service Panel. The gas MFC has been adjusted to only reflect the operating expense revenue collection component similar to the Electric business.

SCHEDULE C – O& M EXPENSE

Q. What is shown in Schedule C of Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2)?

A. Schedule C shows the historic Test Year and forecast Rate Year O&M expenses by cost category. All of the amounts in Schedule C are set forth in summary fashion in Schedule A of Exhibit __ (RG&E Elec. RRP-3) and Exhibit __ (RG&E Gas RRP-3), with specific adjustments described on Schedule B of those same Exhibits.

SCHEDULE D – DEPRECIATION AND AMORTIZATIONS

Q. Please describe the calculation of forecast Rate Year Depreciation Expense on Schedule D of Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2).

A. The Company began with the historic Test Year level of depreciation. The historic Test Year depreciation expense for the Electric business is made up of three components: (1) the depreciation expense associated with applying existing depreciation rates to the depreciable balances of electric plant and the electric portion of common plant; (2) the accumulation of a $2 million annual amount into a decommissioning reserve for the Beebee generating plant, which was closed in 1999; and (3) the accumulation during the Test Year of $3.25 million into a decommissioning reserve for the Russell generating plant which was closed in the second quarter of 2008. For the Gas business, the historic Test Year depreciation expense is made up of only the first component noted above for electric. For each business, all adjustments are noted on Schedule I of the RRP-2 exhibits. The Company made adjustments to reflect capital additions and projected retirements through the Rate Year, using current depreciation rates. The Company also reflected the changes in depreciation rates as proposed by Earl Robinson in his testimony. The difference between the historic Test Year and the Rate Year amounts due to applying the new level of depreciable plant and the newly proposed depreciation rates are included in Column 2, line 1 of Schedule D of the RRP-2 exhibits.

Q. Are there any adjustments associated with the decommissioning reserve accruals?

A. For the Rate Year, the Company is not proposing any adjustment to the $2 million annual amount being accrued for the decommissioning of the Beebee station. The Company is proposing a reduction from the current annualized accrual level of $6.5 million to a level of $3.0 million for the decommissioning of the Russell station. The Test Year only included one half of the annualized amount as the entire annual amount was accrued during the first half of 2008, prior to the plant closing. The Russell station is the subject of a potential sale under the Commission's generation divestiture requirement, and the ultimate responsibility for decommissioning the plant may end up with ratepayers or it may end up with the future new owner of the site. As is the case with the Beebee station decommissioning accrual, to the extent that any funds collected from customers and set aside for the decommissioning of the Russell site are not needed, they would be set aside as a regulatory liability and held for future disposition to customers, be used in an approved way to offset any regulatory assets, or be returned to customers in a timely manner via the Deferral Recovery Mechanism ("DRM") described later in this testimony.

Q. For RG&E Electric, what is the last adjustment made to the Test Year amounts?

A. The other adjustment noted on Schedule I of Exhibit __ (RG&E Elec. RRP-2) relates to the removal of depreciation expense associated with certain street lighting assets that are in the process of being sold to the City of Rochester. The sale is the subject of a soon to be filed petition seeking Commission approval pursuant to New York State Public Service Law ("PSL") Section 70.

SCHEDULE E - OPERATING TAXES

Q. What is the primary adjustment for Operating Taxes for RG&E shown on Schedule E to Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2)?

A. The primary driver for increases in the amount of Operating Taxes are the increases in Property Taxes anticipated between the Test Year and the Rate Year. Over the period 2006 through 2008, RG&E has experienced an annual increase rate in Property Tax expense of over 10%, which trends to a 23.13% change from Test Year to Rate Year.

Q. What is occurring with the other taxes on Schedule E?

A. The Payroll taxes, Use taxes, and Other taxes are trended by the appropriate inflator (payroll inflator for Payroll taxes, General inflator for the rest). Gross receipts tax uses the current average Gross Receipts Tax rate and applies that rate to the Rate Year levels of proposed retail revenue.

Q. Line item 13 on Schedule E identifies a Property Tax True-up that moves from a credit in the Test Year to $0 in the Rate Year. What does this reflect?

A. In the Test Year, under its current Rate Plans for Electric and Gas, RG&E defers Property Tax expense above an agreed-upon threshold. The Company proposal is to reset Property Taxes in base rates at the expected level, and to true-up any differences between actual cost and the amount included in rates and recover or pass back those differences through the DRM.

Q. Why is reconciliation through the DRM appropriate for property taxes?

A. Property taxes are anticipated to increase as local governments seek to overcome revenue deficits resulting from the current economic crisis. Since this factor is largely beyond the control of the Company, we propose that deferral accounting be utilized to account for any increase or decrease in property taxes over the forecasted Rate Year level.

Q. For RG&E Electric, what are the last adjustments made to the Test Year amounts?

A. The other adjustments noted on Schedule I of Exhibit __ (RG&E Elec. RRP-2) include the removal of property taxes associated with the aforementioned sale of street lighting assets to the City of Rochester as well as the inclusion of incremental property taxes associated with the Company's Rochester Transmission Project, which were not included in the Test Year.

SCHEDULE F - OTHER INCOME AND DEDUCTIONS

Q. How were Rate Year Other Income and Deductions forecast?

A. The Test Year level of Other Income and Deductions are listed in Column 1 of Schedule F. The Company set them all to zero for the Rate Year because they are not components of the regulated revenue requirements.

