

**Iberdrola / Energy East Merger**  
**Effects of Staff's Proposed PBAs on Delivery Revenues**  
**Using Petitioner's Format**  
**(\$ thousands)**

| Description                            | Sources  | NYSEG        |              |              | RG&E                      |              |               | Total        |
|--|----------|--------------|--------------|--------------|---------------------------|--------------|---------------|--------------|
|  |          | Electric     | Gas          | Total        | Electric                  | Gas          | Total         |              |
| Total Positive Benefit Adjustments     | (Note 1) | \$ (116,635) | \$ (20,680)  | \$ (137,315) | \$ (194,320)              | \$ (13,465)  | \$ (207,785)  | \$ (345,100) |
| Pre-Tax Cost of Capital                | (Note 2) | 9.96%        | 11.00%       | 10.12%       | 11.52%                    | 11.52%       | 11.52%        | 10.96%       |
| Impact of PBAs on Rate Base            |          | \$ (11,617)  | \$ (2,275)   | \$ (13,892)  | \$ (22,386)               | \$ (1,551)   | \$ (23,937)   | \$ (37,828)  |
| Impact of PBAs on Amortizations        | (Note 3) | \$ (12,531)  | \$ (3,636)   | \$ (16,167)  | \$ (49,979)               | \$ (1,247)   | \$ (51,226)   | \$ (67,393)  |
| Total PBA Revenue Requirement          |          | \$ (24,148)  | \$ (5,911)   | \$ (30,059)  | \$ (72,365)               | \$ (2,798)   | \$ (75,163)   | \$ (105,221) |
| Delivery Revenues                      | (Note 4) | \$ 623,400   | \$ 159,800   | \$ 783,200   | \$ 377,000                | \$ 140,700   | \$ 517,700    | \$ 1,300,900 |
| Percent Reduction of Delivery Revenues |          | <u>-3.9%</u> | <u>-3.7%</u> | <u>-3.8%</u> | <u>-19.2%</u><br>(Note 5) | <u>-2.0%</u> | <u>-14.5%</u> | <u>-8.1%</u> |

(Note 1) The source of this information is Exhs. 119-120 and 123-124 (revised @ Initial Brief). Note: NYSEG electric PBAs exclude \$49.2 million one-time adjustment for IPP costs

(Note 2) The source of this information is Schedule 1 provided in the Petitioner's Response to On the Record Requests, dated April 4, 2008

| (Note 3) Impact of PBAs on Amortizations |          | NYSEG       |            |             | RG&E        |            |             | Total       |
|--|----------|-------------|------------|-------------|-------------|------------|-------------|-------------|
|  |          | Electric    | Gas        | Total       | Electric    | Gas        | Total       |             |
| Impact of PBAs on Amortizations          | (Note 1) | \$ (3,500)  | \$ (1,250) | \$ (4,750)  | \$ (48,468) | \$ (600)   | \$ (49,068) | \$ (53,818) |
| Loss on Required Debt impact             | (Note 2) | \$ (9,031)  | \$ (2,386) | \$ (11,417) | \$ (1,511)  | \$ (647)   | \$ (2,158)  | \$ (13,575) |
| Total Impact on Amortizations            |          | \$ (12,531) | \$ (3,636) | \$ (16,167) | \$ (49,979) | \$ (1,247) | \$ (51,226) | \$ (67,393) |

(Note 4) Per Exh. 107

(Note 5) The percentage reduction for RG&E is overstated because it does not reflect the impact of the Ginna PPA adjustment. This will increase RG&E's electric rates by up to \$60 million (16%), starting mid-2010 (Tr. 1684).

**Iberdrola / Energy East Merger**  
**Effects of Staff's Proposals on Delivery Revenues**  
**Separated into PBAs and Regulatory Adjustments**  
**(\$ thousands)**

| <u>Description</u>                     | <u>Sources</u> | <u>NYSEG</u>    |             |              | <u>RG&amp;E</u> |             |              | <u>Total</u> |
|--|----------------|-----------------|-------------|--------------|-----------------|-------------|--------------|--------------|
|  |                | <u>Electric</u> | <u>Gas</u>  | <u>Total</u> | <u>Electric</u> | <u>Gas</u>  | <u>Total</u> |              |
| Staff Revenue Reductions-Initial Brief | (Note 1)       | \$ (41,778)     | \$ (18,375) | \$ (60,153)  | \$ (103,973)    | \$ (13,633) | \$ (117,606) | \$ (177,759) |
| Staff Revenue Reductions-Filed         | (Note 2)       | \$ (49,994)     | \$ (26,307) | \$ (76,301)  | \$ (110,638)    | \$ (16,791) | \$ (127,429) | \$ (203,730) |
| Staff Corrections @ Initial Brief      |                | \$ 8,216        | \$ 7,932    | \$ 16,148    | \$ 6,665        | \$ 3,158    | \$ 9,823     | \$ 25,971    |
| PBA Revenue Requirement                | (Note 3)       | \$ (24,148)     | \$ (5,911)  | \$ (30,059)  | \$ (72,365)     | \$ (2,798)  | \$ (75,163)  | \$ (105,221) |
| Value of Staff Regulatory Adjustments  | (Note 4)       | \$ (17,630)     | \$ (12,464) | \$ (30,094)  | \$ (31,608)     | \$ (10,835) | \$ (42,443)  | \$ (72,538)  |

(Note 1) Exhs. 119-120 and 123-124 @ Initial Brief

(Note 2) Exhs. 119-120 and 123-124 pre-filed

(Note 3) See page 2 of Attachment

(Note 4) Value of Regulatory Adjustments which could be made in the absence of the proposed transaction.

## STANDARD & POOR'S METRICS

Standard & Poor's New Business Profile Scores Assigned for U.S. Utility and Power Companies;  
Financial Guidelines Revised

| <u>Business Profile</u> | <u>Total Debt/Total Capital (%)</u> |          |            |           |
|-------------------------|-------------------------------------|----------|------------|-----------|
|                         | <u>AA</u>                           | <u>A</u> | <u>BBB</u> | <u>BB</u> |
| 1                       | 48-55                               | 55-60    | 60-70      |           |
| 2                       | 45 52                               | 52 58    | 58 68      |           |
| 3                       | 42 50                               | 50 55    | 55 65      | 65-70     |
| 4                       | 38 45                               | 45 52    | 52 62      | 62 68     |
| <b>5</b>                | 35 42                               | 42 50    | 50-60      | 60 65     |
| 6                       | 32 40                               | 40 48    | 48 58      | 58 62     |
| 7                       | 30 38                               | 38 45    | 45 55      | 55 60     |
| 8                       | 25 35                               | 35 42    | 42 52      | 52 58     |
| 9                       |                                     | 32 40    | 40 50      | 50 55     |
| 10                      |                                     | 25 35    | 35 48      | 48 52     |

Standard & Poor's Power Companies

### Financial Ratio Guidelines

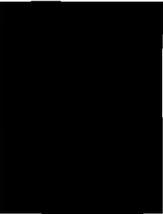
|  | <u>A</u> | <u>BBB</u> |
|--|----------|------------|
| Transmission and Distribution          | 55       | 65         |
| Generators                             | 35       | 45         |
| <b>Vertically Integrated Companies</b> | 45       | 56         |

Standard & Poor's Ratings Analysis Now Portrayed in the S&P Corporate Ratings Matrix  
**Iberdrola -Satisfactory Business Risk Profile with Aggressive Financial Risk Profile**

| <u>Business Risk Profile</u> | <u>Financial Risk Profile</u> |               |                     |                   |                         |
|------------------------------|-------------------------------|---------------|---------------------|-------------------|-------------------------|
|                              | <u>Minimal</u>                | <u>Modest</u> | <u>Intermediate</u> | <u>Aggressive</u> | <u>Highly Leveraged</u> |
| Excellent (1-2)              | AAA                           | AA            | A                   | BBB               | BB                      |
| Strong (3-4)                 | AA                            | A             | A                   | BBB-              | BB-                     |
| <b>Satisfactory (5-6)</b>    | A                             | BBB+          | BBB                 | <b>BB+</b>        | B+                      |
| Weak (7-8)                   | BBB                           | BBB-          | BB+                 | BB                | B                       |
| Vulnerable (9-10)            | BB                            | B+            | B+                  | B                 | B                       |

Iberdrola Business Profile of 5, Financial Profile = Aggressive = BB+

### MOODY'S METRICS

|                       |   |   |
|-----------------------|---|---|
|                       | Moody's<br>Credit<br>Analysis<br>February<br>2008 |  |
| <u>Iberdrola</u>      | Low-Medium  |   |
| Business Risk         | 4.3X  |   |
| FFO Interest Coverage | 18.90%  |   |
| FFO/Net Debt          | 12.70%  |   |
| RCF/Net Debt          |   |   |

Moody's Rating Methodology: Global Regulated Electric Utilities

|                       |                  |   |
|-----------------------|------------------|---|
|                       | A<br>Low-Medium* |  |
| <u>Business Risk</u>  | 3.25-5.85        |   |
| FFO Interest Coverage | 17-26            |   |
| FFO/Debt              | 11-22.5          |   |
| RCF/Debt              |                  |   |

\* Interpolation of Low and Medium Range to Match Iberdrola's Low-Medium Risk

|                       |               |            |               |            |
|-----------------------|---------------|------------|---------------|------------|
|                       | A             | A          | BBB           | BBB        |
| <u>Business Risk</u>  | <u>Medium</u> | <u>Low</u> | <u>Medium</u> | <u>Low</u> |
| FFO Interest Coverage | 3.5-6.0       | 3.0-5.7    | 2.7-5.0       | 2-4.0      |
| FFO/Debt              | 22-30         | 12-22      | 13-25         | 5-13       |
| RCF/Debt              | 13-25         | 9-20       | 8-20          | 3-10       |

**Iberdrola/Energy East**  
**Positive Benefits Adjustments Comparison**  
**5 Year Impact-Revised @ Initial Brief**

| <u>Iberdrola/Energy East</u> | <u>RG&amp;E</u> | <u>NYSEG</u> | <u>Total</u> | <u>Source:</u> |
|------------------------------|-----------------|--------------|--------------|----------------|
| delivery revenues            | \$ 517.7        | \$ 783.2     | \$ 1,300.9   |                |
| cumulative revenues          | \$ 2,588.5      | \$ 3,916.0   | \$ 6,504.5   |                |
| cumulative reductions        | \$ (386.1)      | \$ (339.1)   | \$ (725.1)   | (a)            |
| % of delivery                | -14.9%          | -8.7%        | -11.1%       |                |
| <br>                         |                 |              |              |                |
| <u>KeySpan/Grid</u>          | <u>KEDLI</u>    | <u>KEDNY</u> | <u>Total</u> |                |
| delivery revenues            | \$ 489.6        | \$ 681.4     | \$ 1,171.0   |                |
| cumulative revenues          | \$ 2,448.0      | \$ 3,407.0   | \$ 5,855.0   |                |
| cumulative reductions        | \$ (325.7)      | \$ (277.1)   | \$ (602.8)   |                |
| % of delivery                | -13.3%          | -8.1%        | -10.3%       | (b)            |
| <br>                         |                 |              |              |                |
| <u>Energy East/RGS</u>       | <u>RG&amp;E</u> | <u>NYSEG</u> | <u>Total</u> |                |
| delivery revenues            | \$ 517.7        | \$ 783.2     | \$ 1,300.9   |                |
| cumulative revenues          | \$ 2,588.5      | \$ 3,916.0   | \$ 6,504.5   |                |
| cumulative reductions        | \$ (180.0)      | \$ (245.0)   | \$ (425.0)   | (c)            |
| % of delivery                | -7.0%           | -6.3%        | -6.5%        |                |

Sources

- |     |                                     |
|-----|-------------------------------------|
| (a) | Exh. 121 and 125 (RPH-4/JB-4 @ SIB) |
| (b) | Exh. 107                            |
| (c) | Exh. 63 (Response to ODR-01-57)     |

C. 07-M-0906

**Rochester Gas & Electric Corporation**  
**Electric Delivery Revenue Requirement**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**  
**Staff Revised at Initial Brief**

|  | Per Company<br>ACF<br>CY 2006<br>Delivery - Only | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>by Staff |     | Positive<br>Benefits<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|-----|-------------------------------------|-------------------------|--------------------------------------|---|
| <b>Operating Revenues</b>                        |  |             |                                    |                         |     |                                     |                         |                                      |   |
| Residential, Commercial Industrial, Transport .  | \$264,208  |             | (\$727)                            | \$263,481               |     |                                     | \$263,481               | (\$103,973)                          | \$159,508                                 |
| Other Revenues                                   | 106,400  |             |                                    | 106,400                 |     |                                     | 106,400                 | (372)                                | 106,028                                   |
| <b>Total Revenue</b>                             | <b>370,608</b>                                   |             | <b>(727)</b>                       | <b>369,881</b>          |     |                                     | <b>369,881</b>          | <b>(104,345)</b>                     | <b>265,536</b>                            |
| <b>Operating Deductions</b>                      |  |             |                                    |                         |     |                                     |                         |                                      |   |
| Supply Costs                                     | 0  |             |                                    | 0                       |     |                                     | 0                       |                                      | 0   |
| Gross Revenue Taxes                              | 3,855  |             | 0                                  | 3,855                   |     |                                     | 3,855                   | (1,376)                              | 2,479                                     |
| <b>Total Operating Deductions</b>                | <b>3,855</b>                                     |             | <b>0</b>                           | <b>3,855</b>            |     |                                     | <b>3,855</b>            | <b>(1,376)</b>                       | <b>2,479</b>                              |
| <b>Gross Margin</b>                              | <b>366,753</b>                                   |             | <b>(727)</b>                       | <b>366,026</b>          |     |                                     | <b>366,026</b>          | <b>(102,969)</b>                     | <b>263,057</b>                            |
| <b>Total O &amp; M Expenses</b><br>(from page 2) | <b>110,333</b>                                   | (1)         | 1,927                              | 112,260                 | (1) | (1,400)                             | 110,860                 | (213)                                | 110,647                                   |
| <b>Depreciation/Amortization/Other</b>           |  |             |                                    |                         |     |                                     |                         |                                      |   |
| Amortizations                                    | 59,486   |             | (10,132)                           | 49,354                  | (2) | (47,068)                            | 2,286                   | 0                                    | 2,286                                     |
| Depreciation                                     | 52,617   | (3)         | (4,865)                            | 47,752                  |     | 0                                   | 47,752                  | 0                                    | 47,752                                    |
| Other Income & Deductions                        | 387  |             | 0                                  | 387                     |     | 0                                   | 387                     | 0                                    | 387                                       |
| <b>Total Depreciation/Amortizations/Other</b>    | <b>112,490</b>                                   |             | <b>(14,997)</b>                    | <b>97,493</b>           |     | <b>(47,068)</b>                     | <b>50,425</b>           | <b>0</b>                             | <b>50,425</b>                             |
| <b>Taxes Other Than Income Taxes</b>             |  |             |                                    |                         |     |                                     |                         |                                      |   |
| Property Taxes                                   | 38,762   |             | 1,110                              | 39,872                  |     |                                     | 39,872                  | 0                                    | 39,872                                    |
| Payroll Taxes                                    | 3,145  |             | 0                                  | 3,145                   |     |                                     | 3,145                   | 0                                    | 3,145                                     |
| Other Taxes                                      | 1,552  |             | 0                                  | 1,552                   |     |                                     | 1,552                   | 0                                    | 1,552                                     |
| <b>Total Taxes Other Than Income Taxes</b>       | <b>43,459</b>                                    |             | <b>1,110</b>                       | <b>44,569</b>           |     | <b>0</b>                            | <b>44,569</b>           | <b>0</b>                             | <b>44,569</b>                             |
| <b>Total Operating Revenue Deductions</b>        | <b>266,282</b>                                   |             | <b>(11,960)</b>                    | <b>254,322</b>          |     | <b>(48,468)</b>                     | <b>205,854</b>          | <b>(213)</b>                         | <b>205,641</b>                            |
| <b>Net Operating Revenues</b>                    | <b>100,471</b>                                   |             | <b>11,233</b>                      | <b>111,704</b>          |     | <b>48,468</b>                       | <b>160,172</b>          | <b>(102,756)</b>                     | <b>57,416</b>                             |
| <b>Other Income</b>                              | <b>0</b>   |             |                                    | <b>0</b>                |     |                                     | <b>0</b>                | <b>0</b>                             | <b>0</b>                                  |
| <b>Net Operating Income Before SIT</b>           | <b>100,471</b>                                   |             | <b>11,233</b>                      | <b>111,704</b>          |     | <b>48,468</b>                       | <b>160,172</b>          | <b>(102,756)</b>                     | <b>57,416</b>                             |
| <b>State Income Taxes</b>                        | <b>4,578</b>                                     | (4)         | 677                                | 5,256                   | (4) | 3,935                               | 9,190                   | (7,230)                              | 1,960                                     |
| <b>Net Operating Income Before FIT</b>           | <b>95,893</b>                                    |             | <b>10,556</b>                      | <b>106,448</b>          |     | <b>44,533</b>                       | <b>150,982</b>          | <b>(95,526)</b>                      | <b>55,456</b>                             |
| <b>Federal Income Taxes</b>                      | <b>19,538</b>                                    | (5)         | 4,308                              | 23,846                  | (5) | 18,196                              | 42,042                  | (33,434)                             | 8,608                                     |
| <b>Net Income Available for Return</b>           | <b>\$76,355</b>                                  |             | <b>\$6,248</b>                     | <b>\$82,602</b>         |     | <b>\$26,337</b>                     | <b>\$108,940</b>        | <b>(\$62,092)</b>                    | <b>\$46,848</b>                           |
| <b>Rate Base</b>                                 | <b>\$931,260</b>                                 | (6)         | <b>(\$91,665)</b>                  | <b>\$839,595</b>        | (6) | <b>(\$194,320)</b>                  | <b>\$645,274</b>        |                                      | <b>\$645,274</b>                          |
| <b>Rate of Return</b>                            | <b>8.20%</b>                                     |             |                                    | <b>9.84%</b>            |     |                                     | <b>16.88%</b>           |                                      | <b>7.26%</b>                              |
| <b>Return on Equity</b>                          | <b>10.11%</b>                                    |             |                                    | <b>15.79%</b>           |     |                                     | <b>34.32%</b>           |                                      | <b>9.00%</b>                              |

