



## Tax-Exempt Bond Discussion

### Fixed Rate Pricing

#### N-AMT Fixed Rate Pricing

INDICATIVE PRICING - N-AMT BONDS				
	14 -Year	19 -Year	22 -Year	24 -Year
Reference MMD Yield	3.36%	3.72%	3.92%	4.03%
Reoffer Spread	MMD+ 189.0 area	MMD+ 190.5 area	MMD+ 183.0 area	MMD+ 184.5 area
<b>Reoffer Yield</b>	<b>5.250%</b>	<b>5.625%</b>	<b>5.750%</b>	<b>5.875%</b>

- Rates are as of 1/26/10



## Tax-Exempt Bond Discussion

### Fixed Rate Pricing

#### AMT Fixed Rate Pricing

INDICATIVE PRICING - AMT BONDS		
	16 -Year	17 -Year
Reference MMD Yield	3.52%	3.59%
Reoffer Spread	MMD+ 260.5 area	MMD+ 261.0 area
<b>Reoffer Yield</b>	<b>6.125%</b>	<b>6.200%</b>

- Rates are as of 1/26/10

	Test Year (LTM Ending 6/30/09)					Rate Year (LTM Ending 8/31/011)				
	Average Balance			Cost		Average Balance			Cost	
	Total	Supporting CWIP	Supporting Rate Base	Amount	Percent	Total	Supporting CWIP	Supporting Rate Base	Amount	Percent
<b>Short-Term Debt</b>										
Joint Revolving Credit Facility	\$ (89,825)	\$ -	\$ (89,825)	1,111		\$ -	\$ -	\$ -	-	
Inter-company Facility	(3,417)	-	(3,417)	27		-	-	-	-	
STD supporting CWIP	-	38,192	38,192	(472)		-	-	-	-	
Total Short-term Debt	<b>\$ (93,242)</b>	<b>\$ 38,192</b>	<b>\$ (55,050)</b>	<b>\$ 665</b>	<b>1.21%</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Long-Term Debt</b>										
Unsecured Notes	\$ (700,000)	\$ -	\$ (700,000)	\$ 34,950		\$ (650,000)	\$ -	\$ (650,000)	\$ 37,700	
Tax Exempt Notes	(518,279)	-	(518,279)	19,259		(588,000)	-	(588,000)	31,565	
Capital Leases	(4,713)	4,713	-	-		(3,056)	3,056	-	-	
Unamortized Debt Discount	3,074	-	3,074	323		2,374	-	2,374	323	
Book Value Long-term Debt	(1,219,918)	4,713	(1,215,205)	54,532		(1,238,682)	3,056	(1,235,626)	69,588	
Debt Issuance Expense	19,085	-	19,085	1,442		23,625	-	23,625	1,668	
Hedge (Gains)/Losses	-	-	-	1,092		-	-	-	1,092	
(Gain)/Loss on Reacquired Debt	-	-	-	4,564		-	-	-	4,280	
Facility fees (Joint Revolver)	-	-	-	248		-	-	-	248	
Up-front costs (Joint Revolver)	-	-	-	183		-	-	-	-	
Total Long-term Debt	<b>\$ (1,200,833)</b>	<b>\$ 4,713</b>	<b>\$ (1,196,120)</b>	<b>\$ 62,061</b>	<b>5.19%</b>	<b>\$ (1,215,057)</b>	<b>\$ 3,056</b>	<b>\$ (1,212,001)</b>	<b>\$ 76,876</b>	<b>6.34%</b>
Customer Deposits	<b>\$ (13,911)</b>	<b>\$ -</b>	<b>\$ (13,911)</b>	<b>\$ 778</b>	<b>5.59%</b>	<b>\$ (13,960)</b>	<b>\$ -</b>	<b>\$ (13,960)</b>	<b>\$ 677</b>	<b>4.85%</b>
<b>Preferred Stock</b>										
Cumulative Preferred Stock 3.75% Series	\$ (7,838)	\$ -	\$ (7,838)	\$ 294		\$ (7,838)	\$ -	\$ (7,838)	\$ 294	
Cumulative Preferred Stock 4.1/2% Series (Series 1949)	(1,180)	-	(1,180)	53		(1,180)	-	(1,180)	53	
Cumulative Preferred Stock 4.40% Series	(709)	-	(709)	31		(709)	-	(709)	31	
Cumulative Preferred Stock 4.15% Series (Series 1954)	(432)	-	(432)	18		(432)	-	(432)	18	
Total Preferred Stock	<b>\$ (10,159)</b>	<b>\$ -</b>	<b>\$ (10,159)</b>	<b>\$ 396</b>	<b>3.90%</b>	<b>\$ (10,159)</b>	<b>\$ -</b>	<b>\$ (10,159)</b>	<b>\$ 396</b>	<b>3.90%</b>
<b>Common Equity</b>										
Common stock	\$ (430,057)	\$ -	\$ (430,057)			\$ (430,057)	\$ -	\$ (430,057)		
Capital in excess of par value	(268,220)	-	(268,220)			(268,365)	-	(268,365)		
Retained Earnings	(325,217)	-	(325,217)			(445,550)	-	(445,550)		
Accumulated other comprehensive income	8,424	(8,424)	-			19,732	(19,732)	-		
Deferred Compensation	-	-	-			-	-	-		
Treasury Stock	-	-	-			-	-	-		
Total Common Equity	<b>(1,015,070)</b>	<b>(8,424)</b>	<b>(1,023,494)</b>		<b>11.43%</b>	<b>(1,124,240)</b>	<b>(19,732)</b>	<b>(1,143,972)</b>		<b>11.43%</b>
Total Capital	<b>\$ (2,333,215)</b>	<b>\$ 34,481</b>	<b>\$ (2,298,734)</b>			<b>\$ (2,363,416)</b>	<b>\$ (16,676)</b>	<b>\$ (2,380,091)</b>		
<b>Capitalization Ratios</b>										
Short-term Debt			2.4%	0.03%				0.0%	0.00%	
Long-term Debt			52.0%	2.70%				50.9%	3.23%	
Customer Deposits			0.6%	0.03%				0.6%	0.03%	
Preferred Stock			0.4%	0.02%				0.4%	0.02%	
Common Equity			<u>44.5%</u>	<u>5.09%</u>				<u>48.1%</u>	<u>5.49%</u>	
Total Capital			100.0%	7.87%				100.0%	8.77%	