SCHEDULE G - INCOME TAXES

Q. Can the Panel describe what is set forth in Schedule G to Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2)?

A. Schedule G sets forth the calculation of Income Taxes. The Company has adjusted income taxes in the Rate Year to reflect the tax impact on the revenue and expense adjustments and the flow-through/permanent differences that will occur in the Rate Year. The Company eliminated the monthly estimated tax true-ups recorded in accordance with APB 28, below the line flow-through items, reserve adjustments and out of period adjustments. The Company also removed the investment tax amortization credit since it is an option 1 company.

SCHEDULE H - RATE BASE

Q. How did the Panel develop the Rate Base shown on Schedule H of Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2)?

A. Consistent with other components of the Revenue Requirement, we derived the Rate Base for the forecast Rate Year based on the actual historic Test Year Rate Base. Monthly capital additions, retirements, depreciation, cost of removal and salvage forecast were added to the actual Plant and Reserve balances. The Net Plant for the Rate Year is an average of the monthly averages of the resulting Plant and Reserve balances for the Rate Year months. Other components of the Rate Base were adjusted from the historic Test Year level to the Rate Year level as set forth on Schedule H.

Q. Where is the primary support set forth for the Company's Rate Base calculation?

A. Exhibit __ (RG&E Elec. RRP-4 and Exhibit __ (RG&E Gas RRP-4), Schedules A through H provide support for all Rate Base line items and Schedule I is a description of all the adjustments to the Rate Year.

<u>EXHIBIT (RG&E ELEC. RRP-3) AND EXHIBIT (RG&E GAS RRP-3)</u>

Q. Please describe the format of Exhibit __ (RG&E Elec. RRP-3) and Exhibit __ (RG&E Gas RRP-3).

A. Exhibit __ (RG&E Elec. RRP-3) and Exhibit __ (RG&E Gas RRP-3) consist of two (2) schedules. Schedule A starts with the actual Test Year O&M Expenses by Cost Category and projects across the page to develop the forecast Rate Year O&M Expenses by Cost Category in the last column. Those forecast costs are posted back to Column 3 on Schedule C of Exhibit __ (RG&E Elec. RRP-2) and Exhibit __ (RG&E Gas RRP-2). Schedule B provides a listing and description of the normalizing and change activity shown in Column 2 of Schedule A.

<u>SCHEDULE A OF EXHIBIT (RG&E ELEC. RRP-3) AND EXHIBIT (RG&E GAS RRP-3)</u>

Q. What is included in Schedule A of Exhibit __ (RG&E Elec. RRP-3 and Exhibit __ RG&E Gas RRP-3)?

A. Schedule A consists of one page which sets forth the Total O&M Expense Summary, which essentially mirrors Schedule C of Exhibit __ (RG&E Elec. and Gas RRP-2).

Q. Please explain what each column of Schedule A of Exhibit __ (RG&E Elec. RRP-3) and Exhibit __ (RG&E Gas RRP-3) shows.

A. The amounts in Column 1 are the actual expenses for each element of cost for the historic Test Year ended June 30, 2009. Column 2 includes adjustments to (a) normalize O&M costs and (b) reflect specific forecast changes from the Test Year through the Rate Year. These specific changes include estimates for the "link" period, i.e., from the Test Year to the Rate Year. These adjustments are further explained as follows: Column 3 reflects a subtotal of the first two columns. Column 4 describes the inflator used to inflate cots to the Rate Year. Column 5 contains the rate used to inflate costs from the historic Test Year through the Rate Year based on the inflator identified in Column 4. The rate shown is a compounded rate from the middle of the historic Test Year to the middle of the Rate Year. Column 6 is the dollar amount of the inflation adjustment, which is calculated by multiplying Column 5 and Column 3. Column 7 is the Rate Year amount, and it is the sum of Columns 3 and 6.

SCHEDULE B OF EXHIBIT (RG&E ELEC RRP-3) AND EXHIBIT (RG&E GAS RRP-3)

Q. What is provided in Schedule B of Exhibit __ (RG&E Elec. RRP-3) and Exhibit __ (RG&E Gas RRP-3)?

A. Schedule B provides the detail supporting the total of the Normalizing and Change in Activity Adjustments identified on Column 2 of Schedule A of each respective exhibit.

SPECIFIC ADJUSTMENTS

PAYROLL

Q. Can the Panel describe how you forecast Payroll for the Rate Year?

A. We have adjusted base payroll using a payroll inflator. In the absence of a specific union increase (since the contract is still in negotiation), we have used the last offer made to the union as a proxy for a union pay increase. Non-union employees last received a base pay increase in August 2008. The Company is not projecting another non-union base pay increase until August 2010. We have projected a 3% non-union increase to take effect in August 2010. We have reduced both the union and non-union base pay increases by a 1% productivity offset.

Q. What is the line item titled "Group Incentive?"

A. The group incentive plan is a Company-wide incentive plan for non-union, non-executive employees. Payments for the plan are contingent upon meeting certain customer service, reliability and cost management targets, meeting business area objectives and achieving "good" or better individual performance ratings. The Company proposes to include the amounts associated with the group incentive plan in rates.

Q. Is RG&E proposing to include any executive incentive compensation in its revenue requirements?

A. No. We have removed all executive incentive compensation from the Rate Year. A separate line item has been identified in O&M to illustrate the removal of the executive incentive compensation. While the Company believes executive variable compensation is an appropriate operating expense, we are not asking for recovery from customers in this proceeding.