**Rochester Gas & Electric Corporation**  
**Schedule of Other Electric Operating Expenses**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|  | Per Company<br>ACF<br>CY 2006<br>Delivery - Only | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>by Staff | Positive<br>Benefits<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|-------------------------------------|-------------------------|--------------------------------------|---|
| <b>Operating &amp; Maintenance Expenses</b>    |  |             |                                    |                         |                                     |                         |                                      |   |
| Payroll  | 40,375   |             |                                    | 40,375                  |                                     | 40,375                  | 0                                    | 40,375                                    |
| Medical  | 2,022  |             |                                    | 2,022                   |                                     | 2,022                   | 0                                    | 2,022                                     |
| OPEB   | 4,453  |             |                                    | 4,453                   |                                     | 4,453                   | 0                                    | 4,453                                     |
| Pension  | (9,301)  |             |                                    | (9,301)                 |                                     | (9,301)                 | 0                                    | (9,301)                                   |
| Other Benefits                                 | 4,373  |             |                                    | 4,373                   |                                     | 4,373                   | 0                                    | 4,373                                     |
| EEMC   | 4,959  | (1a)        | (1,960)                            | 2,999                   |                                     | 2,999                   | 0                                    | 2,999                                     |
| USSC   | 10,360   |             |                                    | 10,360                  |                                     | 10,360                  | 0                                    | 10,360                                    |
| Legal  | 1,357  |             |                                    | 1,357                   |                                     | 1,357                   | 0                                    | 1,357                                     |
| Outside Services                               | 19,160   |             |                                    | 19,160                  |                                     | 19,160                  | 0                                    | 19,160                                    |
| Uncollectibles                                 | 1,489  | (1c)        | (727)                              | 762                     |                                     | 762                     | (213)                                | 549                                       |
| SBC/RPS  | 7,362  |             |                                    | 7,362                   |                                     | 7,362                   | 0                                    | 7,362                                     |
| Deferrals (Pensions, OPEBs, etc)               | (8,053)  |             |                                    | (8,053)                 |                                     | (8,053)                 | 0                                    | (8,053)                                   |
| Major Storm Reserve Accrual                    | 2,000  |             |                                    | 2,000                   |                                     | 2,000                   | 0                                    | 2,000                                     |
| SIRC Reserve Accrual                           | 1,400  |             |                                    | 1,400                   | (1d)                                | (1,400)                 | 0                                    | 0   |
| Beebee Decom.- Reserve Accrual                 | 2,000  |             |                                    | 2,000                   |                                     | 2,000                   | 0                                    | 2,000                                     |
| Other (w/o MCWIP & Reserve Accruals)           | 26,377   | (1b)        | 4,614                              | 30,991                  |                                     | 30,991                  | 0                                    | 30,991                                    |
| <b>Total O&amp;M Expense</b>                   | <b>110,333</b>                                   |             | <b>1,927</b>                       | <b>112,260</b>          | <b>(1,400)</b>                      | <b>110,860</b>          | <b>(213)</b>                         | <b>110,647</b>                            |
| <b>Amortizations</b>                           |  |             |                                    |                         |                                     |                         |                                      |   |
| Loss on Reacquired debt                        | 2,286  |             | 0                                  | 2,286                   | (2a)                                | 0                       | 0                                    | 2,286                                     |
| Oswego 6 Plant                                 | 6,476  |             | 0                                  | 6,476                   | (2a)                                | (6,476)                 | 0                                    | 0   |
| Nine Mile Regulatory Asset                     | 27,619   |             | 0                                  | 27,619                  | (2a)                                | (27,619)                | 0                                    | 0   |
| Nine Mile Mirror CWIP                          | 1,051  |             | 0                                  | 1,051                   | (2a)                                | (1,051)                 | 0                                    | 0   |
| Allegheny Contract Buyout                      | 9,222  |             | 0                                  | 9,222                   | (2a)                                | (9,222)                 | 0                                    | 0   |
| Cost to Achieve (Ends 12/31/07)                | 10,132   | (2b)        | (10,132)                           | 0                       |                                     | 0                       | 0                                    | 0   |
| 2003 Ice Storm                                 | 2,700  |             | 0                                  | 2,700                   | (2a)                                | (2,700)                 | 0                                    | 0   |
| <b>Total Amortizations</b>                     | <b>59,486</b>                                    |             | <b>(10,132)</b>                    | <b>49,354</b>           | <b>(47,068)</b>                     | <b>2,286</b>            | <b>0</b>                             | <b>2,286</b>                              |
| <b>Total O&amp;M and Amortization Expenses</b> | <b>\$169,819</b>                                 |             | <b>(\$8,205)</b>                   | <b>\$161,614</b>        | <b>(\$48,468)</b>                   | <b>\$113,146</b>        | <b>(\$213)</b>                       | <b>\$112,933</b>                          |

**Rochester Gas & Electric Corporation**  
**Calculation of State Income Tax on Electric Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|   | Per Company<br>ACF<br>CY 2006<br>Delivery - Only | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>by Staff | Positive<br>Benefits<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--|-------------|------------------------------------|-------------------------|-------------------------------------|-------------------------|--------------------------------------|---|
| Net Operating Income Before SIT                       | \$100,471  |             | \$11,233                           | \$111,704               | \$48,468                            | \$160,172               | (\$102,756)                          | \$57,416                                  |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |  |             |                                    |                         |                                     |                         |                                      |   |
| Interest Charges                                      | (33,971)   |             | 1,750                              | (32,221)                | 7,456                               | (24,764)                | 0                                    | (24,764)                                  |
| Tax/Book Depreciation                                 | (9,902)  |             | 0                                  | (9,902)                 |                                     | (9,902)                 | 0                                    | (9,902)                                   |
| Cost of Removal                                       | (3,161)  |             | 0                                  | (3,161)                 |                                     | (3,161)                 | 0                                    | (3,161)                                   |
| Other Differences                                     | (2,471)  |             | 0                                  | (2,471)                 |                                     | (2,471)                 | 0                                    | (2,471)                                   |
| Total Deductions                                      | (49,505)   |             | 1,750                              | (47,755)                | 7,456                               | (40,298)                | 0                                    | (40,298)                                  |
| Subtotal  | 50,966   |             | 12,983                             | 63,949                  | 55,924                              | 119,874                 | (102,756)                            | 17,118                                    |
| Business Allocation Percentage                        | 1  |             |                                    | 0.991                   | 0.991                               | 0.991                   | 0.991                                | 0.991                                     |
| Taxable Income  | 50,966   |             |                                    | 63,374                  | 55,421                              | 118,795                 | (101,831)                            | 16,964                                    |
| State Income Tax @ 7.5%/7.1%                          | \$3,822  |             | \$677                              | \$4,500                 | \$3,935                             | \$8,434                 | (\$7,230)                            | \$1,204                                   |
| <b>Adjustments to SIT</b>                             |  |             |                                    |                         |                                     |                         |                                      |   |
| <b>Provision for Deferred SIT-Current Year</b>        |  |             |                                    |                         |                                     |                         |                                      |   |
| Tax Depreciation & Other                              | 756  |             | 0                                  | 756                     | 0                                   | 756                     | 0                                    | 756                                       |
| Total Provision for Deferred FIT -Current Yr          | 756  |             | 0                                  | 756                     | 0                                   | 756                     | 0                                    | 756                                       |
| Net State Income Tax for Rate of Return               | \$4,578  |             | \$677                              | \$5,256                 | \$3,935                             | \$9,190                 | (\$7,230)                            | \$1,960                                   |

**Rochester Gas & Electric Corporation**  
**Calculation of Federal Income Tax on Electric Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|   | Per Company<br>ACF<br>CY 2006<br>Delivery - Only | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>by Staff | Positive<br>Benefits<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--|-------------|------------------------------------|-------------------------|-------------------------------------|-------------------------|--------------------------------------|---|
| Net Operating Income Before FIT                       | \$95,893   |             | \$10,556                           | \$106,448               | \$44,533                            | \$150,982               | (\$95,526)                           | \$55,456                                  |
| <b>Interest Deduction</b>                             |  |             |                                    |                         |                                     |                         |                                      |   |
| Interest Expense                                      | 33,971   |             | (1,750)                            | 32,221                  | (7,456)                             | 24,764                  | 0                                    | 24,764                                    |
| Total Interest  | 33,971   |             | (1,750)                            | 32,221                  | (7,456)                             | 24,764                  | 0                                    | 24,764                                    |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |  |             |                                    |                         |                                     |                         |                                      |   |
| Tax Book Depreciation                                 | 933  |             | 0                                  | 933                     |                                     | 933                     | 0                                    | 933                                       |
| Cost of Removal                                       | (3,162)  |             | 0                                  | (3,162)                 |                                     | (3,162)                 | 0                                    | (3,162)                                   |
| Mirror CWIP   | 1,051  |             | 0                                  | 1,051                   |                                     | 1,051                   | 0                                    | 1,051                                     |
| Federal Effect of DSIT                                | 109  |             | 0                                  | 109                     |                                     | 109                     | 0                                    | 109                                       |
| Other Differences                                     | (2,320)  |             | 0                                  | (2,320)                 |                                     | (2,320)                 | 0                                    | (2,320)                                   |
| Total Deductions                                      | <u>(3,389)</u>                                   |             | <u>0</u>                           | <u>(3,389)</u>          | <u>0</u>                            | <u>(3,389)</u>          | <u>0</u>                             | <u>(3,389)</u>                            |
| Taxable Income  | 58,533   |             | 12,306                             | 70,839                  | 51,989                              | 122,828                 | (95,526)                             | 27,302                                    |
| Federal Income Tax - Current @ 35%                    | <u>\$20,486</u>                                  |             | <u>\$4,307</u>                     | <u>\$24,794</u>         | <u>\$18,196</u>                     | <u>\$42,990</u>         | <u>(\$33,434)</u>                    | <u>\$9,558</u>                            |
| <b>Deferred Federal Income Taxes</b>                  |  |             |                                    |                         |                                     |                         |                                      |   |
| Accelerated Depreciation                              | (925)  |             | 0                                  | (925)                   |                                     | (925)                   | 0                                    | (925)                                     |
| Federal Income Tax Adjustment                         | (1)  |             | 0                                  | (1)                     |                                     | (1)                     | 0                                    | (1)                                       |
| Other   | (22)   |             | 0                                  | (22)                    |                                     | (22)                    | 0                                    | (22)                                      |
| Total Provision for Deferred FIT                      | <u>(948)</u>                                     |             | <u>0</u>                           | <u>(948)</u>            | <u>0</u>                            | <u>(948)</u>            | <u>0</u>                             | <u>(948)</u>                              |
| Total Deferred FIT                                    | 0  |             | 0                                  | 0                       |                                     | 0                       | 0                                    | 0   |
| Net Federal Income Tax for Rate of Return             | <u>\$19,538</u>                                  |             | <u>\$4,307</u>                     | <u>\$23,846</u>         | <u>\$18,196</u>                     | <u>\$42,042</u>         | <u>(\$33,434)</u>                    | <u>\$8,608</u>                            |

**Rochester Gas & Electric Corporation**  
**Electric Rate Base Summary**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|  | Per Company<br>ACF<br>CY 2006<br>Delivery - Only | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>by Staff | Positive<br>Benefits<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|-------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Utility Plant</b>                     |  |             |                                    |                         |                                     |                         |                                      |   |
| Plant in Service                             | \$850,681  |             | (\$39,703)                         | \$810,978               |                                     | \$810,978               | \$0                                  | \$810,978                                 |
| Plant Held for Future Use                    | 1,834  |             | 0                                  | 1,834                   |                                     | 1,834                   | 0                                    | 1,834                                     |
| <b>Total Net Utility Plant</b>               | <b>852,515</b>                                   |             | <b>(39,703)</b>                    | <b>812,812</b>          | <b>0</b>                            | <b>812,812</b>          | <b>0</b>                             | <b>812,812</b>                            |
| <b>Fossil Fuels</b>                          | 7,378  |             |                                    | 7,378                   |                                     | 7,378                   |                                      | 7,378                                     |
| Working Capital O&M                          | 20,689   |             | (935)                              | 19,754                  | (6,059)                             | 13,696                  | 0                                    | 13,696                                    |
| Materials & Supplies                         | 11,433   |             |                                    | 11,433                  |                                     | 11,433                  |                                      | 11,433                                    |
| Prepayments                                  | 17,312   |             |                                    | 17,312                  |                                     | 17,312                  |                                      | 17,312                                    |
| Deferred Investment Tax Credit               | (5,146)  |             | 0                                  | (5,146)                 |                                     | (5,146)                 | 0                                    | (5,146)                                   |
| <b>Total Working Capital</b>                 | <b>51,666</b>                                    |             | <b>(935)</b>                       | <b>50,731</b>           | <b>(6,059)</b>                      | <b>44,673</b>           | <b>0</b>                             | <b>44,673</b>                             |
| <b>Deferred Debits (Credits)</b>             | 199,708  |             | (84,504)                           | 115,204                 | (311,769)                           | (196,565)               | 0                                    | (196,565)                                 |
| <b>Accumulated Deferred Income Taxes</b>     | (172,629)  |             | 33,476                             | (139,153)               | 123,507                             | (15,645)                | 0                                    | (15,645)                                  |
| <b>Excess Capitalization (Earnings Base)</b> | 0  |             | 0                                  | 0                       | 0                                   | 0                       | 0                                    | 0   |
| <b>Rate Base</b>                             | <b>\$931,260</b>                                 |             | <b>(\$91,665)</b>                  | <b>\$839,595</b>        | <b>(\$194,320)</b>                  | <b>\$645,274</b>        | <b>\$0</b>                           | <b>\$645,274</b>                          |