## Rate Year

## NYSEG

## Long-Term Debt Detail

\$ thousands, Db / (Cr)

	Rate	Maturity Date	Balance at Jun 30, 2009	Issuance Jul 09-Aug 10	Redemption Jul 09 -Aug 10	Balance at Sep 1, 2010	Rate Year Issuance	Rate Year Redemption	Balance at Aug 31, 2011	Rate Year Interest Expense
<b>Unsecured Notes</b>										
5.5% Note of '12	5.500%	11/15/12	(100,000)			(100,000)			(100,000)	5,500
5.65% Note of '16	5.650%	12/15/16	(100,000)			(100,000)			(100,000)	5,650
6.15% Note of '17	6.150%	12/15/17	(200,000)			(200,000)			(200,000)	12,300
5.75% Note of '23	5.750%	5/1/23	(200,000)			(200,000)			(200,000)	11,500
New Issue	5.500%	03/01/41	-			-	(100,000)	-	(100,000)	2,750
<b>Subtotal</b>			<b>(600,000)</b>	-	-	<b>(600,000)</b>	(100,000)	-	<b>(700,000)</b>	<b>37,700</b>
<b>Tax-Exempt Notes</b>										
PCN 1985 Series A	4.100%	3/15/15	(60,000)			(60,000)			(60,000)	2,460
PCN 1985 Series B	4.000%	10/15/15	(30,000)			(30,000)			(30,000)	1,200
PCN 1985 Series D	4.100%	12/1/15	(42,000)			(42,000)			(42,000)	1,722
PCN 2006 Series A	5.250%	4/1/24	(12,000)			(12,000)			(12,000)	630
PCN 2005 Series A	6.125%	7/1/26	(3,425)	(61,575)		(65,000)			(65,000)	3,981
PCN 2004 Series A	6.200%	12/1/27	(875)	(33,125)		(34,000)			(34,000)	2,108
PCN 2004 Series B	5.350%	12/1/28	(70,000)			(70,000)			(70,000)	3,745
PCN 1994 Series B	5.625%	2/1/29	(37,500)			(37,500)			(37,500)	2,109
PCN 1994 Series C	5.625%	6/1/29	(63,500)			(63,500)			(63,500)	3,572
PCN 1994 Series D	5.625%	10/1/29	(74,000)			(74,000)			(74,000)	4,163
PCN 2004 Series C	5.875%	4/1/34	(100,000)	-	-	(100,000)	-	-	(100,000)	5,875
<b>Subtotal</b>			<b>(493,300)</b>	(94,700)	-	<b>(588,000)</b>	-	-	<b>(588,000)</b>	<b>31,565</b>
<b>Capital Leases</b>										
Gas Turbine	9.450%	9/30/10	(709)		709	-			-	-
Lancaster Bldg	8.480%	2/1/29	(3,596)		374	(3,222)		332	(2,890)	332
<b>Subtotal</b>			<b>(4,306)</b>		<b>1,084</b>	<b>(3,222)</b>		<b>332</b>	<b>(2,890)</b>	<b>332</b>
			<b>Balance at Jun 30, 2009</b>	<b>Amortization Jul 09-Aug 10</b>		<b>Balance at Sep 1, 2010</b>			<b>Balance at Aug 31, 2011</b>	<b>Rate Year Amortization</b>
<b>Unamortized Debt Discount</b>										
5.5% Note of '12			401	139		262			144	119
5.65% Note of '16			2,078	174		1,903			1,754	149
6.15% Note of '17			205	36		169			138	31
5.75% Note of '23			230	28		201			177	24
<b>Subtotal</b>			<b>2,913</b>	<b>377</b>		<b>2,536</b>			<b>2,213</b>	<b>323</b>
<b>Book Value Long-Term Debt</b>			<b>(1,094,693)</b>			<b>(1,188,686)</b>			<b>(1,288,677)</b>	