MEDICAL BENEFITS

Q. What are the adjustments to Medical Benefits?

A. In recent rate proceedings, utilities have sought approval to increase medical benefit costs at a rate higher than inflation. The Commission has denied these requests. While RG&E believes that the Commission should alter its position and recognize that the costs of providing medical benefits for utility employees increase at a rate far greater than general inflation, given the Commission's recent decisions on this issue and in the interest of an expedient regulatory process, we have only applied the general inflation rate to historic Test Year medical costs.

OPEBS AND PENSIONS

Q. How did you develop the adjustments for OPEB costs and pension expense?

A. We set the Rate Year forecast levels based on information provided by the Company's actuaries, Towers Perrin. Annual pension income has fluctuated significantly during the last five years and the impacts of the 2008 and 2009 economic crises have dramatically lowered the Company's current and prospective pension income and funded status. RG&E requests that pension and OPEB costs continue to be fully reconciled for both the Electric and Gas business consistent with the Statement of Policy Concerning the Accounting and Ratemaking Treatment for Pensions and Postretirement Benefits Other Than

Pensions, issued September 7, 1993 in Case 01-M-0890 (33 NY PSC 1107). These costs are among those that we include in the list of items to be recovered or passed back through the DRM.

CHARGES FROM UTILITY SHARED SERVICE CORPORATION ("USSC") AND ENERGY EAST MANAGEMENT CORPORATION ("EEMC")

Q. What items are included in the charges from USSC and EEMC?

A. Charges from USSC and EEMC include costs directly charged to or allocated from USSC or EEMC to RG&E. In 2003, a utility shared services organization was created for the five operating utilities of Energy East Corporation ("Energy East"), which provides the Company with certain administrative and operating functions and services, including information technology, purchasing, accounting, and payroll. The O&M expense charges from USSC are comprised of a combination of payroll and associated benefit costs, outside services, office supplies, miscellaneous general expenses, rent, depreciation, interest expense, and other smaller expense categories. EEMC provides the Company with certain administrative and operating functions and services, including risk management, pension administration, internal audit, tax, corporate finance, and regulatory support.

Q. Are there supporting documents included in the filing?

A. Yes. The Company has included in its work papers Test Year and three historical year information for USSC and EEMC charges. The Company has also provided invoices and information related to the allocation of costs.

Q. Please describe the adjustments to USSC and EEMC expense.

A. The Company first removed all executive incentive compensation from the Test Year amounts and then adjusted the resulting Test Year level based on inflation.

LEGAL SERVICES AND RATE CASE EXPENSE

Q. Is the Panel proposing any adjustment to Legal Services?

A. We are requesting a one year recovery of incremental costs associated with filing these rate cases. RG&E has projected the cost of filing the electric and gas cases to be $2.64 million. We subtracted from this total the cost incurred during the Test Year of $415,000 to arrive at the incremental adjustment amount of $2.2 million. We then allocated this amount 70% to electric and 30% to gas. The Company significantly reduced the costs associated with this filing when compared with the 2006 NYSEG Electric rate proceeding in Case 05-E-1222. In 2006, the NYSEG Electric incremental rate case costs were $6.78 million. Here, the total cost for filing not one but four separate rate cases is estimated to be $7.4 million (including the costs of the January 2009 filing).

Q. Are you proposing recovery of costs for the January 2009 rate filing?

A. Yes. The Company incurred $1.03 million of incremental costs for the January 2009 rate filing. These expenditures are one reason why the Company was able to significantly reduce the cost of preparing the current rate proceeding. Even though the Commission dismissed the Company's rate filing, RG&E believes that it was necessary at the time given the then existing financial conditions and liquidity that it had a need to request expedited rate relief. As explained by the

Policy Panel and Susan D. Abbott, the credit rating agencies immediately downgraded the Company when the Commission dismissed its rate filings. As this filing demonstrates, the Companies' financial condition has not improved (Test Year ROEs excluding the effect of the PBA were 5.0% and 5.1% for Electric and Gas, respectively).

REGULATORY COMMISSION ASSESSMENTS

Q. Can the Panel please describe the adjustment that you made to Regulatory Commission Assessments?

A. We applied the General Inflation Factor to the regulatory commission expenses that are embedded in rates. The Commission assessment has increased 20% during the last five years as shown in the January 2009 rate filing data response No. 0270, which is included in the Company's work papers in this filing.

Q. How has the Company treated the new TSAS in its filing?

A. We have included the TSAS surcharge amount in both revenues and expenses, separate from the traditional regulatory assessment costs. The TSAS amount is $14.3 million and $12.9 million annually for RG&E Electric and Gas, respectively.

TRANSPORTATION

Q. Did the Panel make any adjustments to Transportation?

A. We adjusted Transportation costs to reflect incremental costs primarily associated with escalating personnel and material costs, as well as vehicle depreciation.

These transportation-related costs are not included in the personnel, material or depreciation amounts shown on Schedules C and D of Exhibits RRP-2.

INSURANCE

Q. Please describe the adjustments that were made to insurance costs.

A. The first adjustment represents the decline in the insurance premium refunds expected from Nuclear Electric Insurance Limited ("NEIL"). The Company has already been notified by NEIL that this adjustment will take place due to the prevailing financial and economic climate. To incorporate the possibility of an economic turnaround changing the plans of NEIL, the Company will propose to put this item on the list of items that could be reconciled through the DRM. The second adjustment represents the most recently available information on anticipated premiums.