C. 07-M-0906

**Rochester Gas & Electric Corporation**  
**Summary of Cash Working Capital Allowance**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|  | Per Company<br>ACF<br>CY 2006<br>Delivery - Only | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>by Staff | Positive<br>Benefits<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|-------------------------------------|-------------------------|--------------------------------------|---|
| Total Departmental Expenses                  | \$169,819  |             | (\$8,205)                          | \$161,614               | (\$48,468)                          | \$113,146               | \$0                                  | \$112,933                                 |
| R&D Expenses                                 | 0  |             |                                    | 0                       |                                     | 0                       |                                      | 0   |
| Sub-total                                    | 169,819  |             | (8,205)                            | 161,614                 | (48,468)                            | 113,146                 | 0                                    | 112,933                                   |
| Adjustments:                                 |  |             |                                    |                         |                                     |                         |                                      |   |
| Transmission Wheeling                        | 2,818  |             | 0                                  | 2,818                   |                                     | 2,818                   | 0                                    | 2,818                                     |
| Uncollectible Accounts                       | 1,489  |             | (727)                              | 762                     |                                     | 762                     | 0                                    | 549                                       |
| Total Adjustments                            | 4,307  |             | (727)                              | 3,580                   | 0                                   | 3,580                   | 0                                    | 3,367                                     |
| Adjusted total subject to Cash W/C Allowance | 165,512  |             | (7,478)                            | 158,034                 | (48,468)                            | 109,566                 | 0                                    | 109,566                                   |
| Total Cash W/C Allowance - 1/8 (45 days)     | \$20,689   |             | (\$935)                            | \$19,754                | (\$6,059)                           | \$13,696                | \$0                                  | \$13,696                                  |

**Rochester Gas & Electric Corporation**  
**Staff Indicated Cost of Capital**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

| CAPITAL CATEGORY          | Percent        | Cost Rate | Weighted<br>Cost |
|---------------------------|----------------|-----------|------------------|
| Long-Term Debt - Embedded | 61.74%         | 6.20%     | 3.83%            |
| Customer Deposits         | 0.26%          | 3.76%     | 0.01%            |
| Preferred Stock           | 0.00%          | 0.00%     | 0.00%            |
| Common Equity             | 38.00%         | 9.00%     | 3.42%            |
| <b>TOTAL</b>              | <b>100.00%</b> |           | <b>7.26%</b>     |

**Rochester Gas & Electric Corporation**  
**Computation of Revenue Requirement**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  |                               |
|--|-------------------------------|
| Average Rate Base                          | <u>Per Staff</u><br>\$645,274 |
| Rate of Return on Rate Base                | 7.26%                         |
| Required Net Income                        | <u>46,847</u>                 |
| Net Income before Revenue Requirement      | 108,940                       |
| Earnings Deficiency (Surplus)              | <u>(62,093)</u>               |
| Retention ("Gross-Up") Factor (from below) | 59.72%                        |
| Revenue Increase (Decrease)                | <u><u>(\$103,973)</u></u>     |

|   | <u>Percentages</u>   | <u>Revenue Requirement</u> |
|---|----------------------|----------------------------|
| Calculation of Retention ("Gross-Up") Factor: |                      |                            |
| Sales Revenues                                | 100.00%              | (\$103,973)                |
| Late Payment Charges                          | 0.36%                | (372)                      |
| Revenue Taxes                                 | 1.32%                | (1,376)                    |
| Uncollectibles                                | 0.21%                | (213)                      |
| Retention Factor before Federal Income Tax    | <u>98.83%</u>        | <u>(102,756)</u>           |
| State Income Tax @ 7.10%                      | 6.95%                | (7,230)                    |
| Federal Income Tax @ 35%                      | <u>32.16%</u>        | <u>(33,434)</u>            |
| Retention Factor                              | <u><u>59.72%</u></u> | <u><u>(\$62,093)</u></u>   |

**Rochester Gas & Electric Corporation**  
**Summary of Interest Expense Deduction**  
**For the Rate Year Ending December 31, 2006**  
**(\$000's)**

| <u>Calculation of Regulated Earnings Base</u> | <u>Per Company<br/>2006 ACF</u> | <u>Staff<br/>Regulatory<br/>Adjustments</u> | <u>Regulatory<br/>As Adjusted<br/>by Staff</u> |
|---|---------------------------------|---|--|
| Rate Base                                     | \$931,260                       | (\$285,986)                                 | \$645,274                                      |
| Plus: Interest Bearing CWIP                   | 0                               | 0   | 0  |
| Sub-total                                     | 931,260                         | (285,986)                                   | 645,274  |
| Less: Short Term Debt                         | 0                               | 0   | 0  |
| Regulated Earnings Base                       | <u>\$931,260</u>                | <u>(\$285,986)</u>                          | <u>\$645,274</u>                               |

**Calculation of Interest Deduction:**

| <u>Capital Structure</u>  | <u>Per<br/>Staff REG Adj</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Regulatory<br/>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|------------------------------|----------------|------------------|--|
| Long-Term Debt - Embedded | \$839,595                    | 61.74%         | 6.20%            | \$32,139   |
| Customer Deposits         | 839,595                      | 0.26%          | 3.76%            | 82   |
| Preferred Stock           | 839,595                      | 0.00%          |                  |  |
| Common Equity             | 839,595                      | 38.00%         |                  |  |
| Sub total                 |                              | <u>100.00%</u> | <u>9.96%</u>     | <u>32,221</u>  |
| Interest Deduction        |                              |                |                  | <u>\$32,222</u>  |

| <u>Capital Structure</u>  | <u>PBA<br/>Per<br/>Staff</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Post PBA<br/>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|------------------------------|----------------|------------------|--|
| Long-Term Debt - Embedded | \$645,274                    | 61.74%         | 6.20%            | \$24,700   |
| Customer Deposits         | 645,274                      | 0.26%          | 3.76%            | 63   |
|                           | 645,274                      |                | 0.00%            | 0  |
| Preferred Stock           | 645,274                      |                |                  |  |
| Common Equity             | 645,274                      |                |                  |  |
| Sub total                 |                              | <u>62.00%</u>  | <u>9.96%</u>     | <u>24,763</u>  |
| Interest Deduction        |                              |                |                  | <u>\$24,764</u>  |

**Rochester Gas & Electric Corporation**  
**Summary of Staff Adjustments**  
**For the Rate Year Ending December 31, 2007**  
**(\$000's)**  
**Staff Revised at Initial Brief**

| Adj.<br>No. <u>Explanation</u>   | <u>Regulatory<br/>Adjustment</u> | <u>Regulatory<br/>Adjustment<br/>Subtotals</u> | <u>Positive<br/>Benefit<br/>Adjustment</u> | <u>PBA<br/>Subtotals</u> |
|--|----------------------------------|--|--|--------------------------|
| <b><u>REVENUES</u></b>   |                                  |  |  |                          |
| Revise to reflect decreased revenues associated with Commodity Uncollectibles                | (727)                            |  |  |                          |
| <b>Total Revenues</b>  |                                  | (727)  |  |                          |
| <b>(1) <u>O&amp;M EXPENSES</u></b>   |                                  |  |  |                          |
| (a) Regulatory Adjustment - To eliminate Incentive Compensation Expense                      | (1,960)                          |  |  |                          |
| (b) Regulatory Adjustment - To remove Donations from O&M Expense - Other Expense             | (222)                            |  |  |                          |
| (c) To remove Commodity portion of Uncollectible Expenses                                    | (727)                            |  |  |                          |
| (d) To reflect fully funded Site Remediation Reserve   |                                  |  | (1,400)                                    |                          |
| To reflect Staff's recommended Low Income Program costs - Other Expense                      | 3,000                            |  |  |                          |
| To reflect elimination of future deferrals associated with Stray Voltage Other expense       | <u>1,836</u>                     |  |  |                          |
| <b>Total O&amp;M Expense Regulatory</b>  | <b><u>1,927</u></b>              |  |  |                          |
| <b>TOTAL O&amp;M EXPENSE Adjustments</b>   |                                  | <b><u>1,927</u></b>                            |  | <b><u>(1,400)</u></b>    |
| <b>(2) <u>AMORTIZATION</u></b>   |                                  |  |  |                          |
| (a) To remove amortizations associated with Positive Benefit Adjustment to Regulatory Assets |                                  |  |  |                          |
| - Oswego 6 Plant   |                                  |  | (6,476)                                    |                          |
| - Nine Mile Regulatory Asset   |                                  |  | (27,619)                                   |                          |
| - Nine Mile Mirror CWIP  |                                  |  | (1,051)                                    |                          |
| - Allegany Contract Buyout   |                                  |  | (9,222)                                    |                          |
| - 2003 Ice Storm   |                                  |  | <u>(2,700)</u>                             | <b><u>(47,068)</u></b>   |
| (b) To reflect the completion of Cost to Achieve Amortization (Ends 12/31/07)                | <u>(10,132)</u>                  | <b><u>(10,132)</u></b>                         |  |                          |
| <b>TOTAL AMORTIZATIONS</b>   |                                  | <b><u>(10,132)</u></b>                         |  | <b><u>(47,068)</u></b>   |
| <b>TOTAL O&amp;M and AMORTIZATION EXPENSE</b>  |                                  | <b><u>(\$8,205)</u></b>                        |  | <b><u>(48,468)</u></b>   |
| <b>(3) <u>Depreciation</u></b>   |                                  |  |  |                          |
| To reflect depreciation effect of adjustment of capitalized software in Common Plant         |                                  | <b><u>(4,865)</u></b>                          |  |                          |

**Rochester Gas & Electric Corporation**  
**Summary of Staff Adjustments**  
**For the Rate Year Ending December 31, 2007**  
**(\$000's)**  
**Staff Revised at Initial Brief**

| Adj.<br>No. <u>Explanation</u>   | <u>Regulatory<br/>Adjustment</u> | <u>Regulatory<br/>Adjustment<br/>Subtotals</u> | <u>Positive<br/>Benefit<br/>Adjustment</u> | <u>PBA<br/>Subtotals</u> |
|--|----------------------------------|--|--|--------------------------|
| <b><u>Property Taxes</u></b>   |                                  |  |  |                          |
| To reflect elimination of future deferrals associated with Property Taxes        | 1,110                            |  |  |                          |
| <b>(4) <u>STATE INCOME TAXES</u></b>   |                                  |  |  |                          |
| To reflect changes in taxable income and interest expense.                       |                                  | <b><u>677</u></b>                              |  | <b><u>3,935</u></b>      |
| <b>(5) <u>FEDERAL INCOME TAXES</u></b>   |                                  |  |  |                          |
| <b><u>Current Federal Income Taxes</u></b>                                       |                                  |  |  |                          |
| To reflect changes in taxable income and interest expense                        |                                  | <b><u>4,308</u></b>                            |  | <b><u>18,196</u></b>     |
| <b>(6) <u>RATE BASE</u></b>  |                                  |  |  |                          |
| <b>a) <u>Plant-In-Service</u></b>  |                                  |  |  |                          |
| To reflect regulatory adjustment for capitalized software - Intangible Plant     |                                  | <b><u>(39,703)</u></b>                         |  |                          |
| <b><u>Cash Working Capital - Delivery</u></b>                                    |                                  |  |  |                          |
| b) To track adjustments to O&M Expenses.   |                                  | <b><u>(935)</u></b>                            |  | <b><u>(6,059)</u></b>    |
| <b>c) <u>Deferred Debits/Credits - Regulatory Assets</u></b>                     |                                  |  |  |                          |
| To reduce regulatory assets associated with Positive Benefit Adjustment          |                                  |  |  |                          |
| - Loss on Reacquired Debt  |                                  |  | (2,502)                                    |                          |
| - NM2 Sales  |                                  |  | (81,852)                                   |                          |
| - NM2 CWIP   |                                  |  | (18,746)                                   |                          |
| - Oswego 6   |                                  |  | (28,943)                                   |                          |
| - Allegheny Buyout   |                                  |  | (54,577)                                   |                          |
| - Ice Storm 2003   |                                  |  | (23,411)                                   |                          |
| - Site Remediation - Reg. Asset  |                                  |  | <u>(36,738)</u>                            |                          |
| <b>Total Deferred Debits/Credits</b>   |                                  |  |  | <b><u>(246,769)</u></b>  |
| <b><u>Asset Gain Account (ASGA)</u></b>  |                                  |  |  |                          |
| - To Include the forecasted ASGA balance in Rate Base                            |                                  | <b><u>(80,219)</u></b>                         |  |                          |
| <b><u>Operating Reserves</u></b>   |                                  |  |  |                          |
| - To reflect increase in Major Storm Reserve                                     |                                  |  | <b><u>(10,000)</u></b>                     | <b><u>(10,000)</u></b>   |
| <b><u>Decommissioning Reserves</u></b>   |                                  |  |  |                          |
| - To reflect Russell Decommissioning Funding                                     |                                  |  | (30,000)                                   |                          |
| - To reflect Beebee decommissioning Funding                                      |                                  |  | (25,000)                                   |                          |
| <b>Subtotal - Decommissioning</b>  |                                  |  |  | <b><u>(55,000)</u></b>   |
| <b><u>Deferred Debits &amp; Credits - ACF</u></b>                                |                                  |  |  |                          |
| <b>To reduce deferrals associated with Annual Compliance Filing</b>              |                                  |  |  |                          |
| - Outreach & Education - Voice Your Choice (reclassified from PBA to Regulatory) | (4,285)                          | <b><u>(4,285)</u></b>                          | 0  | <b><u>0</u></b>          |

**Rochester Gas & Electric Corporation**  
**Summary of Staff Adjustments**  
**For the Rate Year Ending December 31, 2007**  
**(\$000's)**  
**Staff Revised at Initial Brief**

| Adj.<br>No. | <u>Explanation</u>                                 | <u>Regulatory<br/>Adjustment</u> | <u>Regulatory<br/>Adjustment<br/>Subtotals</u> | <u>Positive<br/>Benefit<br/>Adjustment</u> | <u>PBA<br/>Subtotals</u> |
|-------------|--|----------------------------------|--|--|--------------------------|
|             | <b>TOTAL DEFERRED DEBITS &amp; CREDITS</b>         |                                  | <u>(84,504)</u>                                |  | <u>(311,769)</u>         |
|             | <b><u>Deferred Taxes</u></b>                       |                                  |  |  |                          |
| d)          | To reflect tracking of deferred debit/credits      |                                  |  |  | <u>123,507</u>           |
|             | To reflect tracking of ASGA inclusion in Rate Base |                                  | <u>33,476</u>                                  |  |                          |
|             | <b>TOTAL DEFERRED TAXES</b>                        |                                  |  |  |                          |
|             | <b>TOTAL RATE BASE</b>                             |                                  | <u>(\$91,665)</u>                              |  | <u>(\$194,320)</u>       |