NYSEG

Long-Term Debt Expenses

\$ thousands, Db / (Cr)

Unamortized Debt Expense

	Rate Year			Rate Year			
	Balance at Jun 30, 2009	Amortization Jul 09-Aug 10	Capitalization Jul 09 -Aug 10	Balance at Sep 1, 2010	Rate Year Capitalization	Balance at Aug 31, 2011	Rate Year Amortization
5.5% Note of '12	922	319		603		330	273
5.65% Note of '16	547	85		461		388	73
6.15% Note of '17	1,222	169		1,053		1,041	12
5.75% Note of '23							
PCN 1985 Series A	181	37		145		113	32
PCN 1985 Series B	113	21		92		74	18
PCN 1985 Series D	137	25		113		92	21
PCN 2006 Series A	192	15	(120)	297		276	22
PCN 2005 Series A	116	184	(4,771)	4,703		4,427	277
PCN 2004 Series A	38	62	(1,817)	1,793		1,681	112
PCN 2004 Series B	2,208	133		2,076		1,962	114
PCN 1994 Series B	196	12	(375)	560		530	30
PCN 1994 Series C	248	14	(635)	869		823	45
PCN 1994 Series D	395	24	(740)	1,112		1,054	58
PCN 2004 Series C	5,664	266	(1,000)	6,398		6,128	269
Bond Insurance	3,819	345		3,473		3,178	296
Pending	212	-		212		212	-
New Issue	-	-	-	-	(1,000)	983	17
<b>Subtotal</b>	<b>16,211</b>	<b>1,710</b>	<b>(9,458)</b>	<b>23,959</b>	<b>(1,000)</b>	<b>23,292</b>	<b>1,668</b>

Loss on Reaquired Debt

PCN 2005 Series A	1,300	38	1,262	0	0	-
PCN 2005 Series A	1,053	31	1,022	0	0	-
PCN 2005 Series A	2,150	63	2,087	0	0	-
PCN 2004 Series A	1,662	45	1,617	0	0	-
PCN 1994 Series B	395	32		362	335	28
PCN 1994 Series C	488	37		451	419	32
PCN 1994 Series D	3,374	202		3,172	2,999	173
PCN Series 2006 A	228	18		210	194	15
Notes Ser A/B	683	165		518	377	141
Notes Ser A/B	407	95		312	231	81
Notes	186	36		150	119	31
Mortgage Bds	8,490	2,935		5,555	3,039	2,515
Mortgage Bds	2,972	350		2,622	2,322	300
Mortgage Bds	5,450	627		4,824	4,286	537
PC Rev Bonds	122	25		97	75	21
Notes	218	47		171	131	40
Notes Ser A	494	31		463	436	27
Notes Ser A	2,126	100		2,026	1,940	86
Notes Ser A	1,331	80		1,251	1,182	69
Notes Ser B	3,767	214		3,553	3,370	183
	<b>36,897</b>	<b>5,171</b>		<b>25,738</b>	<b>21,457</b>	<b>4,280</b>

Unamortized Swap & Hedge Gain / Loss

HID 001	1,458	122		1,335	1,231	105
HID 100	505	92		414	335	79
HID 120	1,868	379		1,489	1,164	325
HID 130	1,329	242		1,088	881	207
HID 140	1,378	254		1,124	906	218
HID 150 (PCN Series 2004B)	1,527	91		1,435	1,357	78
HID 160 (PCN Series 2005A)	1,381	94		1,287	1,206	81
<b>Subtotal Unamortized Hedge Gain / Loss</b>	<b>9,446</b>	<b>1,274</b>		<b>8,172</b>	<b>7,080</b>	<b>1,092</b>

**RG&E**  
**Summary of Capital**

\$ thousands, Db / (Cr)