SYSTEM RELIABILITY

Q. What adjustments are identified for Stray Voltage, CRO Panel Initiatives, Operations Staffing, and Integrity of Gas Pipeline?

A. For the Electric business we have made adjustments to include the incremental costs for additional stray voltage requirements as directed by the Commission, as discussed in the testimony of the CRO Panel. We have also made adjustments to incorporate several other initiatives testified to by the CRO Panel. For the Gas business, we have made adjustments to reflect additional costs associated with Commission required Integrity Management activities, as well as several other initiatives testified to by the CRO Panel.

MENDON HEATER GAS

Q. What is represented by adjustment shown on line 30 of Schedule C of Exhibit __ (RG&E Gas RRP-2)?

A. The gas used to pre-heat customers' gas at the Mendon City Gate Station has previously been accounted for as O&M. This adjustment removes the cost of that gas from O&M and treats it as part of overall gas costs.

COLLECTIONS COST

Q. What does the adjustment on the line item titled "Collections" represent?

A. The adjustment represents the incremental costs of instituting the credit card acceptance program testified to by the Customer Service Panel.

UNCOLLECTIBLES

Q. How has the Company reflected Delivery uncollectible expenses in the Rate Year?

A. The Company has applied the Test Year uncollectible percent experienced to the Delivery revenues proposed for the Rate Year.

Q. Does the Company propose the reconciliation of Delivery uncollectible expense in this filing?

A. Yes. We propose to reconcile actual Delivery uncollectible expense with the Rate Year allowed amount for all annual periods after the start of the Rate Year. The reconciliation would apply separately to the Electric and Gas businesses and would be among those items included in the DRM. We also propose to continue to reconcile and true-up all supply related uncollectible expense through the MFC for Electric and Gas.

LOW INCOME ENHANCED PROGRAM

Q. Please describe the adjustments for the Company's proposed Low Income Program.

A. As identified previously in the Revenue adjustment section, the Company is proposing an expanded low income program to cover all HEAP eligible customers. The program will offer a monthly bill reduction and arrears forgiveness based on eligibility and meeting certain requirements. The low income program is fully explained by the Customer Service Panel. We have separately shown the cost of the proposed bill reduction on Schedule B of RRP-2 and the arrears forgiveness and administrative costs on Schedule C of RRP-2. Total cost of the program is expected to be $8.8 million for RG&E Electric and $8.9 million for RG&E Gas. A summary of the cost components is shown on Schedule C of RRP-2.

ENVIRONMENTAL REMEDIATION COSTS

Q. What is the adjustment for Environmental Remediation Costs?

A. The adjustment resets the Environmental Remediation Costs reserve amounts based on the projected Rate Year expenditure levels of $10.6 million for RG&E Electric and $5.3 million for RG&E Gas. The Company proposes to continue environmental reserve accounting. To the extent that actual environmental remediation costs vary from what is allowed in rates, the Company proposes that the recovery or pass back be included in the DRM.

STORM COSTS

Q. How did you adjust Storm Costs?

A. Similar to environmental expenditures, the Company is proposing reserve accounting for major and minor storm costs. We have adjusted the annual threshold for storms based on recent history of major and minor storms, which has averaged $2.7 million over the last five years. The inclusion of minor storms at RG&E is consistent with the treatment NYSEG has been receiving for several years. Appropriate adjustments have been made to other cost categories to remove the Test Year levels of costs associated with minor storms and are shown on Schedule B.

Q. What is the Company's proposal with respect to cumulative storm costs that cause those annual storm costs to exceed the amount reserved?

A. The Company proposes that the costs above the level reserved be identified and collected or returned to customers through the DRM, which is described later in this testimony.

DEBT COST DEFERRAL

Q. What is your proposal for the treatment of variable interest rate debt cost?

A. Due to the volatility of interest rates, particularly in the adjustable rate securities market, the Panel proposes deferral accounting for these costs.

Q. Please describe the deferral accounting mechanism.

A. The Company proposes to reconcile the differences between the Rate Year cost of debt driven by: (1) changes in interest rates on variable rate debt (including variances from converting variable rate securities to fixed rate securities); (2) differences in interest rates on debt that is refinanced; or (3) differences resulting from changes in the costs associated with liquidity facilities be deferred.

VEGETATION MANAGEMENT

Q. How have you adjusted the costs for Vegetation Management?

A. As described in the CRO Panel testimony, the Company proposes to implement a five (5) year vegetation management full cycle trim program. We have adjusted the Rate Year to reflect the incremental costs of implementing this vegetation management program.

POSITIVE BENEFIT ADJUSTMENTS

Q. Please describe the PBA.

A. The Commission required $275 million of PBAs to be recorded on the books of NYSEG and RG&E effective as of the date of merger closing, September 16, 2008. The PBAs were allocated to respective businesses in proportion to their 2007 Delivery revenues. RG&E Electric recorded $81.2 million and RG&E Gas recorded $29.0 million of pre-tax PBAs. RG&E has been accruing interest on the PBA balance using their respective allowed pre-tax rates of return.