**Rochester Gas & Electric Corporation**  
**Gas Revenue Requirement**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |           |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|-----------|
| <b>Operating Revenues</b>              |  |             |                                    |                         |                                    |                         |                                      |   |           |
| Residential                            | \$285,471  |             |                                    | \$285,471               |                                    | \$285,471               | (\$13,633)                           | \$271,838                                 |           |
| Commercial                             | 48,582   |             |                                    | 48,582                  |                                    | 48,582                  | 0                                    | 48,582                                    |           |
| Industrial                             | 6,593  |             |                                    | 6,593                   |                                    | 6,593                   |                                      | 6,593                                     |           |
| Transportation                         | 33,178   |             |                                    | 33,178                  |                                    | 33,178                  | 0                                    | 33,178                                    |           |
| Miscellaneous                          | 6,290  |             |                                    | 6,290                   |                                    | 6,290                   |                                      | 6,290                                     |           |
| Total Retail Revenue                   | 380,114  |             | 0                                  | 380,114                 | 0                                  | 380,114                 | (13,633)                             | 366,481                                   |           |
| Other Revenue                          | 5,024  |             | 0                                  | 5,024                   |                                    | 5,024                   | (49)                                 | 4,975                                     |           |
| Total Revenue                          | 385,138  |             | 0                                  | 385,138                 | 0                                  | 385,138                 | (13,682)                             | 371,456                                   |           |
| <b>Operating Deductions</b>            |  |             |                                    |                         |                                    |                         |                                      |   |           |
| Supply Costs                           | 244,059  |             |                                    | 244,059                 |                                    | 244,059                 |                                      | 244,059                                   |           |
| Gross Revenue Taxes                    | 5,464  |             | 0                                  | 5,464                   |                                    | 5,464                   | (180)                                | 5,284                                     |           |
| Total Operating Deductions             | 249,523  |             | 0                                  | 249,523                 | 0                                  | 249,523                 | (180)                                | 249,343                                   |           |
| Gross Margin                           | 135,615  |             | 0                                  | 135,616                 | 0                                  | 135,616                 | (13,502)                             | 122,114                                   |           |
| Total O & M Expenses<br>(from page 2)  | 50,894   | (1)         | (529)                              | 50,365                  | (1)                                | (600)                   | 49,765                               | (232)                                     | 49,533    |
| <b>Depreciation/Amortization/Other</b> |  |             |                                    |                         |                                    |                         |                                      |   |           |
| Amortizations                          | 2,835  |             | (1,855)                            | 980                     | (2)                                | 0                       | 980                                  | 0   | 980       |
| Depreciation                           | 18,668   | (3)         | (2,520)                            | 16,048                  |                                    | 16,048                  | 0                                    | 16,048                                    |           |
| Other Income & Deduction               | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |           |
| Total Depreciation/Amortizations/Other | 21,503   |             | (4,475)                            | 17,028                  |                                    | 17,028                  | 0                                    | 17,028                                    |           |
| <b>Taxes Other Than Income Taxes</b>   |  |             |                                    |                         |                                    |                         |                                      |   |           |
| Property Taxes                         | 15,199   |             | 2,517                              | 17,716                  |                                    | 17,716                  | 0                                    | 17,716                                    |           |
| Payroll Taxes                          | 1,560  |             | 0                                  | 1,560                   |                                    | 1,560                   | 0                                    | 1,560                                     |           |
| Other Taxes                            | 488  |             | 0                                  | 488                     |                                    | 488                     | 0                                    | 488                                       |           |
| Total Taxes Other Than Income Taxes    | 17,247   |             | 2,517                              | 19,764                  |                                    | 19,764                  | 0                                    | 19,764                                    |           |
| Total Operating Revenue Deductions     | 89,644   |             | (2,487)                            | 87,157                  | (600)                              | 86,557                  | (232)                                | 86,325                                    |           |
| Net Operating Revenues                 | 45,971   |             | 2,487                              | 48,459                  | 600                                | 49,059                  | (13,270)                             | 35,789                                    |           |
| Other Income                           | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |           |
| Net Operating Income Before SIT        | 45,971   |             | 2,487                              | 48,459                  | 600                                | 49,059                  | (13,270)                             | 35,789                                    |           |
| State Income Taxes                     | 2,190  | (4)         | 56                                 | 2,246                   | (4)                                | 79                      | 2,325                                | (934)                                     | 1,391     |
| Net Operating Income Before FIT        | 43,781   |             | 2,431                              | 46,213                  | 521                                | 46,734                  | (12,336)                             | 34,398                                    |           |
| Federal Income Taxes                   | 10,380   | (5)         | 934                                | 11,315                  | (5)                                | 363                     | 11,678                               | (4,317)                                   | 7,361     |
| Net Income Available for Return        | \$33,401   |             | \$1,497                            | \$34,898                | \$158                              | \$35,056                | (\$8,019)                            | \$27,037                                  |           |
| Rate Base                              | \$412,502  | (6)         | (\$26,624)                         | \$385,880               | (6)                                | (\$13,465)              | \$372,416                            | \$0                                       | \$372,416 |
| Rate of Return                         | 9.10%  |             |                                    | 9.04%                   |                                    |                         | 9.41%                                | 7.26%                                     |           |
| Return on Equity                       | 9.88%  |             |                                    | 13.69%                  |                                    |                         | 14.67%                               | 9.00%                                     |           |

**Rochester Gas & Electric Corporation**  
**Schedule of Other Gas Operating Expenses**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Operating &amp; Maintenance Expenses</b>    |  |             |                                    |                         |                                    |                         |                                      |   |
| Payroll  | 20,149   |             |                                    | 20,149                  |                                    | 20,149                  | 0                                    | 20,149                                    |
| Medical  | 1,010  |             |                                    | 1,010                   |                                    | 1,010                   | 0                                    | 1,010                                     |
| OPEB   | 2,001  |             |                                    | 2,001                   |                                    | 2,001                   | 0                                    | 2,001                                     |
| Pension  | (4,179)  |             |                                    | (4,179)                 |                                    | (4,179)                 | 0                                    | (4,179)                                   |
| Other Benefits                                 | 2,185  |             |                                    | 2,185                   |                                    | 2,185                   | 0                                    | 2,185                                     |
| EEMC   | 2,510  | (a)         | (984)                              | 1,526                   |                                    | 1,526                   | 0                                    | 1,526                                     |
| USSC   | 5,242  |             |                                    | 5,242                   |                                    | 5,242                   | 0                                    | 5,242                                     |
| Legal  | 516  |             |                                    | 516                     |                                    | 516                     | 0                                    | 516                                       |
| Outside Services                               | 6,378  |             |                                    | 6,378                   |                                    | 6,378                   | 0                                    | 6,378                                     |
| Uncollectibles                                 | 6,744  |             |                                    | 6,744                   |                                    | 6,744                   | (232)                                | 6,512                                     |
| Deferrals (Pensions, OPEBs, etc)               | 1,121  |             |                                    | 1,121                   |                                    | 1,121                   | 0                                    | 1,121                                     |
| SIRC Reserve Accrual                           | 600  |             |                                    | 600 (c)                 | (600)                              | 0                       | 0                                    | 0   |
| Other (w/o MCWIP & Reserve Accruals)           | <u>6,617</u>                                       | (b)         | 455                                | 7,072                   |                                    | 7,072                   | 0                                    | <u>7,072</u>                              |
| <b>Total O&amp;M Expense</b>                   | <b><u>50,894</u></b>                               |             | <b><u>(529)</u></b>                | <b><u>50,365</u></b>    | <b><u>(600)</u></b>                | <b><u>49,765</u></b>    | <b><u>(232)</u></b>                  | <b><u>49,533</u></b>                      |
| <b>Amortizations</b>                           |  |             |                                    |                         |                                    |                         |                                      |   |
| Cost to Achieve (Ends 12/31/07)                | 1,855  |             | (1,855)                            | 0 (d)                   | 0                                  | 0                       | 0                                    | 0   |
| Loss on reacquired Debt                        | <u>980</u>   |             | <u>0</u>                           | <u>980</u>              | <u>0</u>                           | <u>980</u>              | <u>0</u>                             | <u>980</u>                                |
| <b>Total Amortizations</b>                     | <b><u>2,835</u></b>                                |             | <b><u>(1,855)</u></b>              | <b><u>980</u></b>       | <b><u>0</u></b>                    | <b><u>980</u></b>       | <b><u>0</u></b>                      | <b><u>980</u></b>                         |
| <b>Total O&amp;M and Amortization Expenses</b> | <b><u>\$53,729</u></b>                             |             | <b><u>(\$2,384)</u></b>            | <b><u>\$51,345</u></b>  | <b><u>(\$600)</u></b>              | <b><u>\$50,745</u></b>  | <b><u>(\$232)</u></b>                | <b><u>\$50,513</u></b>                    |

**Rochester Gas & Electric Corporation**  
**Calculation of State Income Tax on Gas Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|   | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| Net Operating Income Before SIT                       | \$45,971   |             | \$2,487                            | \$48,459                | \$600                              | \$49,059                | (\$13,270)                           | \$35,789                                  |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |  |             |                                    |                         |                                    |                         |                                      |   |
| Interest Charges                                      | (15,048)   |             | 239                                | (14,809)                | 517                                | (14,292)                | 0                                    | (14,292)                                  |
| Tax/Book Depreciation                                 | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Cost of Removal                                       | (1,255)  |             | 0                                  | (1,255)                 |                                    | (1,255)                 | 0                                    | (1,255)                                   |
| Other Differences                                     | (468)  |             | 0                                  | (468)                   |                                    | (468)                   | 0                                    | (468)                                     |
| Total Deductions                                      | (16,771)   |             | 239                                | (16,532)                | 517                                | (16,015)                | 0                                    | (16,015)                                  |
| Subtotal  | 29,200   |             | 2,726                              | 31,927                  | 1,117                              | 33,043                  | (13,270)                             | 19,773                                    |
| Business Allocation Percentage                        | 1  |             |                                    | 0.991                   | 0.991                              | 0.991                   | 0.991                                | 0.991                                     |
| Taxable Income  | 29,200   |             |                                    | 31,639                  | 1,107                              | 32,746                  | (13,151)                             | 19,595                                    |
| State Income Tax @ 7.5%/7.1%                          | \$2,190  |             | \$56                               | \$2,246                 | \$79                               | \$2,325                 | (\$934)                              | \$1,391                                   |
| <b>Adjustments to SIT</b>                             |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Provision for Deferred SIT-Current Year</b>        |  |             |                                    |                         |                                    |                         |                                      |   |
| Tax Depreciation & Other                              | 0  |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| Total Provision for Deferred FIT -Current Yr          | 0  |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| Net State Income Tax for Rate of Return               | \$2,190  |             | \$56                               | \$2,246                 | \$79                               | \$2,325                 | (\$934)                              | \$1,391                                   |

**Rochester Gas & Electric Corporation**  
**Calculation of Federal Income Tax on Gas Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|   | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| Net Operating Income Before FIT                       | \$43,781   |             | \$2,431                            | \$46,213                | \$521                              | \$46,734                | (\$12,336)                           | \$34,398                                  |
| <b>Interest Deduction</b>                             |  |             |                                    |                         |                                    |                         |                                      |   |
| Interest Expense                                      | 15,048   |             | (239)                              | 14,809                  | (517)                              | 14,292                  | 0                                    | 14,292                                    |
| Total Interest  | 15,048   |             | (239)                              | 14,809                  | (517)                              | 14,292                  | 0                                    | 14,292                                    |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |  |             |                                    |                         |                                    |                         |                                      |   |
| Tax Book Depreciation                                 | (2,395)  |             | 0                                  | (2,395)                 |                                    | (2,395)                 | 0                                    | (2,395)                                   |
| Cost of Removal                                       | (4,423)  |             | 0                                  | (4,423)                 |                                    | (4,423)                 | 0                                    | (4,423)                                   |
| Federal Effect of DSIT                                | 935  |             | 0                                  | 935                     |                                    | 935                     | 0                                    | 935                                       |
| Other Differences                                     | (755)  |             | 0                                  | (755)                   |                                    | (755)                   | 0                                    | (755)                                     |
| Total Deductions                                      | (6,638)  |             | 0                                  | (6,638)                 | 0                                  | (6,638)                 | 0                                    | (6,638)                                   |
| Taxable Income  | 22,095   |             | 2,670                              | 24,766                  | 1,038                              | 25,804                  | (12,336)                             | 13,468                                    |
| Federal Income Tax - Current @ 35%                    | <b>\$7,733</b>                                     |             | <b>\$934</b>                       | <b>\$8,668</b>          | <b>\$363</b>                       | <b>\$9,031</b>          | <b>(\$4,317)</b>                     | <b>\$4,714</b>                            |
| <b>Deferred Federal Income Taxes</b>                  |  |             |                                    |                         |                                    |                         |                                      |   |
| Accelerated Depreciation                              | 2,647  |             | 0                                  | 2,647                   |                                    | 2,647                   | 0                                    | 2,647                                     |
| Federal Income Tax Adjustment                         | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Other   | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Provision for Deferred FIT                      | <b>2,647</b>                                       |             | <b>0</b>                           | <b>2,647</b>            | <b>0</b>                           | <b>2,647</b>            | <b>0</b>                             | <b>2,647</b>                              |
| Net Federal Income Tax for Rate of Return             | <b>\$10,380</b>                                    |             | <b>\$934</b>                       | <b>\$11,315</b>         | <b>\$363</b>                       | <b>\$11,678</b>         | <b>(\$4,317)</b>                     | <b>\$7,361</b>                            |

**Rochester Gas & Electric Corporation**  
**Gas Rate Base Summary**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|                                       | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---------------------------------------|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Utility Plant</b>              |  |             |                                    |                         |                                    |                         |                                      |   |
| Plant in Service                      | \$408,379  |             | (\$21,379)                         | \$387,000               | \$0                                | \$387,000               | \$0                                  | \$387,000                                 |
| Plant Held for Future Use             | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <b>Total Net Utility Plant</b>        | <b>408,379</b>                                     |             | <b>(21,379)</b>                    | <b>387,000</b>          | <b>0</b>                           | <b>387,000</b>          | <b>0</b>                             | <b>387,000</b>                            |
| <br>                                  |  |             |                                    |                         |                                    |                         |                                      |   |
| Underground Gas Stored                | 32,266   |             |                                    | 32,266                  |                                    | 32,266                  |                                      | 32,266                                    |
| Working Capital O&M                   | 11,660   |             | (5,244)                            | 6,418                   | (75)                               | 6,343                   | 0                                    | 6,343                                     |
| Materials & Supplies                  | 2,655  |             |                                    | 2,655                   |                                    | 2,655                   |                                      | 2,655                                     |
| Prepayments                           | 7,412  |             |                                    | 7,412                   |                                    | 7,412                   |                                      | 7,412                                     |
| Deferred Investment Tax Credit        | (2,245)  |             | 0                                  | (2,245)                 |                                    | (2,245)                 | 0                                    | (2,245)                                   |
| <b>Total Working Capital</b>          | <b>51,748</b>                                      |             | <b>(5,244)</b>                     | <b>46,506</b>           | <b>(75)</b>                        | <b>46,431</b>           | <b>0</b>                             | <b>46,431</b>                             |
| <br>                                  |  |             |                                    |                         |                                    |                         |                                      |   |
| Deferred Debits (Credits)             | (14,593)   |             | 0                                  | (14,593)                | (22,174)                           | (36,767)                | 0                                    | (36,767)                                  |
| <br>                                  |  |             |                                    |                         |                                    |                         |                                      |   |
| Accumulated Deferred Income Taxes     | (33,032)   |             | 0                                  | (33,032)                | 8,784                              | (24,248)                | 0                                    | (24,248)                                  |
| <br>                                  |  |             |                                    |                         |                                    |                         |                                      |   |
| Excess Capitalization (Earnings Base) | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <br>                                  |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Rate Base</b>                      | <b>\$412,502</b>                                   |             | <b>(\$26,624)</b>                  | <b>\$385,880</b>        | <b>(\$13,465)</b>                  | <b>\$372,416</b>        | <b>\$0</b>                           | <b>\$372,416</b>                          |

**Rochester Gas & Electric Corporation**  
**Summary of Cash Working Capital Allowance**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| Total Departmental Expenses                  | \$53,729   |             | (\$2,384)                          | \$51,345                | (\$600)                            | \$50,745                | \$0                                  | \$50,745                                  |
| Miscellaneous-Per Company Amount             | 39,564   |             | (39,564)                           | 0                       | 0                                  | 0                       |                                      | 0   |
| Sub-total                                    | 93,293   |             | (41,948)                           | 51,345                  | (600)                              | 50,745                  | 0                                    | 50,745                                    |
| Adjustments:                                 |  |             |                                    |                         |                                    |                         |                                      |   |
| Transmission                                 | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Uncollectible Accounts                       | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Adjustments                            | 0  |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| Adjusted total subject to Cash W/C Allowance | 93,293   |             | (41,948)                           | 51,345                  | (600)                              | 50,745                  | 0                                    | 50,745                                    |
| Total Cash W/C Allowance - 1/8 (45 days)     | <u>\$11,662</u>                                    |             | <u>(\$5,244)</u>                   | <u>\$6,418</u>          | <u>(\$75)</u>                      | <u>\$6,343</u>          | <u>\$0</u>                           | <u>\$6,343</u>                            |