	Test Year (LTM Ending 6/30/09)					Rate Year (LTM Ending 8/31/011)				
	Average Balance			Cost		Average Balance			Cost	
	Total	Supporting CWIP	Supporting Rate Base	Amount	Percent	Total	Supporting CWIP	Supporting Rate Base	Amount	Percent
<b>Short-Term Debt</b>										
Joint Revolving Credit Facility	\$ (83,009)	\$ -	\$ (83,009)	1,336		\$ (23,500)	\$ -	\$ (23,500)	705	
Inter-company Facility	(49,069)	-	(49,069)	772		-	-	-	-	
STD supporting CWIP	-	53,586	53,586	(862)		-	23,500	23,500	(705)	
Total Short-term Debt	\$ (132,078)	\$ 53,586	\$ (78,492)	\$ 1,246	1.59%	\$ (23,500)	\$ 23,500	\$ -	\$ -	0.00%
<b>Long-Term Debt</b>										
Unsecured Notes	\$ (546,417)	\$ -	\$ (546,417)	\$ 37,635		\$ (655,500)	\$ -	\$ (655,500)	\$ 44,253	
Tax Exempt Notes	(156,097)	-	(156,097)	7,149		(183,350)	-	(183,350)	10,081	
Unamortized Debt Discount	830	-	830	39		716	-	716	32	
Book Value Long-term Debt	(701,684)	-	(701,684)	44,823		(838,134)	-	(838,134)	54,366	
Debt Issuance Expense	10,718	-	10,718	978		16,302	-	16,302	823	
Hedge (Gains)/Losses	-	-	-	1,929		-	-	-	4,242	
(Gain)/Loss on Reacquired Debt	-	-	-	2,763		-	-	-	1,504	
Facility fees (Joint Revolver)	-	-	-	100		-	-	-	139	
Up-front costs (Joint Revolver)	-	-	-	66		-	-	-	-	
Total Long-term Debt	\$ (690,965)	\$ -	\$ (690,965)	\$ 50,659	7.33%	\$ (821,833)	\$ -	\$ (821,833)	\$ 61,074	7.43%
Customer Deposits	\$ (4,440)	\$ -	\$ (4,440)	\$ 203	4.57%	\$ (4,457)	\$ -	\$ (4,457)	\$ 216	4.85%
<b>Common Equity</b>										
Common stock	\$ (194,429)	\$ -	\$ (194,429)			\$ (194,429)	\$ -	\$ (194,429)		
Capital in excess of par value	(484,803)	-	(484,803)			(509,943)	-	(509,943)		
Retained Earnings	(69,613)	-	(69,613)			(175,059)	-	(175,059)		
Accumulated other comprehensive income	61,233	(61,233)	-			76,646	(76,646)	-		
Deferred Compensation	-	-	-			-	-	-		
Treasury Stock	117,238	-	117,238			117,238	-	117,238		
Total Common Equity	(570,374)	(61,233)	(631,607)		11.43%	(685,547)	(76,646)	(762,193)		11.43%
Total Capital	\$ (1,397,858)	\$ (7,647)	\$ (1,405,505)			\$ (1,535,337)	\$ (53,146)	\$ (1,588,483)		

**Capitalization Ratios**

Short-term Debt	5.6%	0.09%	0.0%	0.00%
Long-term Debt	49.2%	3.60%	51.7%	3.84%
Customer Deposits	0.3%	0.01%	0.3%	0.01%
Common Equity	44.9%	5.14%	48.0%	5.48%
Total Capital	100.0%	8.84%	100.0%	9.34%

**RG&E****Long-Term Debt Detail**

\$ thousands, Db / (Cr)

	Rate	Maturity Date	Balance at Jun 30, 2009	Issuance Jul 09-Aug 10	Redemption Jul 09 -Aug 10	Balance at Sep 1, 2010	Rate Year		Balance at Aug 31, 2011	Rate Year Interest Expense	
							Rate Year Issuance	Rate Year Redemption			
<b><u>First Mortgage Bonds</u></b>											
FMB MTN Series B	7.600%	10/27/09	(100,000)		100,000	-		-	-	-	
FMB Series TT	6.950%	4/1/11	(161,000)			(161,000)		161,000	-	6,527	
FMB Series WW	6.470%	06/15/32	(100,000)			(100,000)			(100,000)	6,470	
FMB Series VV	6.375%	9/1/33	(75,000)			(75,000)			(75,000)	4,781	
FMB Series YY	8.000%	12/15/33	(150,000)	-	-	(150,000)	-	-	(150,000)	12,000	
FMB Series XX	5.900%	07/15/19	(150,000)	-	-	(150,000)	-	-	(150,000)	8,850	
New Issue	6.750%	04/01/41	-	-	-	-	(200,000)	-	(200,000)	5,625	
<b>Subtotal</b>			<b>(736,000)</b>	-	100,000	<b>(636,000)</b>	(200,000)	161,000	<b>(675,000)</b>	<b>44,253</b>	
<b><u>Tax-Exempt Notes</u></b>											
PCN 2004 Series A	4.750%	5/15/32	(1,325)	(9,175)		(10,500)			(10,500)	499	
PCN 2004 Series B	5.375%	5/15/32	(50,000)			(50,000)			(50,000)	2,688	
PCN 1997 Series A	5.750%	8/1/32	(34,000)			(34,000)			(34,000)	1,955	
PCN 1997 Series B	5.750%	8/1/32	(34,000)			(34,000)			(34,000)	1,955	
PCN 1997 Series C	5.000%	8/1/32	(850)	(28,500)		(29,350)			(29,350)	1,468	
PCN 1998 Series A	5.950%	9/1/33	(25,500)	-	-	(25,500)	-	-	(25,500)	1,517	
<b>Subtotal</b>			<b>(145,675)</b>	(37,675)	-	<b>(183,350)</b>	-	-	<b>(183,350)</b>	<b>10,081</b>	
			<b>Balance at Jun 30, 2009</b>	<b>Amortization Jul 09-Aug 10</b>			<b>Balance at Sep 1, 2010</b>			<b>Balance at Aug 31, 2011</b>	<b>Rate Year Amortization</b>
<b><u>Unamortized Debt Discount</u></b>											
FMB Series VV			668	32		635			608	28	
FMB Series TT			22	22		-			-	-	
FMB Series WW			101	5		96			92	4	
<b>Subtotal</b>			<b>791</b>	<b>59</b>		<b>732</b>			<b>700</b>	<b>32</b>	
<b>Book Value Long-Term Debt</b>			<b>(880,884)</b>			<b>(818,618)</b>			<b>(857,650)</b>		