Q. How are you proposing to utilize the PBA?

A. On August 28, 2009, NYSEG and RG&E petitioned the Commission to allow for an offset a portion of the PBAs with certain deferral balances. A copy of the petition is included in the work papers. The requested PBA utilization for RG&E Electric is $12.0 million to offset deferred property tax and variable rate debt. At RG&E Gas, the PBA utilization is $18.8 million to offset deferred property tax, variable rate debt and pipeline integrity costs. As explained in the petition, the Company proposed to offset deferred balances that are accruing interest. In this filing, the Company proposes to utilize the remaining PBA balance at RG&E Electric to offset Nine Mile II regulatory asset and the Nine Mile II Mirror CWIP balance and approximately one-half of the Oswego regulatory asset for a total of $47.6 million (after-tax). This adjustment is shown on Schedule I of RRP-4. This remaining PBA utilization would occur at the start of the Rate Year when new rates are implemented as a result of this proceeding (September 1, 2010 for purposes of this filing). Utilizing the PBAs in this manner will clean up the Company's balance sheet and is expected to be viewed positively by credit agencies.

Q. Did you exclude the PBAs from the determination of the Company's stand-alone capital structure?

A. No. Though the Company proposed this adjustment in its January 2009 rate filing, it has decided not to do so in this proceeding. The Company is proposing to utilize its Rate Year stand-alone capital structure as shown in RRP-5.

ENERGY EFFICIENCY

Q. What adjustments are made for energy efficiency?

A. We have included the costs associated with implementing and operating under the EEPS in both revenues and expenses. The expected costs are recovered via a surcharge. The revenues and related costs included in the Rate Year represent those costs that the Company is currently approved to recover from customers for EEPS. To the extent that total costs of administering and implementing the various EEPS programs are approved for recovery at different levels than what is included, the Company would plan on collecting those modified costs through the surcharge that is currently being used. Any EEPS costs that are not recovered through the surcharge would be assumed to be deferred and eligible for collection through the DRM discussed later in this testimony.

GENERAL INFLATION

Q. What General Inflation Factor did you use?

A. We used the forecasted change in the GDP Chain Price Index using the May 10, 2009 Blue Chip Economic Indicators to inflate these costs from the Test Year to the 2011 Rate Year. The inflator is shown on Schedule A of Exhibit __ (RG&E Elec. RRP-3) and Schedule A of Exhibit __ (RG&E Gas RRP-3).

Q. What Test Year costs were inflated utilizing the General Inflation Factor?

A. All items with amounts in column 6 of Schedule A of Gas and Electric Exhibits RRP-3 other than payroll were inflated using the General Inflation Factor.

DEFERRALS AND AMORTIZATIONS

Q. Is there an existing Outreach and Education ("O&E") advertising deferral RG&E is proposing to amortize?

A. Yes. RG&E Electric has under-recovered and deferred approximately $6.8 million of O&E costs associated with its Voice Your Choice program through December 2008, as allowed by the Company's current Electric Rate Plan. The Company is proposing to amortize this deferral over four years in its revenue requirement.

Q. Is the Company proposing any additional amortizations?

A. Yes. For each business the Company is accumulating a number of outstanding balance sheet items and is amortizing those as a credit to customers.

RECONCILIATIONS AND RESERVE ACCOUNTING

Q. Please summarize the existing reconciliation and reserve accounting items at RG&E Electric.

A. RG&E Electric currently reconciles revenues and costs associated with the low income program and economic development program. In addition, the Company reconciles stray voltage, pension and OPEB expense, property taxes, security costs, specific variable rate debt, O&E, and accounting and legislative tax regulatory mandates. RG&E Electric also has reserve accounting for storm costs and environmental remediation costs. The Company proposes to maintain these reconciliations and reserve accounting treatments.

Q. What are the new items the Company proposes to reconcile with the amounts embedded in Delivery rates?

A. The additional items that RG&E proposes to true-up and reconcile are Delivery uncollectible expense and vegetation management costs. The Commission has recently authorized other utilities in one year litigated cases similar reconciliations.

Q. Are the reconciliation items similar for RG&E Gas?

A. Yes. With the exception of items that apply only to the Electric business, RG&E Gas proposes to reconcile all the same items as RG&E Electric with the addition of gas pipeline integrity costs. The Gas business also currently reconciles research and development ("R&D") external costs consistent with Case 99-G-1369 and proposes to reconcile internal R&D costs as well.

Q. Does the Company propose to accrue carrying charges on deferred and reserve costs?

A. Yes. RG&E would accrue carrying charges on all deferred costs based on its pre-tax allowed rate of return applied to the after tax balances.

DEFERRAL RECOVERY MECHANISM

Q. What is your proposal for a DRM?

A. We propose to implement a RG&E Electric and Gas DRM to return or collect deferred costs, reserve balances and service and reliability revenue adjustments. Instead of building large deferrals and reserve balances, RGE proposes to implement a DRM that will return or collect the deferral balances.

Q. How do you propose the DRM will operate?

A. We propose that the DRM will operate similar to the 2009 interim NBC. We propose to establish trigger threshold amounts whereby a DRM would be implemented. The trigger threshold amounts would equal approximately 1.5% of Delivery revenues. At RG&E Electric we propose to implement a DRM whenever the combination of deferred and reserve balances exceed plus or minus $6.0 million. At RG&E Gas, the Company proposes to set the DRM trigger threshold at $3.0 million. The DRM would be set to recovery or return the deferred costs over a twelve month period. The DRM would be reset each time the threshold is exceeded.

Q. Why is the creation of DRM necessary?

A. As explained in the testimony of Susan D. Abbott, the need for cash recovery of deferred costs is particularly important for the Company's credit ratings. It is not good practice to build large deferral balances for future recovery. The Company has proposed to offset the majority of its existing balance sheet deferrals with PBAs, and therefore "clean up" its balance sheet. This is the appropriate time to create a recovery/return mechanism for future deferred costs.