**Rochester Gas & Electric Corporation**  
**Staff Indicated Cost of Capital**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**Staff Revised at Initial Brief**  
**(\$000's)**

| CAPITAL CATEGORY  | Percent        | Cost Rate | Weighted<br>Cost |
|-------------------|----------------|-----------|------------------|
| Long-Term Debt    | 61.74%         | 6.20%     | 3.83%            |
| Customer Deposits | 0.26%          | 3.76%     | 0.01%            |
| Preferred Stock   | 0.00%          | 0.00%     | 0.00%            |
| Common Equity     | 38.00%         | 9.00%     | 3.42%            |
| TOTAL             | <u>100.00%</u> |           | <u>7.26%</u>     |

**Rochester Gas & Electric Corporation**  
**Computation of Revenue Requirement**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  |                               |
|--|-------------------------------|
| Average Rate Base                          | <u>Per Staff</u><br>\$372,416 |
| Rate of Return on Rate Base                | 7.26%                         |
| Required Net Income                        | <u>27,037</u>                 |
| Net Income before Revenue Requirement      | 35,056                        |
| Earnings Deficiency (Surplus)              | <u>(8,019)</u>                |
| Retention ("Gross-Up") Factor (from below) | 58.82%                        |
| Revenue Increase (Decrease)                | <u><u>(\$13,633)</u></u>      |

|  | <u>Percentages</u>   | <u>Revenue Requirement</u> |
|--|----------------------|----------------------------|
| <b>Calculation of Retention ("Gross-Up") Factor:</b> |                      |                            |
| Sales Revenues                                       | 100.00%              | (\$13,633)                 |
| Late Payment Charges                                 | 0.36%                | (49)                       |
| Revenue Taxes  | 1.32%                | (180)                      |
| Uncollectibles                                       | 1.70%                | (232)                      |
| Retention Factor before Federal Income Tax           | <u>97.34%</u>        | <u>(13,270)</u>            |
| State Income Tax @ 7.10%                             | 6.85%                | (934)                      |
| Federal Income Tax @ 35%                             | <u>31.67%</u>        | <u>(4,318)</u>             |
| Retention Factor                                     | <u><u>58.82%</u></u> | <u><u>(\$8,019)</u></u>    |

**Rochester Gas & Electric Corporation**  
**Summary of Interest Expense Deduction**  
**For the Rate Year Ending December 31, 2007**  
**(\$000's)**

| <u>Calculation of Regulated Earnings Base</u> | <u>Per Company<br/>2006 ACF</u> | <u>Adjustments</u> | <u>REGULATORY<br/>As Adjusted<br/>by Staff</u> |
|---|---------------------------------|--------------------|--|
| Rate Base                                     | \$412,502                       | (\$26,624)         | \$372,416                                      |
| Plus: Interest Bearing CWIP                   | 0                               | 0                  | 0  |
| Sub-total                                     | <u>412,502</u>                  | <u>(26,624)</u>    | <u>385,879</u>                                 |
| Less: Short Term Debt                         | 0                               | 0                  | 0  |
| Regulated Earnings Base                       | <u>\$412,502</u>                | <u>(\$26,624)</u>  | <u>\$385,879</u>                               |

**Calculation of Interest Deduction:**

| <u>Capital Structure</u>  | <u>Per<br/>Staff</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|----------------------|----------------|------------------|---|
| Long-Term Debt - Embedded | \$385,879            | 61.74%         | 6.20%            | \$14,771                                    |
| Customer Deposits         | 385,879              | 0.26%          | 3.76%            | 38  |
| Preferred Stock           | 385,879              | 0.00%          |                  |   |
| Common Equity             | 385,879              | 38.00%         |                  |   |
| Sub total                 |                      | <u>100.00%</u> |                  | <u>14,809</u>                               |
|                           |                      |                |                  | 0   |
| Interest Deduction        |                      |                |                  | <u>\$14,809</u>                             |

**Rochester Gas & Electric Corporation**  
**Summary of Staff Adjustments**  
**For the Rate Year Ending December 31, 2007**  
**Staff Revised at Initial Brief**  
**(\$000's)**

| Adj.<br>No. <u>Explanation</u>  | <u>Regulatory<br/>Adjustment</u> | <u>Regulatory<br/>Adjustment<br/>Totals</u> | <u>Positive<br/>Benefit<br/>Adjustment</u> | <u>Positive<br/>Benefit<br/>Adjustment<br/>Totals</u> |
|---|----------------------------------|---|--|---|
| <b>(1) <u>O&amp;M EXPENSES</u></b>  |                                  |   |  |   |
| <b>a <u>EEMC</u></b>  |                                  |   |  |   |
| Regulatory Adjustment - To eliminate Incentive Compensation payments.                   | (984)                            |   |  |   |
| <b>b <u>Other Expenses</u></b>  |                                  |   |  |   |
| b Regulatory Adjustment - To eliminate Donations  | (95)                             |   |  |   |
| c To reflect fully funded Site remediation reserve                                      |                                  |   | (600)                                      |   |
| To reflect Staff's recommended Low Income Program Expense                               | 550                              |   |  |   |
| <b>Total O&amp;M</b>  |                                  | <b><u>(529)</u></b>                         |  | <b><u>(600)</u></b>                                   |
| <b>(2) <u>Depreciation</u></b>  |                                  |   |  |   |
| To reflect depreciation effect of Intangible Plant Adjustment for capitalized software. | (2,620)                          | <b><u>(2,620)</u></b>                       |  | <b><u>0</u></b>                                       |
| <b>* <u>Property taxes</u></b>  |                                  |   |  |   |
| To reflect the elimination of Property Tax deferral                                     | 2,517                            |   |  |   |
| <b>(3) <u>AMORTIZATION</u></b>  |                                  |   |  |   |
| d To reflect the completion of the Cost to Achieve Amortization                         | (1,855)                          |   | 0  |   |
| <b>TOTAL Amortizations</b>  |                                  | <b><u>(1,855)</u></b>                       |  | <b><u>0</u></b>                                       |
| <b>(4) <u>STATE INCOME TAXES</u></b>  |                                  |   |  |   |
| To track interest expense calculation and other staff adjustments..                     |                                  | <b><u>56</u></b>                            |  | <b><u>79</u></b>                                      |
| <b>(5) <u>FEDERAL INCOME TAXES</u></b>  |                                  |   |  |   |
| <b><u>Current Federal Income Taxes</u></b>  |                                  |   |  |   |
| To track interest expense and track changes associated with other adjustments.          |                                  | <b><u>934</u></b>                           |  | <b><u>363</u></b>                                     |

**Rochester Gas & Electric Corporation**  
**Summary of Staff Adjustments**  
**For the Rate Year Ending December 31, 2007**  
**Staff Revised at Initial Brief**  
**(\$000's)**

| <u>Adj.</u><br><u>No.</u> <u>Explanation</u>  | <u>Regulatory</u><br><u>Adjustment</u> | <u>Regulatory</u><br><u>Adjustment</u><br><u>Totals</u> | <u>Positive</u><br><u>Benefit</u><br><u>Adjustment</u> | <u>Positive</u><br><u>Benefit</u><br><u>Adjustment</u><br><u>Totals</u> |
|---|--|---|--|---|
| <b>(6) <u>RATE BASE</u></b>   |  |   |  |   |
| a) <b><u>Plant-In-Service</u></b><br>To reflect Positive Benefit Adjustment associated with CCS software. | (21,379)                               |   |  |   |
| <b><u>Cash Working Capital - Delivery</u></b>   |  |   |  |   |
| b) To track adjustments to O&M Expenses.  | (5,244)                                |   |  | (75)  |
| <b>c) <u>Deferred Debits/Credits (Regulatory Assets)</u></b>  |  |   |  |   |
| <u>To reflect Positive Benefit Adjustments to Regulatory Assets</u>                                       |  |   |  |   |
| - Reacquired Debt   |  |   | (1,072)  |   |
| - Property Tax Deferral   |  |   | (4,308)  |   |
| - Pipeline Integrity  |  |   | (467)  |   |
| - Variable rate debt  |  |   | (582)  |   |
| - Environmental Site Remediation  |  |   | (15,745)   |   |
| <b>Total Deferred Debits/Credits Regulatory Assets</b>  |  |   |  | <b><u>(22,174)</u></b>  |
| <b><u>Deferred Taxes</u></b>  |  |   |  |   |
| d) To reflect tracking of Staff Adjustments   |  |   |  | 8,784   |
| <b>TOTAL DEFERRED TAXES</b>   |  |   |  | <b><u>8,784</u></b>   |
| <b>TOTAL RATE BASE</b>  |  | <b><u>(26,623)</u></b>                                  |  | <b><u>(13,465)</u></b>  |

**IBERDROLA ACQUISITION**  
**ROCHESTER GAS & ELECTRIC CORPORATION**  
**CASE 07-M-0906**  
**STAFF POSITIVE BENEFIT ADJUSTMENTS**  
**\$(000) (Pre-Tax)**  
**Updated for 2007 ACF Updated @ Initial Brief**

| <u>Delivery Related</u>  | <u>BALANCE SHEET AMOUNTS</u> |                    | <u>Notes</u> | <u>INCOME STATEMENT AMOUNTS</u> |                 |                   |                   |                       |                       |
|--|------------------------------|--------------------|--------------|---------------------------------|-----------------|-------------------|-------------------|-----------------------|-----------------------|
|  | <u>ELECTRIC</u>              | <u>GAS</u>         |              | <u>ELECTRIC</u>                 | <u>GAS</u>      |                   |                   |                       |                       |
|  | <u>@ 12/31/08</u>            | <u>@ 12/31/08</u>  |              |                                 |                 |                   |                   |                       |                       |
| <u>Stranded/Strandable Cost Eliminations</u>   |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| <u>Regulatory Assets (Deferred Debit/Credit)</u>   |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| Loss on Reacquired debt  | \$ 2,502                     | \$ 1,072           | (a)          | \$ -                            | \$ -            |                   |                   |                       |                       |
| 2003 Ice Storm   | <u>23,411</u>                | <u>0</u>           | (a)          | <u>(2,700)</u>                  | <u>0</u>        |                   |                   |                       |                       |
| <b>Subtotal Regulatory Assets</b>  | <b>25,913</b>                | <b>1,072</b>       |              | <b>(2,700)</b>                  | <b>0</b>        |                   |                   |                       |                       |
| <u>ACF Deferrals (Deferred Debits/Credits)</u>   |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| Property Tax   | 0                            | 7,348              | (c)          | 0                               | 0               |                   |                   |                       |                       |
| Voice Your Choice (Revised to Correct as Regulatory Adjustment)  | 0                            | 0                  |              | 0                               | 0               |                   |                   |                       |                       |
| Pipeline Integrity   | 0                            | 1,025              | (c)          | 0                               | 0               |                   |                   |                       |                       |
| Variable Debt  | <u>0</u>                     | <u>943</u>         | (c)          | <u>0</u>                        | <u>0</u>        |                   |                   |                       |                       |
| <b>Subtotal ACF Deferrals</b>  | <b>0</b>                     | <b>9,316</b>       |              | <b>0</b>                        | <b>0</b>        |                   |                   |                       |                       |
| <b>Subtotal Deferred Debit &amp; Credits</b>   | <b>25,913</b>                | <b>10,388</b>      |              | <b>(2,700)</b>                  | <b>0</b>        |                   |                   |                       |                       |
| <table border="0" style="margin-left: auto;"> <tr> <td style="text-align: center;"><u>Adjustment</u></td> <td style="text-align: center;"><u>Adjustment</u></td> </tr> <tr> <td style="text-align: center;"><u>Yearly Accrual</u></td> <td style="text-align: center;"><u>Yearly Accrual</u></td> </tr> </table> |                              |                    |              |                                 |                 | <u>Adjustment</u> | <u>Adjustment</u> | <u>Yearly Accrual</u> | <u>Yearly Accrual</u> |
| <u>Adjustment</u>  | <u>Adjustment</u>            |                    |              |                                 |                 |                   |                   |                       |                       |
| <u>Yearly Accrual</u>  | <u>Yearly Accrual</u>        |                    |              |                                 |                 |                   |                   |                       |                       |
| <u>Operating Reserves</u>  |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| Major Storm Reserve  | 10,000                       | 0                  | (d)          | 0                               | 0               |                   |                   |                       |                       |
| Environmental -SIRC Reserve  | <u>36,738</u>                | <u>15,745</u>      | (b)          | <u>(1,400)</u>                  | <u>(600)</u>    |                   |                   |                       |                       |
| <b>Total Increase in Operating Reserves</b>  | <b>46,738</b>                | <b>15,745</b>      |              | <b>(1,400)</b>                  | <b>(600)</b>    |                   |                   |                       |                       |
| <b>TOTAL DELIVERY (Stranded &amp; Reserves)</b>  | <b>72,651</b>                | <b>26,133</b>      |              | <b>(4,100)</b>                  | <b>(600)</b>    |                   |                   |                       |                       |
| <b>Associated Deferred Taxes ( at 39.615%)</b>   | <b>(28,781)</b>              | <b>(10,353)</b>    |              |                                 |                 |                   |                   |                       |                       |
| <b>NET POSITIVE BENEFITS ADJUSTMENT - DELIVERY</b>   | <b>\$ 43,870</b>             | <b>\$ 15,781</b>   |              | <b>\$ (4,100)</b>               | <b>\$ (600)</b> |                   |                   |                       |                       |
| <table border="0" style="margin-left: auto;"> <tr> <td style="text-align: center;"><u>Adjustment</u></td> <td style="text-align: center;"><u>Adjustment</u></td> </tr> <tr> <td style="text-align: center;"><u>Yearly Accrual</u></td> <td style="text-align: center;"><u>Yearly Accrual</u></td> </tr> </table> |                              |                    |              |                                 |                 | <u>Adjustment</u> | <u>Adjustment</u> | <u>Yearly Accrual</u> | <u>Yearly Accrual</u> |
| <u>Adjustment</u>  | <u>Adjustment</u>            |                    |              |                                 |                 |                   |                   |                       |                       |
| <u>Yearly Accrual</u>  | <u>Yearly Accrual</u>        |                    |              |                                 |                 |                   |                   |                       |                       |
| <u>Fixed Supply Related</u>  |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| <u>Regulatory Assets (Deferred Debit/Credit)</u>   |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| NM 2 Sale  | 81,852                       | 0                  | (a)          | (27,619)                        | 0               |                   |                   |                       |                       |
| NM2 Mirror CWIP  | 18,746                       | 0                  | (a)          | (1,051)                         | 0               |                   |                   |                       |                       |
| Oswego 6 Sale  | 28,943                       | 0                  | (a)          | (6,476)                         | 0               |                   |                   |                       |                       |
| Allegheny Buyout   | <u>54,577</u>                | <u>0</u>           | (a)          | <u>(9,222)</u>                  | <u>0</u>        |                   |                   |                       |                       |
| <b>Subtotal Regulatory Assets</b>  | <b>184,118</b>               | <b>0</b>           |              | <b>(44,368)</b>                 | <b>0</b>        |                   |                   |                       |                       |
| <u>Decommissioning</u>   |                              |                    |              |                                 |                 |                   |                   |                       |                       |
| Russell Decommissioning  | 30,000                       | 0                  | (e)          | 0                               | 0               |                   |                   |                       |                       |
| Beebee Decommissioning   | <u>25,000</u>                | <u>0</u>           | (f)          | <u>0</u>                        | <u>0</u>        |                   |                   |                       |                       |
| <b>Increase Decommissioning Reserves</b>   | <b>55,000</b>                | <b>0</b>           |              | <b>0</b>                        | <b>0</b>        |                   |                   |                       |                       |
| <b>TOTAL FIXED SUPPLY RELATED</b>  | <b>239,118</b>               | <b>0</b>           |              | <b>(44,368)</b>                 | <b>0</b>        |                   |                   |                       |                       |
| <b>Associated Deferred Taxes (at 39.615 %)</b>   | <b>(94,727)</b>              | <b>0</b>           |              |                                 |                 |                   |                   |                       |                       |
| <b>NET POSITIVE BENEFITS ADJUSTMENT - SUPPLY</b>   | <b>\$ 144,391</b>            | <b>\$ -</b>        |              | <b>\$ (44,368)</b>              | <b>\$ -</b>     |                   |                   |                       |                       |
| <b>TOTAL SUPPLY &amp; DELIVERY</b>   | <b>\$ 311,769</b>            | <b>\$ 26,133</b>   |              | <b>\$ (48,468)</b>              | <b>\$ (600)</b> |                   |                   |                       |                       |
| <b>TOTAL SUPPLY &amp; DELIVERY DEFERRED TAXES</b>  | <b>\$ (123,507)</b>          | <b>\$ (10,353)</b> |              |                                 |                 |                   |                   |                       |                       |
| <b>TOTAL DELIVERY &amp; SUPPLY NET PBA</b>   | <b>\$ 188,262</b>            | <b>\$ 15,781</b>   |              | <b>\$ (48,468)</b>              | <b>\$ (600)</b> |                   |                   |                       |                       |