**Long-Term Debt Expenses**

\$ thousands, Db / (Cr)

	<b>Balance at Jun 30, 2009</b>	Amortization Jul 09-Aug 10	Capitalization Jul 09 -Aug 10	<b>Balance at Sep 1, 2010</b>	Rate Year Capitalization	<b>Balance at Aug 31, 2011</b>	Rate Year Amortization
<b><u>Unamortized Debt Expense</u></b>							
FMB MTN Series B	59	59		0		0	-
FMB Series TT	170	170		-		-	-
FMB Series VV	1,362	66		1,297		1,241	56
FMB Series WW	2,080	105		1,975		1,884	90
PCN 2004 Series A	50	3	(520)	567		541	26
PCN 2004 Series B	1,719	88		1,631		1,556	75
PCN 1997 Series A,B,C	1,941	98	(1,185)	3,027		2,890	138
PCN 1998 Series A	757	38		719		686	33
FMB Series XX	3,065	146		2,919		2,794	125
FMB Series YY	2,693	314		2,378		2,154	224
Pending	199	-		199		199	-
New Issue: 30-year Note	-	-	-	-	(4,000)	3,944	56
<b>Subtotal</b>	<b>14,095</b>	<b>1,086</b>	<b>(1,704)</b>	<b>14,713</b>	<b>(4,000)</b>	<b>17,890</b>	<b>823</b>
<b><u>Loss on Required Debt</u></b>							
EE, 6.5%	1	1		0		0	-
HH, 12.5%	98	40		58		24	34
OO, 8.37%	780	47		733		693	40
PP, 9.37%	1,066	711		355		(254)	609
Series SS 6.5%	1,315	67		1,248		1,191	57
Series RR 6.35%	273	14		259		247	12
PP, 9.37%	58	35		23		(8)	30
Var Rate Prom Note - 1984	152	34		118		89	29
Var Rate Prom Note - 1985	172	32		141		114	27
Var Rate Prom Note - 1987	357	23		333		314	20
FMB Series UU, 6.65%	3,280	664		2,617		2,048	569
PCN 2004 Series B, 1.25%	1,747	89		1,657		1,581	76
PCN 2004 Series A	323	-	323	-		-	-
PCN 1997 Series C	888	-	888	-		-	-
PCN 2004 Series A	47	-	47	-		-	-
PCN 1997 Series C	47	-	47	-		-	-
	<b>10,603</b>	<b>1,756</b>	<b>1,304</b>	<b>7,543</b>		<b>6,039</b>	<b>1,504</b>
<b><u>Unamortized Swap &amp; Hedge Gain / Loss</u></b>							
HID 200	(7,741)	(392)		(7,350)		(7,014)	(336)
HID 222	37,268	1,775		35,493		34,352	1,141
HID 223	32,174	1,532		30,642		29,657	985
HID 224	20,900	2,438		18,462		16,894	1,568
HID 226	28,888	1,376		27,512		26,628	884
	<b>111,488</b>	<b>6,729</b>		<b>104,759</b>		<b>100,517</b>	<b>4,242</b>



## Financing Considerations

### Indicative New Issue Levels

#### New York State Electric & Gas Corporation

Reliable. Essential.

Baa2/BBB+ (S/S)

Senior Unsecured

Non-Index Eligible

144A without Registration Rights

	5-Year	10-Year	30-Year
Reference Treasury Yield	2.358%	3.627%	4.561%
Reoffer Spread	T+ 137.5 bps area	T+ 155 bps area	T+ 170 bps area
Reoffer Yield	3.733%	5.177%	6.261%
Gross Spread	0.600%	0.650%	0.875%
All-in Yield	3.867%	5.262%	6.326%
All-in Fixed Rate Spread	T+ 151 bps area	T+ 163 bps area	T+ 177 bps area
Swap Spread	31	11	N/A
Swapped vs. 3-Month LIBOR	L + 107 bps area	L + 144 bps area	N/A
All-in Swapped vs. 3-Month LIBOR	L + 120 bps area	L + 152 bps area	N/A