Q. Does the creation of a DRM limit Department of Public Service Staff's ("Staff") right to audit the deferred costs?

A. No. Implementation of the DRM will not limit Staff's right to audit the deferred costs.

RATE BASE

Q. Please describe Rate Base Exhibit __ (NYSEG Elec. RRP-4) and Exhibit __ NYSEG Gas RRP-4).

A. Each exhibit consists of a single cover page and nine (9) schedules:

Schedule A	Summary
Schedule B	Utility Plant and Depreciation Reserve
Schedule C	Materials & Supplies and Prepayments
Schedule D	O&M Working Capital per the FERC Formula
Schedule E	Other Working Capital
Schedule F	Deferred Debits & Credits
Schedule G	Deferred Taxes and Investment Tax Credit
Schedule H	Earnings Base-Capitalization Adjustment
Schedule I	Adjustments to the Rate Year

Consistent with Exhibit RRP-2, each schedule consists of three columns. Column 1 sets forth the actual monthly average Rate Base for the historic Test Year ended June 30, 2009. The source of this figure is the books and records of the Company. The adjustments set forth in Column 2 and detailed on Schedule I include: (a) adjustments to exclude items that are not supported by Delivery rates and (b) adjustments to reflect the forecast changes in plant and other balances through the Rate Year. These adjustments, when added to Column 1, produce the forecast Rate Year Rate Base set forth in Column 3.

Q. What is contained in Schedule A?

A. Schedule A is a summary that identifies the various components of Rate Base. Each component is further detailed on Schedules B through H.

Q. What does Schedule B set forth?

A. Schedule B sets forth the amount of Utility Plant, Depreciation Reserve and Non-Interest Bearing Customer Advances in Rate Base. As noted earlier, the historic Test Year amounts are the average of actual book balances for the 12 months ended June 30, 2009. Interest-Bearing CWIP is excluded and will be added to Rate Base as the projects are placed in service. The changes to the Rate Year are listed in Column 2. The balance in Non-Interest Customer Advances is relatively stable and no change from the historic Test Year average has been projected.

Q. Please describe the adjustments to Utility Plant and Depreciation Reserve from the historic Test Year to the Rate Year.

A. The adjustments to Utility Plant and Depreciation Reserve are based on the forecast capital expenditures set forth in the testimony and exhibits of the CRO Panel. The work papers accompanying this filing include a detailed calculation of the forecast Plant and Depreciation Reserve balances. These adjustments are posted forward to Column 2 on Schedule B of this exhibit.

Q. How were the forecast Gross Utility Plant shown on Schedule B of the Electric and Gas Exhibits RRP-4 calculated?

A. Gross Utility Plant was calculated in the work paper labeled "NC – RRP-4 – Plant." The beginning Electric and Gas Plant balances on the work paper are the sum of the actual per-book balances of Electric, Gas and allocated Common Gross Plant (account 101), Plant Held for Future Use (account 105), Completed Construction Not Classified (account 106) and CWIP (account 107) minus Interest-Bearing CWIP at January 1, 2009. The Electric and Gas Plant balances were increased through the Rate Year based on the forecast capital expenditures set forth on Exhibit CRO-2. For those projects with extended construction periods, the capital expenditure dollars projected to be spent on those projects were added to Plant on the in-service date. The remainder of the capital forecast represents continuing expenditures on projects with relatively short construction periods. These expenditures were spread through each calendar year and added to Plant on a straight-line basis.

Q. Did you include retirements in the calculation of the forecast Rate Year Gross Plant?

A. Yes. The forecast Gross Utility Plant was reduced annually by the five-year average of actual Electric, Gas and Allocated retirements. In addition, the forecast Gross Utility Plant was reduced to reflect the retirement of the street lighting facilities to be sold to the City of Rochester.

Q. Please describe how the forecast Depreciation Reserve shown on Schedule B of Exhibit __ (NYSEG Elec. RRP-4) and Exhibit __ (NYSEG Gas RRP-4) were calculated.

A. The forecast Depreciation Reserve was calculated in the work paper labeled "NC – RRP-4 – Plant." The beginning Depreciation Reserve balances (account 108) are the actual per-book balances of Electric, Gas and allocated Common accumulated depreciation at January 1, 2009. The Electric and Gas Depreciation Reserve balances were decreased by the same amount of retirement used to decrease Gross Utility Plant. On a net basis, the retirements themselves did nothing to Rate Base, but did impact Depreciation Expense. Depreciation Reserve was then increased based on the forecast amount of Depreciation Expense to be accrued through the Rate Year.

Q. Were any other adjustments made to Depreciation Reserve?

A. Yes. The Electric and Gas Depreciation Reserves were increased by one-half of the annual effect of the depreciation rate changes proposed by Mr. Robinson. In addition, Electric Depreciation Reserve was adjusted to reflect the retirement and sale of the street lighting facilities to the City of Rochester. The adjustment included retirement of the plant and net of tax proceeds to be received from the City of Rochester. Finally, for Electric, as of the end of the historic Test Year, the Russell Decommissioning Reserve was on the books in a Depreciation Reserve account. An adjustment is made in this case to transfer that reserved to a deferred credit liability, similar to the Beebee Decommissioning reserve. This transfer had no net impact on Rate Base.

Q. What does Schedule C set forth?

A. Schedule C sets forth the average balance of Materials and Supplies and Prepayments.

Q. How were Materials and Supplies adjusted?

A. Materials and Supplies have been inflated from the historic Test Year to the Rate Year using the General Inflator (3.41% compounded for 26 months).