Notes

- (a) CY 2006 Regulatory Asset balances less 2 years of amortizations.  
(b) Regulatory Asset Balance at 12/31/07 (70% Electric and 30% Gas), accrual discontinued.  
(c) Balances per Annual Compliance Filings (CY 2004-2007)  
(d) Increase Storm Reserve by \$10 million and accrual remains at current level (\$2 million per year)  
(e) Fund estimated cost of Russell decommissioning costs for \$30 million.  
(f) Fund estimated cost of Beebee decommissioning cost for \$25 million

**New York State Electric & Gas Corporation**  
**Electric Revenue Requirement - Initial Brief**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Commission<br>Decision<br>2007 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--------------------------------|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Operating Revenues</b>              |                                |             |                                    |                         |                                    |                         |                                      |   |
| Sales Revenue                          | \$586,673                      |             |                                    | \$586,673               |                                    | \$586,673               | (\$41,778)                           | \$544,895                                 |
| Other Revenue                          | 30,467                         |             | 0                                  | 30,467                  |                                    | 30,467                  |                                      | 30,467                                    |
| Total Retail Revenue                   | 617,140                        |             | 0                                  | 617,140                 | 0                                  | 617,140                 | (41,778)                             | 575,362                                   |
| Late Payment Revenue                   | 4,870                          |             | 0                                  | 4,870                   |                                    | 4,870                   | (150)                                | 4,720                                     |
| Total Revenue                          | 622,010                        |             | 0                                  | 622,011                 | 0                                  | 622,011                 | (41,928)                             | 580,083                                   |
| <b>Operating Deductions</b>            |                                |             |                                    |                         |                                    |                         |                                      |   |
| Gross Revenue Taxes                    | 7,426                          |             | 0                                  | 7,426                   |                                    | 7,426                   | (553)                                | 6,873                                     |
| Total Operating Deductions             | 7,426                          |             | 0                                  | 7,426                   | 0                                  | 7,426                   | (553)                                | 6,873                                     |
| Gross Margin                           | 614,584                        |             | 0                                  | 614,585                 | 0                                  | 614,585                 | (41,375)                             | 573,210                                   |
| Total O & M Expenses                   | 301,383                        | (1)         | 2,500                              | 303,883                 | (3,500)                            | 300,383                 | (294)                                | 300,089                                   |
| <b>Depreciation/Amortization/Other</b> |                                |             |                                    |                         |                                    |                         |                                      |   |
| Depreciation                           | 83,488                         | (2)         | (6,824)                            | 76,664                  | 0                                  | 76,664                  | 0                                    | 76,664                                    |
| Other Income                           | 0                              |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Depreciation/Amortizations/Other | 83,488                         |             | (6,824)                            | 76,664                  | 0                                  | 76,664                  | 0                                    | 76,664                                    |
| <b>Taxes Other Than Income Taxes</b>   |                                |             |                                    |                         |                                    |                         |                                      |   |
| Property Taxes                         | 69,729                         |             | 0                                  | 69,729                  | 0                                  | 69,729                  | 0                                    | 69,729                                    |
| Payroll Taxes                          | 8,799                          |             | 0                                  | 8,799                   | 0                                  | 8,799                   | 0                                    | 8,799                                     |
| Other Taxes                            | 3,592                          |             | 0                                  | 3,592                   | 0                                  | 3,592                   | 0                                    | 3,592                                     |
| Total Taxes Other Than Income Taxes    | 82,120                         |             | 0                                  | 82,120                  | 0                                  | 82,120                  | 0                                    | 82,120                                    |
| Total Operating Revenue Deductions     | 466,991                        |             | (4,324)                            | 462,667                 | (3,500)                            | 459,167                 | (294)                                | 458,873                                   |
| Net Operating Revenues                 | 147,593                        |             | 4,324                              | 151,918                 | 3,500                              | 155,418                 | (41,081)                             | 114,337                                   |
| Other Income                           | 0                              |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| Net Operating Income Before SIT        | 147,593                        |             | 4,324                              | 151,918                 | 3,500                              | 155,418                 | (41,081)                             | 114,337                                   |
| State Income Taxes                     | 5,034                          | (3)         | 520                                | 5,554                   | 477                                | 6,031                   | (2,890)                              | 3,140                                     |
| Net Operating Income Before FIT        | 142,559                        |             | 3,804                              | 146,364                 | 3,023                              | 149,387                 | (38,191)                             | 111,197                                   |
| Federal Income Taxes                   | 37,736                         | (4)         | 3,739                              | 41,475                  | 2,206                              | 43,681                  | (13,366)                             | 30,315                                    |
| Net Income Available for Return        | \$104,823                      |             | \$65                               | \$104,889               | \$817                              | \$105,706               | (\$24,825)                           | \$80,882                                  |
| Rate Base                              | \$1,459,940                    | (5)         | (\$49,389)                         | \$1,410,550             | (\$116,635)                        | \$1,293,916             | \$0                                  | \$1,293,916                               |
| Rate of Return                         | 7.18%                          |             |                                    | 7.44%                   |                                    | 8.17%                   |                                      | 6.25%                                     |
| Return on Equity                       | 9.55%                          |             |                                    | 12.12%                  |                                    | 14.05%                  |                                      | 9.00%                                     |

**New York State Electric & Gas Corporation**  
**Schedule of Other Electric Operating Expenses**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Commission<br>Decision<br>2007 | Adj.<br>No.<br>1 | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--------------------------------|------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Operating &amp; Maintenance Expenses</b>    |                                |                  |                                    |                         |                                    |                         |                                      |   |
| Payroll  | 114,103                        |                  |                                    | 114,103                 |                                    | 114,103                 | 0                                    | 114,103                                   |
| Medical  | 11,439                         |                  |                                    | 11,439                  |                                    | 11,439                  | 0                                    | 11,439                                    |
| OPEB   | 12,776                         |                  |                                    | 12,776                  |                                    | 12,776                  | 0                                    | 12,776                                    |
| Pension  | (25,907)                       |                  |                                    | (25,907)                |                                    | (25,907)                | 0                                    | (25,907)                                  |
| Other Benefits                                 | 5,959                          |                  |                                    | 5,959                   |                                    | 5,959                   | 0                                    | 5,959                                     |
| EEMC & USS                                     | 38,015                         |                  | 0                                  | 38,015                  |                                    | 38,015                  | 0                                    | 38,015                                    |
| Storm Damage                                   | 7,479                          |                  |                                    | 7,479                   |                                    | 7,479                   | 0                                    | 7,479                                     |
| Legal  | 5,235                          |                  |                                    | 5,235                   |                                    | 5,235                   | 0                                    | 5,235                                     |
| Outside Services                               | 7,954                          |                  |                                    | 7,954                   |                                    | 7,954                   | 0                                    | 7,954                                     |
| Uncollectibles                                 | 9,764                          |                  | 0                                  | 9,764                   |                                    | 9,764                   | (294)                                | 9,470                                     |
| System benefit                                 | 27,898                         |                  |                                    | 27,898                  |                                    | 27,898                  | 0                                    | 27,898                                    |
| SIRC Reserve Accrual                           | 3,500                          | a                |                                    | 3,500                   | (3,500)                            | 0                       | 0                                    | 0   |
| Other  | 83,168                         | b                | 2,500                              | 85,668                  |                                    | 85,668                  | 0                                    | 85,668                                    |
| <b>Total O&amp;M Expense</b>                   | <b>301,383</b>                 |                  | <b>2,500</b>                       | <b>303,883</b>          | <b>(3,500)</b>                     | <b>300,383</b>          | <b>(294)</b>                         | <b>300,089</b>                            |
| <b>Amortizations</b>                           |                                |                  |                                    |                         |                                    |                         |                                      |   |
| Total Amortizations                            | 0                              |                  | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| <b>Total O&amp;M and Amortization Expenses</b> | <b>\$301,383</b>               |                  | <b>\$2,500</b>                     | <b>\$303,883</b>        | <b>(\$3,500)</b>                   | <b>\$300,383</b>        | <b>(\$294)</b>                       | <b>\$300,089</b>                          |

**New York State Electric & Gas Corporation**  
**Calculation of State Income Tax on Gas Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|   | Commission<br>Decision<br>2007 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--------------------------------|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Operating Income Before SIT</b>                | \$147,593                      |             | \$4,324                            | \$151,918               | \$3,500                            | \$155,418               | (\$41,081)                           | \$114,337                                 |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |                                |             |                                    |                         |                                    |                         |                                      |   |
| Interest Charges                                      | (46,560)                       | (3)         | 6,876                              | (39,684)                | 3,281                              | (36,403)                | 0                                    | (36,403)                                  |
| Tax/Book Depreciation                                 | (21,765)                       |             | 0                                  | (21,765)                |                                    | (21,765)                | 0                                    | (21,765)                                  |
| Cost of Removal                                       | (3,970)                        |             | 0                                  | (3,970)                 |                                    | (3,970)                 | 0                                    | (3,970)                                   |
| Other Differences                                     | (7,567)                        |             | 0                                  | (7,567)                 |                                    | (7,567)                 | 0                                    | (7,567)                                   |
| <b>Total Deductions</b>                               | <b>(79,862)</b>                |             | <b>6,876</b>                       | <b>(72,986)</b>         | <b>3,281</b>                       | <b>(69,705)</b>         | <b>0</b>                             | <b>(69,705)</b>                           |
| Subtotal  | 67,731                         |             | 11,200                             | 78,931                  | 6,781                              | 85,713                  | (41,081)                             | 44,632                                    |
| Business Allocation Percentage                        | 0.991                          |             | 0.991                              | 0.991                   | 0.991                              | 0.991                   | 0.991                                | 0.991                                     |
| <b>Taxable Income</b>                                 | <b>67,121</b>                  |             | <b>11,099</b>                      | <b>78,221</b>           | <b>6,720</b>                       | <b>84,941</b>           | <b>(40,711)</b>                      | <b>44,230</b>                             |
| State Income Tax @ 7.5%/7.1%                          | \$5,034                        |             | \$520                              | \$5,554                 | \$477                              | \$6,031                 | (\$2,890)                            | \$3,140                                   |
| <b>Adjustments to SIT</b>                             |                                |             |                                    |                         |                                    |                         |                                      |   |
| <b>Provision for Deferred SIT-Current Year</b>        |                                |             |                                    |                         |                                    |                         |                                      |   |
| Tax Depreciation & Other                              | 0                              |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <b>Total Provision for Deferred FIT -Current Yr</b>   | <b>0</b>                       |             | <b>0</b>                           | <b>0</b>                |                                    | <b>0</b>                | <b>0</b>                             | <b>0</b>                                  |
| <b>Net State Income Tax for Rate of Return</b>        | <b>\$5,034</b>                 |             | <b>\$520</b>                       | <b>\$5,554</b>          | <b>\$477</b>                       | <b>\$6,031</b>          | <b>(\$2,890)</b>                     | <b>\$3,140</b>                            |

**New York State Electric & Gas Corporation**  
**Calculation of Federal Income Tax on Gas Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
(\$000's)

|   | Commission<br>Decision<br>2007 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--------------------------------|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Operating Income Before FIT</b>                | \$142,559                      |             | \$3,804                            | \$146,364               | \$3,023                            | \$149,387               | (\$38,191)                           | \$111,197                                 |
| <b>Interest Deduction</b>                             |                                |             |                                    |                         |                                    |                         |                                      |   |
| Interest Expense                                      | 46,562                         | (4)         | (6,878)                            | 39,684                  | (3,281)                            | 36,403                  | 0                                    | 36,403                                    |
| Total Interest  | 46,562                         |             | (6,878)                            | 39,684                  | (3,281)                            | 36,403                  | 0                                    | 36,403                                    |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |                                |             |                                    |                         |                                    |                         |                                      |   |
| Tax Book Depreciation                                 | (8,763)                        |             | 0                                  | (8,763)                 |                                    | (8,763)                 | 0                                    | (8,763)                                   |
| Cost of Removal                                       | (3,970)                        |             | 0                                  | (3,970)                 |                                    | (3,970)                 | 0                                    | (3,970)                                   |
| Medicare subsidy                                      | (3,116)                        |             | 0                                  | (3,116)                 |                                    | (3,116)                 | 0                                    | (3,116)                                   |
| Other Differences                                     | (2,980)                        |             | 0                                  | (2,980)                 |                                    | (2,980)                 | 0                                    | (2,980)                                   |
| Total Deductions                                      | (18,829)                       |             | 0                                  | (18,829)                | 0                                  | (18,829)                | 0                                    | (18,829)                                  |
| <b>Taxable Income</b>                                 | 77,168                         |             | 10,682                             | 87,851                  | 6,304                              | 94,155                  | (38,191)                             | 55,965                                    |
| <b>Federal Income Tax - Current @ 35%</b>             | <b>\$27,009</b>                |             | <b>\$3,739</b>                     | <b>\$30,748</b>         | <b>\$2,206</b>                     | <b>\$32,954</b>         | <b>(\$13,366)</b>                    | <b>\$19,588</b>                           |
| <b>Deferred Federal Income Taxes</b>                  |                                |             |                                    |                         |                                    |                         |                                      |   |
| Accelerated Depreciation                              | 9,536                          |             | 0                                  | 9,536                   |                                    | 9,536                   | 0                                    | 9,536                                     |
| Fuel Credit   | (85)                           |             | 0                                  | (85)                    |                                    | (85)                    | 0                                    | (85)                                      |
| Other   | 1,276                          |             | 0                                  | 1,276                   |                                    | 1,276                   | 0                                    | 1,276                                     |
| Total Provision for Deferred FIT                      | <b>10,727</b>                  |             | <b>0</b>                           | <b>10,727</b>           | <b>0</b>                           | <b>10,727</b>           | <b>0</b>                             | <b>10,727</b>                             |
| <b>Net Federal Income Tax for Rate of Return</b>      | <b>\$37,736</b>                |             | <b>\$3,739</b>                     | <b>\$41,475</b>         | <b>\$2,206</b>                     | <b>\$43,681</b>         | <b>(\$13,366)</b>                    | <b>\$30,315</b>                           |