## Tax-Exempt Bond Discussion

### Fixed Rate Pricing

#### AMT Fixed Rate Pricing

##### INDICATIVE PRICING - AMT BONDS

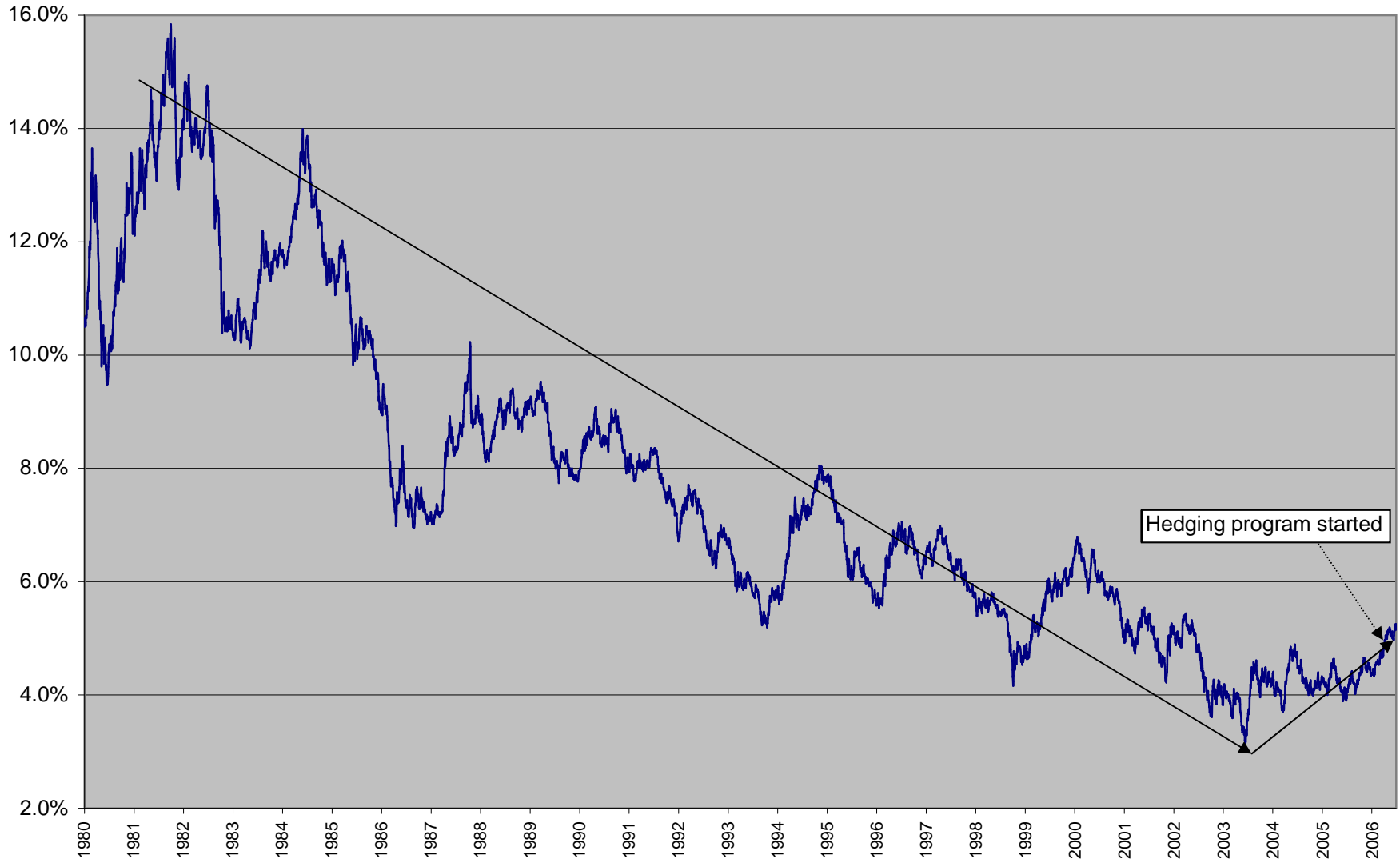
	16 -Year	17 -Year
Reference MMD Yield	3.52%	3.59%
Reoffer Spread	MMD+ 260.5 area	MMD+ 261.0 area
<b>Reoffer Yield</b>	<b>6.125%</b>	<b>6.200%</b>

- Rates are as of 1/26/10

# 10-Year Treasury Rates

Exhibit \_ (CD-4)

Page 1 of 1



BEFORE THE  
NEW YORK STATE  
PUBLIC SERVICE COMMISSION

-----X

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Electric Service	Case 09-E-0715
Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation for Gas Service	Case 09-G-0716
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-0717
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-0718

-----X

Exhibit \_\_ (CD-5) of Debt Cost Rebuttal Testimony

Responses to: NYSEG-RGE-76  
                  NYSEG-RGE-77  
                  NYSEG-RGE-78  
                  NYSEG-RGE-79

February 12, 2010

Case Nos. 09-E-0715, 09-G-0716, 09-E-0717 & 09-G-0718

NYSEG and RG&E - Electric and Gas Rates

**DPS Staff Response to Request For Information**

Staff Response To: NYSEG-RGE-76 (DPS)  
Prepared By: Finance Panel  
Date: February 9, 2010

---

Question:

The Staff Finance Panel states on page 67 that "according to that Order [03-M-0178], \$100 million of debt was eligible for issuance by RG&E at any time in 2008."

Please provide Staff's calculation of the \$100 million of eligible debt. Please also provide all communications during the time the petition for 07-M-1194 was open between Staff and the Company relating to the amount of available authority under 03-M-0178.

Response:

The correct amount of debt remaining on the Company's authorization of \$202 million from Case 03-M-0178, in the Order Authorizing Issuance of Securities issued August 1, 2003, was \$127 million. This correction will be reflected in Staff's March 3, 2010 Update.