Q. Please describe the adjustments to Prepayments.

A. The average balance of Prepaid Property Taxes has been inflated from the Historic Test Year to the Rate Year to the Rate Year at the 10.08% actual average annual rate of increase in RG&E Electric Property Taxes experienced from 2006 to 2008 (23.13% compounded for 26 months).

A. The average balances of Prepaid PSC General Assessment, Insurance and other Prepayments have been inflated using the General Inflator (3.41% compounded for 26 months).

Q. What does Schedule D set forth?

A. Schedule D sets forth the calculation of Cash Working Capital for O&M and Purchased Power Costs based on the FERC formula. For the O&M component, a factor of $1/8^{th}$ is used since RG&E is basically a monthly-billing company and for Purchased Power a factor of $6/365^{ths}$ is used.

Q. Would the Panel please describe the adjustment to O&M Working Capital?

A. O&M Working Capital has been adjusted to track the changes to O&M Expense set forth on Schedule C of Exhibit RRP-2 at $1/8^{th}$ of the change in O&M expenses, excluding transmission wheeling uncollectibles and the PBA accrual.

Q. Are you making adjustments to Purchased Power Working Capital?

A. The Purchased Power Working Capital is being removed from the Delivery Rate Base, subject to recovery in the MFC, as described earlier in this testimony.

Q. Can the Panel please describe Schedule E?

A. Schedule E sets forth the amount of Other Working Capital that is in excess of the Cash Working Capital provided for by the FERC formula. It consists of all Accounts Receivables, Margin Reserves and Special Deposits, less Accounts Payable and other Payables and less the amount of Cash Working Capital provided for by the FERC formula. These Net Receivables have to be financed and, as such are a proper component of Rate Base.

Q. Please describe the adjustment to "Commodity Hedge Margin Accounts" shown on line 6 of Schedule E.

A. The line titled "Commodity Hedge Margin Accounts" are cash balance held on account at financial institutions, primarily UBS, to support margin requirements related to electric and gas financial derivative contracts. These margin accounts are being removed from the Delivery Rate Base, subject to recovery in the MFC, as described earlier in this testimony.

Q. What is set forth in Schedule F?

A. Schedule F sets forth the average balances for the historic Test Year and the Rate Year of the Beebee and Russell Decommissioning Reserves and Deferred Debit and Credit accounts that are in Rate Base.

Q. Can the Panel please explain the adjustments to Schedule F?

A. Each of the adjustments is explained on Schedule I of Exhibit RRP-4. For some line items, the adjustment simply replaces the historic Test Year average balance with the actual balance at the end of the Test Year (June 30, 2009). For other line items, activity is also projected through the end of the Rate Year, consistent with the treatment set forth in Exhibit RRP-2. As we noted earlier, the Russell Decommissioning Reserve has been transferred for purposes of this presentation from Depreciation Reserve to a separate line on the schedule.

Q. Would you please describe Schedule G?

A. Schedule G sets forth the average balances for the historic Test Year and the Rate Year of Deferred Taxes and Deferred Investment Tax Credit. The historic Test Year amounts are averages per the books. The first three lines on that schedule are plant related. The deferred taxes on line four track deferred debits and credits that are on Schedule F. "Other" on line five consists of many different deferred taxes, of which Capitalized Interest, Contributions in Aid of Construction ("CIAC") and Cost of Removal, all plant related, make up the biggest piece.

Q. What are the adjustments to Deferred Taxes relating to Plant?

A. The deferred taxes for Capitalized Interest, CIAC and Cost of Removal were set equal to the actual book balance at June 30, 2009 and held flat through the Rate Year. Deferred Taxes relating to Tax over Book Depreciation, Repair Allowance and Casualty Loss were calculated in the work paper labeled "NC – RRP-4 – Plant."

Q. How was the adjustment to deferred taxes relating to Tax over Book Depreciation calculated?

A. For plant in service prior to 2009, the model includes the actual Electric, Gas and allocated Common net deferred taxes for 2009, 2010 and 2011, based on the tax information used to support the Federal and State Income Tax returns. For the forecast post-2008 plant additions, the tax depreciation for 2009, 2010 and 2011 is calculated within the model. The tax-depreciable additions for each year are the net of the forecast plant additions described above, less an estimated amount of Repair Allowance and Casualty Loss that will be deducted each year. Tax depreciation was calculated on the resulting tax-depreciable additions using the appropriate Modified Accelerated Cost Recovery System table for each category of plant being depreciated. The bonus depreciation was reflected at 50% for 2009. The resulting tax depreciation for post-2008 additions was compared with the corresponding book depreciation on post-2008 additions and multiplied times the 39.615% composite Federal & State Income Tax rate to arrive at the deferred taxes for each year. The resulting deferred taxes for post-2008 additions was added to the deferred taxes for plant in service before 2009 and accumulated for 2009, 2010 and 2011 through the Rate Year. This amount was used to adjust the January 1, 2009 actual book balance of deferred taxes to arrive at the Rate Year balance as shown on Schedule G of Exhibit RRP-4.

Q. Please describe the calculation of Repair Allowance and Casualty Loss.

A. The annual deductions for Repair Allowance and Casualty Loss for 2009, 2010 and 2011 were estimated to equal the actual average annual amounts experienced for the years 2006, 2007 and 2008. In addition to reducing tax-depreciable plant, as previously described, deferred taxes were calculated on these forecast amounts and amortized over the average book life of Electric and Gas plant. The net effects of these deferred taxes were included in Rate Base on Schedule G of Exhibit RRP-4.