**New York State Electric & Gas Corporation**  
**Electric Rate Base Summary**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Commission<br>Decision<br>2007 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--------------------------------|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Utility Plant</b>                     |                                |             |                                    |                         |                                    |                         |                                      |   |
| Plant in Service                             | \$1,510,086                    | 5 a)        | (\$49,700)                         | \$1,460,386             |                                    | \$1,460,386             | \$0                                  | \$1,460,386                               |
| NIB Customer Advances                        | (2,581)                        |             | 0                                  | (2,581)                 |                                    | (2,581)                 | 0                                    | (2,581)                                   |
| <b>Total Net Utility Plant</b>               | <b>1,507,505</b>               |             | <b>(49,700)</b>                    | <b>1,457,805</b>        | <b>0</b>                           | <b>1,457,805</b>        | <b>0</b>                             | <b>1,457,805</b>                          |
| <b>Working Capital O&amp;M</b>               |                                |             |                                    |                         |                                    |                         |                                      |   |
| Working Capital O&M                          | 35,546                         | 5 b)        | 311                                | 35,857                  | (438)                              | 35,420                  | 0                                    | 35,420                                    |
| Materials & Supplies                         | 5,907                          |             |                                    | 5,907                   |                                    | 5,907                   | 0                                    | 5,907                                     |
| Prepayments                                  | 30,859                         |             |                                    | 30,859                  |                                    | 30,859                  | 0                                    | 30,859                                    |
| Deferred Investment Tax Credit               | 0                              |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <b>Total Working Capital</b>                 | <b>72,312</b>                  |             | <b>311</b>                         | <b>72,623</b>           | <b>(438)</b>                       | <b>72,186</b>           | <b>0</b>                             | <b>72,186</b>                             |
| <b>Deferred Debits (Credits)</b>             | <b>302,752</b>                 | <b>5 c)</b> | <b>0</b>                           | <b>302,752</b>          | <b>(116,197)</b>                   | <b>186,555</b>          | <b>0</b>                             | <b>186,555</b>                            |
| <b>Accumulated Deferred Income Taxes</b>     | <b>(420,958)</b>               |             | <b>0</b>                           | <b>(420,958)</b>        |                                    | <b>(420,958)</b>        | <b>0</b>                             | <b>(420,958)</b>                          |
| <b>Excess Capitalization (Earnings Base)</b> | <b>(1,671)</b>                 |             | <b>0</b>                           | <b>(1,671)</b>          |                                    | <b>(1,671)</b>          | <b>0</b>                             | <b>(1,671)</b>                            |
| <b>Rate Base</b>                             | <b>\$1,459,940</b>             |             | <b>(\$49,389)</b>                  | <b>\$1,410,550</b>      | <b>(\$116,635)</b>                 | <b>\$1,293,916</b>      | <b>\$0</b>                           | <b>\$1,293,916</b>                        |

C. 07-M-0906

New York State Electric & Gas Corporation  
Summary of Cash Working Capital Allowance  
For the Staff Adjusted Year Ending December 31, 2006  
(\$000's)

|  | Commission<br>Decision<br>2007 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--------------------------------|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| Total Departmental Expenses                  | \$301,383                      |             | \$2,500                            | \$303,883               | (\$3,500)                          | \$300,383               | \$0                                  | \$300,383                                 |
| R&D Expenses                                 |                                |             |                                    |                         |                                    | 0                       |                                      | 0   |
| Sub-total                                    | 301,383                        |             | 2,500                              | 303,883                 | (3,500)                            | 300,383                 | 0                                    | 300,383                                   |
| Adjustments:                                 |                                |             |                                    |                         |                                    |                         |                                      |   |
| Transmission                                 | 7,254                          |             | 0                                  | 7,254                   |                                    | 7,254                   | 0                                    | 7,254                                     |
| Uncollectible Accounts                       | 9,773                          |             | 0                                  | 9,773                   |                                    | 9,773                   | 0                                    | 9,773                                     |
| Total Adjustments                            | 17,027                         |             | 0                                  | 17,027                  | 0                                  | 17,027                  | 0                                    | 17,027                                    |
| Adjusted total subject to Cash W/C Allowance | 284,356                        |             | 2,500                              | 286,856                 | (3,500)                            | 283,356                 | 0                                    | 283,356                                   |
| Total Cash W/C Allowance - 1/8 (45 days)     | \$35,545                       |             | \$313                              | \$35,857                | (\$438)                            | \$35,420                | \$0                                  | \$35,420                                  |

New York State Electric and Gas Corporation  
Staff Indicated Cost of Capital  
For the Staff Adjusted Year Ending December 31, 2006  
(\$000's)

| CAPITAL CATEGORY  | Percent | Cost Rate | Weighted<br>Cost |
|-------------------|---------|-----------|------------------|
| Long-Term Debt    | 60.82%  | 4.58%     | 2.79%            |
| Long-Term Debt    |         |           |                  |
| Customer Deposits | 0.74%   | 3.76%     | 0.03%            |
| Preferred Stock   | 0.44%   | 3.90%     | 0.02%            |
| Common Equity     | 38.00%  | 9.00%     | 3.42%            |
| TOTAL             | 100.00% |           | 6.25%            |

**New York State Electric and Gas Corporation**  
**Computation of Revenue Requirement**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  |                      |
|--|----------------------|
|  | <b>Per<br/>Staff</b> |
| Average Rate Base                          | <u>\$1,293,916</u>   |
| Rate of Return on Rate Base                | 6.25%                |
| Required Net Income                        | <u>80,883</u>        |
| Net Income before Revenue Requirement      | 105,706              |
| Earnings Deficiency (Surplus)              | <u>(24,823)</u>      |
| Retention ("Gross-Up") Factor (from below) | 59.42%               |
| Revenue Increase (Decrease)                | <u>(\$41,778)</u>    |

|   | <b>Percentages</b> | <b>Revenue<br/>Requirement</b> |
|---|--------------------|--------------------------------|
| Calculation of Retention ("Gross-Up") Factor: |                    |                                |
| Sales Revenues                                | 100.00%            | (\$41,778)                     |
| Late Payment Charges                          | 0.36%              | (150)                          |
| Revenue Taxes                                 | 1.32%              | (553)                          |
| Uncollectibles                                | 0.70%              | (294)                          |
| Retention Factor before Federal Income Tax    | <u>98.33%</u>      | <u>(41,081)</u>                |
| State Income Tax @7.10                        | 6.92%              | (2,890)                        |
| Federal Income Tax @ 35%                      | <u>31.99%</u>      | <u>(13,366)</u>                |
| Retention Factor                              | <u>59.42%</u>      | <u>(\$24,823)</u>              |

**New York State Electric & Gas Corporation**  
**Summary of Interest Expense Deduction**  
**For the Rate Year Ending December 31, 2007**  
**(\$000's)**

| <u>Calculation of Regulated Earnings Base</u> | <u>Commission</u>  | <u>Adjustments</u> | <u>As Adjusted<br/>by Staff</u> |
|---|--------------------|--------------------|---------------------------------|
| Rate Base                                     | \$1,459,940        | (\$49,389)         | \$1,410,551                     |
| Plus: Interest Bearing CWIP                   | 0                  | 0                  | 0                               |
| Sub-total                                     | <u>1,459,940</u>   | <u>(49,389)</u>    | <u>1,410,551</u>                |
| Less: Short Term Debt                         | 0                  | 0                  | 0                               |
| Regulated Earnings Base                       | <u>\$1,459,940</u> | <u>(\$49,389)</u>  | <u>\$1,410,551</u>              |

Calculation of Interest Deduction:

REGULATORY ADJUSTED

Capital Structure

|                           | <u>Reg Adjust<br/>Per<br/>Staff</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|-------------------------------------|----------------|------------------|---|
| Long-Term Debt - Embedded | \$1,410,551                         | 60.82%         | 4.58%            | \$39,292                                    |
| Customer Deposits         | 1,410,551                           | 0.74%          | 3.76%            | 392   |
| Long-Term Debt - Imputed  | 1,410,551                           | 0.00%          | 0.00%            | 0   |
| Preferred Stock           | 1,410,551                           | 0.44%          |                  |   |
| Common Equity             | 1,410,551                           | 38.00%         |                  |   |
| Sub total                 |                                     | <u>100.0%</u>  | <u>8.34%</u>     | <u>39,684</u>                               |
|                           |                                     |                |                  | 0   |
| Interest Deduction        |                                     |                |                  | <u>\$39,684</u>                             |

Calculation of Interest Deduction:

REGULATORY ADJUSTED

Capital Structure

|                           | <u>Reg Adjust<br/>Per<br/>Staff</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|-------------------------------------|----------------|------------------|---|
| Long-Term Debt - Embedded | \$1,293,916                         | 60.82%         | 4.58%            | \$36,043                                    |
| Customer Deposits         | \$1,293,916                         | 0.74%          | 3.76%            | 360   |
| Long-Term Debt - Imputed  | \$1,293,916                         | 0.00%          | 0.00%            | 0   |
| Preferred Stock           | \$1,293,916                         | 0.44%          |                  |   |
| Common Equity             | \$1,293,916                         | 38.00%         |                  |   |
| Sub total                 |                                     | <u>100.0%</u>  | <u>8.34%</u>     | <u>36,403</u>                               |
|                           |                                     |                |                  | 0   |
| Interest Deduction        |                                     |                |                  | <u>\$36,403</u>                             |

**New York State Electric and Gas Corporation  
Summary of Adjustments - Initial Brief  
For the Rate Year Ending December 31, 2007  
(\$000's)**

| Adj. | <u>No.</u> <u>Explanation</u>  | <u>\$ Amount</u>        |
|------|--|-------------------------|
|      | <b>1 <u>O&amp;M EXPENSES</u></b>   |                         |
|      | a) remove SIR cost - full reserve  | (3,500)                 |
|      | b) reflect full amount of low income power partner cost                  | 2,500                   |
|      | <b>2 <u>Depreciation</u></b>   |                         |
|      | To eliminate depreciation on Customer Care System software.              | (6,824)                 |
|      | <b>3 <u>STATE INCOME TAXES</u></b>                                       |                         |
|      | To track interest expense calculation associated with other adjustments. | (6,878)                 |
|      | <b>4 <u>FEDERAL INCOME TAXES</u></b>                                     |                         |
|      | To track interest expense calculation associated with other adjustments. | (6,878)                 |
|      | <b>5 <u>RATE BASE</u></b>  |                         |
|      | a) <b><u>Plant-In-Service</u></b>  |                         |
|      | To reflect elimination of CCS software (net of tax)                      | (49,700)                |
|      | <b><u>Cash Working Capital - Delivery</u></b>                            |                         |
|      | b) To track adjustments to O&M Expenses.                                 | 311                     |
|      | b) To track adjustments to O&M Expenses.                                 | (438)                   |
|      | c) <b><u>Deferred Debits/Credits - Net of Tax</u></b>                    |                         |
|      | Storm Damage Reserve   | (30,193)                |
|      | Loss on Reacquired Debt  | (14,258)                |
|      | Low Income and MTA Surcharge   | (2,295)                 |
|      | Site Remediation   | (53,686)                |
|      | Stray Voltage  | (15,767)                |
|      | <b>Total Deferred Debits/Credits</b>                                     | <b><u>(116,197)</u></b> |

**New York State Electric & Gas Corporation**  
**Gas Revenue Requirement - Initial Brief**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Operating Revenues</b>              |  |             |                                    |                         |                                    |                         |                                      |   |
| Residential                            | \$129,811  |             |                                    | \$129,811               |                                    | \$129,811               | (\$18,375)                           | \$111,436                                 |
| Miscellaneous                          | 567  | (1)         | 1,847                              | 2,414                   |                                    | 2,414                   |                                      | 2,414                                     |
| Total Retail Revenue                   | 130,378  |             | 1,847                              | 132,225                 | 0                                  | 132,225                 | (18,375)                             | 113,850                                   |
| Other Revenue                          | 23,324   |             | 0                                  | 23,324                  |                                    | 23,324                  | (66)                                 | 23,258                                    |
| Total Revenue                          | 153,702  |             | 1,847                              | 155,550                 | 0                                  | 155,550                 | (18,441)                             | 137,109                                   |
| <b>Operating Deductions</b>            |  |             |                                    |                         |                                    |                         |                                      |   |
| Gross Revenue Taxes                    | 0  |             | 0                                  | 0                       |                                    | 0                       | (243)                                | (243)                                     |
| Total Operating Deductions             | 0  |             | 0                                  | 0                       | 0                                  | 0                       | (243)                                | (243)                                     |
| Gross Margin                           | 153,702  |             | 1,847                              | 155,550                 | 0                                  | 155,550                 | (18,198)                             | 137,352                                   |
| Total O & M Expenses                   | 47,308   | (2)         | 8,915                              | 56,223                  | (1,250)                            | 54,973                  | (130)                                | 54,843                                    |
| <b>Depreciation/Amortization/Other</b> |  |             |                                    |                         |                                    |                         |                                      |   |
| Depreciation                           | 20,882   | (3)         | (3,219)                            | 17,663                  |                                    | 17,663                  | 0                                    | 17,663                                    |
| Other Income TCI                       | (656)  | (4)         | 656                                | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Depreciation/Amortizations/Other | 20,226   |             | (2,563)                            | 17,663                  | 0                                  | 17,663                  | 0                                    | 17,663                                    |
| <b>Taxes Other Than Income Taxes</b>   |  |             |                                    |                         |                                    |                         |                                      |   |
| Property Taxes                         | 18,008   |             | 0                                  | 18,008                  |                                    | 18,008                  | 0                                    | 18,008                                    |
| Payroll Taxes                          | 2,115  |             | 0                                  | 2,115                   |                                    | 2,115                   | 0                                    | 2,115                                     |
| Other Taxes                            | 3,476  |             | 0                                  | 3,476                   |                                    | 3,476                   | 0                                    | 3,476                                     |
| Total Taxes Other Than Income Taxes    | 23,599   |             | 0                                  | 23,599                  | 0                                  | 23,599                  | 0                                    | 23,599                                    |
| Total Operating Revenue Deductions     | 91,133   |             | 6,352                              | 97,485                  | (1,250)                            | 96,235                  | (130)                                | 96,105                                    |
| Net Operating Revenues                 | 62,569   |             | (4,505)                            | 58,065                  | 1,250                              | 59,315                  | (18,068)                             | 41,247                                    |
| Other Income                           | 0  |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| Net Operating Income Before SIT        | 62,569   |             | (4,505)                            | 58,065                  | 1,250                              | 59,315                  | (18,068)                             | 41,247                                    |
| State Income Taxes                     | 2,265  | (5)         | (98)                               | 2,167                   | 129                                | 2,296                   | (1,271)                              | 1,025                                     |
| Net Operating Income Before FIT        | 60,304   |             | (4,407)                            | 55,898                  | 1,121                              | 57,019                  | (16,797)                             | 40,222                                    |
| Federal Income Taxes                   | 13,344   | (6)         | 150                                | 13,494                  | 596                                | 14,090                  | (5,879)                              | 8,211                                     |
| Net Income Available for Return        | \$46,960   |             | (\$4,557)                          | \$42,404                | \$525                              | \$42,929                | (\$10,918)                           | \$32,011                                  |
| Rate Base                              | \$621,390  | (7)         | (\$88,616)                         | \$532,774               | (\$20,680)                         | \$512,095               | \$0                                  | \$512,095                                 |
| Rate of Return                         | 7.56%  |             |                                    | 7.96%                   |                                    | 8.38%                   |                                      | 6.25%                                     |
| Return on Equity                       | 10.04%   |             |                                    | 13.49%                  |                                    | 14.61%                  |                                      | 9.00%                                     |