The amount of financing authorization remaining under Case 03-M-0178 was a subject of a debate between Staff and the Company. At issue was whether a short-term revolving credit facility of \$75 million encumbered the Case 03-M-0178 financing authority. The Company acknowledged that Staff classified the \$75 million as short-term debt, in a letter dated October 12, 2007 from Joseph Syta, Vice President, Treasurer & Controller of RG&E to Richard Ansaldo of Staff. The letter is provided in the Attachment. The Finance Panel is unaware of any additional written communications between Staff and the Company related to this issue.

Public Service Law §69 requires Commission authorization for debt issuances of more than one year. Short-term debt of less than one year does not require authorization. Since it is Staff's position that the \$75 million credit facility was short term debt, Staff believes that authorization for it was not required under §69. It is Staff's position that the above mentioned revolving credit facility was not covered under Section 69 of the Public Service law. Since the Company, in the October 12, 2007 letter, acknowledged Staff's interpretation that the \$75 million credit facility was short-term debt, it remains perplexing to this day why the Company did not use the \$127 million in authorization remaining under Case 03-M-0178 to issue long-term debt when it became apparent its hedge position was deteriorating, instead of filing Case 07-M-1194.

Case Nos. 09-E-0715, 09-G-0716, 09-E-0717 & 09-G-0718

NYSEG and RG&E - Electric and Gas Rates

**DPS Staff Response to Request For Information**

Staff Response To: NYSEG-RGE-77 (DPS)  
Prepared By: Finance Panel  
Date: February 9, 2010

---

Question:

The Staff Finance Panel states on page 65-66 that "the financing petition was deficient and based on erroneous information." Please address the following regarding that statement: 1) identify with specificity each alleged deficiency; 2) identify with specificity each piece of "erroneous" information; 3) indicate how and when Staff brought the alleged deficiencies or erroneous information to the attention of the Company; and 4) identify how and when such deficiencies were resolved by the Company.

Response:

1) The deficiency and erroneous information referred to was the submission of an incorrect reimbursement margin that required a Staff audit to resolve. The reimbursement margin was incorrect because its calculation omitted the financial impacts from the sale of the Ginna nuclear facility.

2) The reimbursement margin was incorrect because its calculation omitted the financial impacts from the sale of the Ginna nuclear facility.

3) The petition in Case 07-M-1194 was filed on October 4, 2007. On October 11, 2007, Staff requested workpapers supporting the Company's calculation of the 2006 reimbursement margin of \$539 million shown on Exhibit J of the petition, because Staff's 2006 balance sheet based reimbursement margin differed substantially from the company's. Follow-up questions were asked in writing. On November 1, 2007, Staff submitted SR-07-0096 to RG&E, seeking information on the impacts of the Ginna sale on the reimbursement margin. The response was received on November 8, 2007. On November 15, 2007 a meeting held with RG&E and Energy East concerning the reimbursement margin. On November 19, 2007, Staff submitted a follow-up question to SR-07-0096, seeking clarification from RG&E on its initial response. On December 6, 2007, a response to the follow-up question was received from RG&E.

As noted above, Staff determined that Ginna impacts were not correctly reflected in reimbursement margin. The balance sheet reimbursement margins computed by Staff indicated that an insufficient reimbursement margin existed to support approval of the issuance of the underlying securities. On April 24, 2008 the Company provided FERC Form 1 data for 2007 to Staff at Staff's

request. The receipt of year end 2007 numbers as well as a forecast of future plant additions caused Staff to re-calculate the reimbursement margin, which then proved large enough to justify the Company's financing request.

4) See Answer 3 above. The deficiencies in the Company's filing were ultimately corrected by Staff, but the matter took almost seven months to resolve. For much of the period from the time the petition was filed until the end of April 2008, Staff was unable to justify the transaction because the reimbursement margin was insufficient. Only when the Company finally sent Staff its FERC Form 1 on April 24, 2008 was a basis established for resolving the reimbursement margin issue.

Case Nos. 09-E-0715, 09-G-0716, 09-E-0717 & 09-G-0718

NYSEG and RG&E - Electric and Gas Rates

**DPS Staff Response to Request For Information**

Staff Response To: NYSEG-RGE-78 (DPS)  
Prepared By: Finance Panel  
Date: February 9, 2010

---

Question:

The Staff Finance Panel states on page 66 that, "the Company had no need to issue in April... [because] in fact it had a cash surplus and no long-term debt was maturing until November." In reference to that statement, please respond to the following:

How did Staff define a "cash surplus" for purposes of this statement?

Please specify any information beyond the alleged "cash surplus" and that "no long-term debt was maturing until November" utilized by Staff to support its statement that the "Company had no need to issue in April."

What is Staff's understanding or calculation of the Company's "cash surplus" at 6/30/08 and at 9/30/08?

Did the Company have a long-term debt maturity on October 27, 2009?

Response:

1. Staff defines a cash surplus as cash in excess of any balances owed on short-term borrowings from a joint revolver and a money pool arrangement with Energy East.