Q. What does Schedule H set forth?

A. Schedule H sets forth the Earnings Base-Capitalization Adjustment. The purpose of this adjustment is to align Earnings Base with the actual amount of Capitalization supporting the business. Earnings Base is the total of all of the net assets and liabilities on the Balance Sheet that must be supported by the Company's Capitalization. Earnings Base consists of Electric Rate Base, Gas Rate Base and all of the assets and liabilities that are not in Rate base, including:

- Interest-Bearing Construction Work in Progress,
- Asset Sale Gain Account - accruing non-cash return,
- Positive Benefit Adjustment - accruing non-cash return,
- Regulatory Assets & Liabilities - accruing non-cash return and
- Non-Utility Property and Other

Capitalization is the sum of all investor-committed capital on which the Company pays interest or provides a return to equity investors, including:

- Short Term Debt,
- Long Term Debt,
- Customer Deposits,
- Deferred Compensation,
- Preferred Stock and
- Common Equity

The Earnings Base-Capital Differential is the simple difference between the Earnings Base and the Capitalization. To the extent that all accounts on the Balance Sheet were not specifically assigned to Electric Rate Base or Gas Rate Base or Items Not in Rate Base, then the EB-Cap differential accommodates for any mismatch caused by the omission. In that case, any difference is allocated between Electric and Gas in proportion to their Rate Bases and added to or deducted from those Rate Bases.

Q. What adjustments are listed and explained in Schedule I?

A. Schedule I is a detailed listing and explanation of all of the adjustments that have been made to get from the historic Test Year to the Rate Year on Schedules B through H and summarized on Schedule A. Most of these adjustments have also been described earlier in our testimony. Many of the adjustments on Schedule I of the Electric exhibit have similar adjustments on Schedule I of the Gas exhibit.

UNIT OF PROPERTY TAX DEFERRAL ADJUSTMENT

Q. Please describe the Unit of Property Tax Deferral Adjustment.

A. Energy East filed a request with the IRS for a change in method related to its definition of unit of property for tax purposes. This change in method would allow the Energy East regulated operating companies to expense more of its repair costs than it had previously. This method change also allows for a catch up deduction under Internal Revenue Code section 481(a) equal to the remaining un-depreciated tax basis of all repair costs previously capitalized using the prior unit of property definition. The Company filed an early 2008 tax return and included an estimate of the repair allowance. The estimated catch up deductions included in the early filed return for 2008 are:

RG&E Electric	$23.5 million
RG&E Gas	$50.0 million

The impact of these estimated accelerated deductions on accumulated deferred income taxes, and consequently rate base, have been incorporated into the rate filings. The actual accounting for these accelerated deductions will be recorded in September 2009 as part of the annual tax return versus closing true up adjustments and this filing will be updated based on the final amounts included in the revised 2008 return filed on September 15, 2009.

EXHIBIT (RRP-5) CAPITAL STRUCTURE & COSTS AND CASH FLOW

Q. What is included in Exhibit __ (RRP-5)?

A. Exhibit __ (RRP-5) consists of Schedules A through D. Schedule A is a summary of the capital structure and cost rates forecast for the Rate Year. Schedule B is a further breakdown of the long-term debt, customer deposits, and common equity components. Schedule B also contains a projected cash flow schedule and illustrates a 2009 equity infusion of $25.0 million and that no dividend is forecast to be paid until after a determination in this proceeding. Schedule C provides the underlying details of the long-term debt component and Schedule D identifies unamortized debt discount and expense.

Q. Can you describe the cash flow information presented in RRP-5?

A. The Company has calculated its Rate Year cash flow with and without rate relief on Schedule B, page 3. The schedule illustrates a shortfall of cash in the Rate Year without rate relief resulting in poor cash flow metrics as shown on Schedule B, page 4. The testimony of Susan D. Abbott provides a detailed discussion on the implications of deficient cash collections and the impact on the credit ratings of the Company.

Q. How did you calculate the Company's cash flows?

A. The amounts shown on the cash flow schedule are from RRP-2, RRP-3 and RRP-4. The earnings and depreciation and amortization line items are directly from RRP-2. The line item titled "Pension, OPEB and other non-cash amortizations" is shown on page 5 of Schedule B. Deferred taxes represent the Rate Year change in deferred income taxes and is shown on page 6 of Schedule B.

REVENUE REQUIREMENTS PANEL

SOFTWARE ACCOUNTING

Q. Can the Panel please describe the Company's proposal for accounting for software?

A. RG&E will continue to capitalize computer software costs in accordance with the attached Exhibit __ (RRP-6), which is the Company's Computer Software and Accounting Policy.

STREET LIGHTING SALE

Q. What is the impact of the potential sale of the Street Lighting system to the City of Rochester?

A. In 2007, the City of Rochester requested a quote from the Company to purchase the remainder of the Street Lighting system assets located in the City. The Company has provided the City with an estimated price, and the Company will be making a PSL Section 70 filing to the Commission in the very near future. The adjustments made in anticipation of completing this sale prior to the start of the Rate Year are reflected in the Company's rate base, property tax expenses, and depreciation expenses. To the extent that the sale is not authorized by the Commission these adjustments will need to be reversed.

Q. Does this complete the Panel's direct testimony at this time?

A. Yes.

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