2. Although the Company maintained a relatively small balance on its money pool arrangement, it was paid off on May 8, 2008. During this time, the Company did not indicate to Staff that the Company thought the need for funds was imminent. To the best of the Panel's knowledge, the need to go forward with the financing was not pressed by the Company until late summer or early fall. Most importantly, the Company had \$127 million remaining on its prior financing request, so a source of immediate funds was already authorized.

3. The source is RG&E's Financial Statements (Unaudited) For the Quarterly Periods Ended June 30, 2008 and 2007, which indicate that the Company had a \$5 million cash balance and no short-term debt balance. The Financial Statements (Unaudited) also indicate the Company had \$36 million in cash balances and \$139 million in short-term debt.

4. Yes. Staff will correct its statement that "no long-term debt was maturing until November" in its March 3, 2010 update.

Case Nos. 09-E-0715, 09-G-0716, 09-E-0717 & 09-G-0718

NYSEG and RG&E - Electric and Gas Rates

**DPS Staff Response to Request For Information**

Staff Response To: NYSEG-RGE-79 (DPS)  
Prepared By: Finance Panel  
Date: February 9, 2010

---

Question:

The Staff Finance Panel states on page 68 that, "The standard for determining if recovery of the costs of the hedge is reasonable is to evaluate if the hedge instruments used by the Company were an effective means of hedging utility debt 'to obtain some level of savings with no risk of higher costs.'"

Was this standard established by written Commission Order? If so, please identify the relevant Commission Order and state when the "standard" was released.

Is it Staff's contention that the stated standard applied to hedges undertaken by the Company in 2006?

Prior to the referenced "standard," was any other standard of "reasonableness" with respect to hedging activity established?

If so, please state the standard and when and how it was promulgated.

Response:

1. The standard referred to for the reasonableness of hedging transactions is from the Order Authorizing Issuance of Securities issued November 18, 2008 in Case 07-M-1194, which stated: "We recognize that given the current interest rate environment it is important to provide utilities as much flexibility as possible to structure cost effective financings. The types of derivatives requested by RG&E have the potential to reduce the cost of borrowing and ultimately costs borne by ratepayers when such savings are reflected in the rate setting process. It is our expectation that RG&E will only employ derivatives when opportunities arise which enable it to obtain some level of savings with no risk of higher costs than existed prior to the use of the derivative. As a result the company's request to employ derivatives based upon securities we authorize here is reasonable. We will require the company to file copies of all derivative contracts and the economic basis for such arrangements within 30 days after their execution."

2. While the Order referred to in Answer 1 above was not issued until November 18, 2008, the discussion there reflects the Commission's thinking on derivatives had it been asked at a time before the hedging losses were realized and became known to Staff.

3. The Panel's standard is consistent with general principles of sound and prudent financial management for regulated utilities and common sense. This standard was implicitly in place long before the Commission expressed it in detail in the Order cited in Answer 1 above.

4. See answers 1-3 above.



**Joseph J. Syta**  
Vice President  
Controller and Treasurer

October 12, 2007

Mr. Richard Ansaldo  
Chief, Utility Accounting, Finance and Economics  
State of New York Public Service Commission  
Three Empire State Plaza, 19th Floor  
Albany, New York 12223-1350

Re: Case 07-M-\_\_\_ - Petition of Rochester Gas and Electric Corporation ("RG&E")  
Under Section 69 of the Public Service Law for Authority to Issue Long-Term  
Indebtedness, Preferred Stock and Hybrid Securities, to Enter into and to Borrow  
under Revolving Credit Facilities and to Enter into Derivative Instruments Pursuant  
to a Global Financing Plan (the "Petition")

Dear Mr. Ansaldo:

On October 5, 2007, I sent a letter to you in connection with New York State Electric & Gas Corporation's Petition (Case No. 07-M-0891) and its request for Commission authorization relating to its 5-year revolving credit facility. As stated in the letter, based on a telephone conversation we had on October 4, 2007, you indicated that Staff does not believe that the State of New York Public Service Commission has jurisdiction over the NYSEG revolving credit facility because that facility only provides for borrowings not in excess of 12 months, with no ability to convert a borrowing into a term loan. As such, the 5-year facility would be considered short-term and not subject to Commission approval under Section 69 of the Public Service Law.

Such features of the NYSEG revolving credit facility are the same as those features found in the RG&E revolving credit facility. Therefore, consistent with our recent telephone conversation relating to NYSEG's Petition, RG&E similarly hereby amends its Petition submitted on October 4, 2007 by withdrawing its request for Commission authorization for the 5-year revolving credit facility found in Paragraph 11 of its Petition.

If the foregoing does not reflect your understanding of the discussion, or if you have any further questions, please do not hesitate to call me at (585) 724-8003.

Sincerely,

Joseph J. Syta  
Vice President, Controller & Treasurer

cc: Craig Henry (Associate Utility Finance Analyst - Public Service Commission)  
Howard Coon (Energy East Corporation)  
Dan Brown (Dewey & LeBoeuf LLP)

An equal opportunity employer