0

**New York State Electric & Gas Corporation**  
**Schedule of Other Gas Operating Expenses**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b><u>Operating &amp; Maintenance Expenses</u></b> |  |             |                                    |                         |                                    |                         |                                      |   |
| Payroll  | 28,091   |             |                                    | 28,091                  |                                    | 28,091                  | 0                                    | 28,091                                    |
| Medical  | 2,966  |             |                                    | 2,966                   |                                    | 2,966                   | 0                                    | 2,966                                     |
| OPEB   | 3,529  |             |                                    | 3,529                   |                                    | 3,529                   | 0                                    | 3,529                                     |
| Pension  | (5,816)  |             |                                    | (5,816)                 |                                    | (5,816)                 | 0                                    | (5,816)                                   |
| Other Benefits                                     | 1,440  |             |                                    | 1,440                   |                                    | 1,440                   | 0                                    | 1,440                                     |
| EEMC   | 6,298  | 2 a)        | (304)                              | 5,994                   |                                    | 5,994                   | 0                                    | 5,994                                     |
| SERP   | 221  |             |                                    | 221                     |                                    | 221                     | 0                                    | 221                                       |
| Legal  | 795  |             |                                    | 795                     |                                    | 795                     | 0                                    | 795                                       |
| Outside Services                                   | 4,446  |             |                                    | 4,446                   |                                    | 4,446                   | 0                                    | 4,446                                     |
| Uncollectibles                                     | 8,303  |             |                                    | 8,303                   |                                    | 8,303                   | (185)                                | 8,118                                     |
| Seneca Storage Allocation                          | (526)  |             |                                    | (526)                   |                                    | (526)                   | 0                                    | (526)                                     |
| SIRC Reserve Accrual                               | 1,250  | 2 b)        |                                    | 1,250                   | (1,250)                            | 0                       | 0                                    | 0   |
| Other  | (3,689)  | 2 c)        | 9,219                              | 5,530                   |                                    | 5,530                   | 0                                    | 5,530                                     |
| <b>Total O&amp;M Expense</b>                       | <b><u>47,308</u></b>                               |             | <b><u>8,915</u></b>                | <b><u>56,223</u></b>    | <b><u>(1,250)</u></b>              | <b><u>54,973</u></b>    | <b><u>(185)</u></b>                  | <b><u>54,788</u></b>                      |
| <b><u>Amortizations</u></b>                        |  |             |                                    |                         |                                    |                         |                                      |   |
| Total Amortizations                                | 0  |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| <b>Total O&amp;M and Amortization Expenses</b>     | <b><u>\$47,308</u></b>                             |             | <b><u>\$8,915</u></b>              | <b><u>\$56,223</u></b>  | <b><u>(\$1,250)</u></b>            | <b><u>\$54,973</u></b>  | <b><u>(\$185)</u></b>                | <b><u>\$54,788</u></b>                    |

**New York State Electric & Gas Corporation**  
**Calculation of State Income Tax on Gas Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Operating Income Before SIT</b>                       | \$62,569   |             | (\$4,505)                          | \$58,065                | \$1,250                            | \$59,315                | (\$18,068)                           | \$41,247                                  |
| <b><u>Additional Deductions &amp; Non-Taxable Income</u></b> |  |             |                                    |                         |                                    |                         |                                      |   |
| Interest Charges   | (19,823)   | 5           | 4,834                              | (14,989)                | 582                                | (14,407)                | 0                                    | (14,407)                                  |
| Tax/Book Depreciation  | (10,776)   |             | 0                                  | (10,776)                |                                    | (10,776)                | 0                                    | (10,776)                                  |
| Cost of Removal  | (1,497)  |             | 0                                  | (1,497)                 |                                    | (1,497)                 | 0                                    | (1,497)                                   |
| Other Differences  | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <b>Total Deductions</b>                                      | <b>(32,096)</b>                                    |             | <b>4,834</b>                       | <b>(27,262)</b>         | <b>582</b>                         | <b>(26,680)</b>         | <b>0</b>                             | <b>(26,680)</b>                           |
| Subtotal   | 30,473   |             | 329                                | 30,803                  | 1,832                              | 32,634                  | (18,068)                             | 14,566                                    |
| Business Allocation Percentage                               | 0.991  |             | 0.991                              | 0.991                   | 0.991                              | 0.991                   | 0.991                                | 0.991                                     |
| Taxable Income   | 30,199   |             | 326                                | 30,525                  | 1,815                              | 32,341                  | (17,905)                             | 14,435                                    |
| State Income Tax @ 7.5%/7.1%                                 | \$2,265  |             | (\$98)                             | \$2,167                 | \$129                              | \$2,296                 | (\$1,271)                            | \$1,025                                   |
| <b><u>Adjustments to SIT</u></b>                             |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Provision for Deferred SIT-Current Year</b>               |  |             |                                    |                         |                                    |                         |                                      |   |
| Tax Depreciation & Other                                     | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <b>Total Provision for Deferred FIT -Current Yr</b>          | <b>0</b>   |             | <b>0</b>                           | <b>0</b>                |                                    | <b>0</b>                | <b>0</b>                             | <b>0</b>                                  |
| <b>Net State Income Tax for Rate of Return</b>               | <b>\$2,265</b>                                     |             | <b>(\$98)</b>                      | <b>\$2,167</b>          | <b>\$129</b>                       | <b>\$2,296</b>          | <b>(\$1,271)</b>                     | <b>\$1,025</b>                            |

**New York State Electric & Gas Corporation**  
**Calculation of Federal Income Tax on Gas Operating Income**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|   | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|---|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Operating Income Before FIT</b>                | \$60,304   |             | (\$4,407)                          | \$55,898                | \$1,121                            | \$57,019                | (\$16,797)                           | \$40,222                                  |
| <b>Interest Deduction</b>                             |  |             |                                    |                         |                                    |                         |                                      |   |
| Interest Expense                                      | 19,823   | 6           | (4,834)                            | 14,989                  | (582)                              | 14,407                  | 0                                    | 14,407                                    |
| Total Interest  | 19,823   |             | (4,834)                            | 14,989                  | (582)                              | 14,407                  | 0                                    | 14,407                                    |
| <b>Additional Deductions &amp; Non-Taxable Income</b> |  |             |                                    |                         |                                    |                         |                                      |   |
| Tax Book Depreciation                                 | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Cost of Removal                                       | (1,497)  |             | 0                                  | (1,497)                 |                                    | (1,497)                 | 0                                    | (1,497)                                   |
| Federal Effect of DSIT                                | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Other Differences                                     | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Deductions                                      | (1,497)  |             | 0                                  | (1,497)                 | 0                                  | (1,497)                 | 0                                    | (1,497)                                   |
| <b>Taxable Income</b>                                 | 38,984   |             | 427                                | 39,412                  | 1,703                              | 41,115                  | (16,797)                             | 24,318                                    |
| <b>Federal Income Tax - Current @ 35%</b>             | <u>\$13,644</u>                                    |             | <u>\$149</u>                       | <u>\$13,794</u>         | <u>\$596</u>                       | <u>\$14,390</u>         | <u>(\$5,879)</u>                     | <u>\$8,511</u>                            |
| <b>Deferred Federal Income Taxes</b>                  |  |             |                                    |                         |                                    |                         |                                      |   |
| Accelerated Depreciation                              | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Federal Income Tax Adjustment                         | (300)  |             | 0                                  | (300)                   |                                    | (300)                   | 0                                    | (300)                                     |
| Other   | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Provision for Deferred FIT                      | <u>(300)</u>                                       |             | <u>0</u>                           | <u>(300)</u>            | <u>0</u>                           | <u>(300)</u>            | <u>0</u>                             | <u>(300)</u>                              |
| <b>Net Federal Income Tax for Rate of Return</b>      | <u>\$13,344</u>                                    |             | <u>\$149</u>                       | <u>\$13,494</u>         | <u>\$596</u>                       | <u>\$14,090</u>         | <u>(\$5,879)</u>                     | <u>\$8,211</u>                            |

**New York State Electric & Gas Corporation**  
**Gas Rate Base Summary**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| <b>Net Utility Plant</b>                     |  |             |                                    |                         |                                    |                         |                                      |   |
| Plant in Service                             | \$524,103  | 7 a)        | (\$10,507)                         | \$513,596               |                                    | \$513,596               | \$0                                  | \$513,596                                 |
| NIB Customer Advances                        | (1,004)  |             | 0                                  | (1,004)                 |                                    | (1,004)                 | 0                                    | (1,004)                                   |
| <b>Total Net Utility Plant</b>               | <b>523,099</b>                                     |             | <b>(10,507)</b>                    | <b>512,592</b>          | <b>0</b>                           | <b>512,592</b>          | <b>0</b>                             | <b>512,592</b>                            |
| <br>   |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Working Capital O&amp;M</b>               | 4,909  | 7 b)        | 2,119                              | 7,028                   | (156)                              | 6,872                   | 0                                    | 6,872                                     |
| Materials & Supplies                         | 50,849   |             |                                    | 50,849                  |                                    | 50,849                  | 0                                    | 50,849                                    |
| Prepayments                                  | 8,043  |             |                                    | 8,043                   |                                    | 8,043                   | 0                                    | 8,043                                     |
| Deferred Investment Tax Credit               | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| <b>Total Working Capital</b>                 | <b>63,801</b>                                      |             | <b>2,119</b>                       | <b>65,920</b>           | <b>(156)</b>                       | <b>65,764</b>           | <b>0</b>                             | <b>65,764</b>                             |
| <br>   |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Deferred Debits (Credits)</b>             | 109,182  | 7 c)        | (28,571)                           | 80,611                  | (20,524)                           | 60,087                  | 0                                    | 60,087                                    |
| <br>   |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Accumulated Deferred Income Taxes</b>     | (126,347)  |             | 0                                  | (126,347)               |                                    | (126,347)               | 0                                    | (126,347)                                 |
| <br>   |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Excess Capitalization (Earnings Base)</b> | 51,655   | 7 d)        | (51,655)                           | 0                       |                                    | 0                       | 0                                    | 0   |
| <br>   |  |             |                                    |                         |                                    |                         |                                      |   |
| <b>Rate Base</b>                             | <b><u>\$621,390</u></b>                            |             | <b><u>(\$88,616)</u></b>           | <b><u>\$532,774</u></b> | <b><u>(\$20,680)</u></b>           | <b><u>\$512,095</u></b> | <b><u>\$0</u></b>                    | <b><u>\$512,095</u></b>                   |

C. 07-M-0906

New York State Electric & Gas Corporation  
Summary of Cash Working Capital Allowance  
For the Staff Adjusted Year Ending December 31, 2006  
(\$000's)

|  | Per Company<br>Annual<br>Compliance<br>Filing 2006 | Adj.<br>No. | Staff<br>Regulatory<br>Adjustments | As Adjusted<br>By Staff | Positive<br>Benefit<br>Adjustments | As Adjusted<br>by Staff | Revenue<br>Requirement<br>Adjustment | As Adjusted<br>For Revenue<br>Requirement |
|--|--|-------------|------------------------------------|-------------------------|------------------------------------|-------------------------|--------------------------------------|---|
| Total Departmental Expenses                  | \$47,308   |             | \$8,915                            | \$56,223                | (\$1,250)                          | \$54,973                | \$0                                  | \$54,973                                  |
| R&D Expenses                                 |  |             |                                    |                         |                                    | 0                       |                                      | 0   |
| Sub-total                                    | 47,308   |             | 8,915                              | 56,223                  | (1,250)                            | 54,973                  | 0                                    | 54,973                                    |
| Adjustments:                                 |  |             |                                    |                         |                                    |                         |                                      |   |
| Transmission                                 | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Uncollectible Accounts                       | 0  |             | 0                                  | 0                       |                                    | 0                       | 0                                    | 0   |
| Total Adjustments                            | 0  |             | 0                                  | 0                       | 0                                  | 0                       | 0                                    | 0   |
| Adjusted total subject to Cash W/C Allowance | 47,308   |             | 8,915                              | 56,223                  | (1,250)                            | 54,973                  | 0                                    | 54,973                                    |
| Total Cash W/C Allowance - 1/8 (45 days)     | \$5,914  |             | \$1,114                            | \$7,028                 | (\$156)                            | \$6,872                 | \$0                                  | \$6,872                                   |

New York State Electric & Gas Corporation  
Staff Indicated Cost of Capital  
For the Staff Adjusted Year Ending December 31, 2006  
(\$000's)

| CAPITAL CATEGORY  | Percent | Cost Rate | Weighted<br>Cost |
|-------------------|---------|-----------|------------------|
| Long-Term Debt    | 60.82%  | 4.58%     | 2.79%            |
| Long-Term Debt    |         |           |                  |
| Customer Deposits | 0.74%   | 3.76%     | 0.03%            |
| Preferred Stock   | 0.44%   | 3.90%     | 0.02%            |
| Common Equity     | 38.00%  | 9.00%     | 3.42%            |
| TOTAL             | 100.00% |           | 6.25%            |

**New York State Electric and Gas Corporation**  
**Computation of Revenue Requirement**  
**For the Staff Adjusted Year Ending December 31, 2006**  
**(\$000's)**

|   |                          |
|---|--------------------------|
|   | <b>Per<br/>Staff</b>     |
| <b>Average Rate Base</b>                          | <u>\$512,095</u>         |
| <b>Rate of Return on Rate Base</b>                | 6.25%                    |
| <b>Required Net Income</b>                        | <u>32,011</u>            |
| <b>Net Income before Revenue Requirement</b>      | 42,929                   |
| <b>Earnings Deficiency (Surplus)</b>              | <u>(10,918)</u>          |
| <b>Retention ("Gross-Up") Factor (from below)</b> | 59.42%                   |
| <b>Revenue Increase (Decrease)</b>                | <u><u>(\$18,375)</u></u> |

|  |                      |                                |
|--|----------------------|--------------------------------|
|  | <b>Percentages</b>   | <b>Revenue<br/>Requirement</b> |
| <b>Calculation of Retention ("Gross-Up") Factor:</b> |                      |                                |
| <b>Sales Revenues</b>                                | 100.00%              | (\$18,375)                     |
| <b>Late Payment Charges</b>                          | 0.36%                | (66)                           |
| <b>Revenue Taxes</b>                                 | 1.32%                | (243)                          |
| <b>Uncollectibles</b>                                | 0.70%                | (130)                          |
| <b>Retention Factor before Federal Income Tax</b>    | <u>98.33%</u>        | <u>(18,068)</u>                |
| <b>State Income Tax @7.10</b>                        | 6.92%                | (1,271)                        |
| <b>Federal Income Tax @ 35%</b>                      | <u>31.99%</u>        | <u>(5,879)</u>                 |
| <b>Retention Factor</b>                              | <u><u>59.42%</u></u> | <u><u>(\$10,918)</u></u>       |

**New York State Electric & Gas Corporation**  
**Summary of Interest Expense Deduction**  
**For the Rate Year Ending December 31, 2007**  
**(\$000's)**

| <u>Calculation of Regulated Earnings Base</u> | <u>Per Company<br/>2006 ACF</u> | <u>Adjustments</u> | <u>As Adjusted<br/>by Staff</u> |
|---|---------------------------------|--------------------|---------------------------------|
| Rate Base                                     | \$621,390                       | (\$88,616)         | \$512,095                       |
| Plus: Interest Bearing CWIP                   | 0                               | 0                  | 0                               |
| Sub-total                                     | <u>621,390</u>                  | <u>(88,616)</u>    | <u>532,774</u>                  |
| Less: Short Term Debt                         | 0                               | 0                  | 0                               |
| Regulated Earnings Base                       | <u>\$621,390</u>                | <u>(\$88,616)</u>  | <u>\$532,774</u>                |

Calculation of Interest Deduction:

| <u>Capital Structure</u>  | <u>REG ADJ<br/>Per<br/>Staff</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|----------------------------------|----------------|------------------|---|
| Long-Term Debt - Embedded | \$532,774                        | 60.82%         | 4.58%            | \$14,841                                    |
| Customer Deposits         | 532,774                          | 0.74%          | 3.76%            | 148   |
| Long-Term Debt - Imputed  | 532,774                          | 0.00%          | 0.00%            | 0   |
| Preferred Stock           | 532,774                          | 0.44%          |                  |   |
| Common Equity             | 532,774                          | 38.00%         |                  |   |
| Sub total                 |                                  | <u>100.00%</u> | <u>8.34%</u>     | <u>14,989</u>                               |
|                           |                                  |                |                  | 0   |
| Interest Deduction        |                                  |                |                  | <u>\$14,989</u>                             |

Calculation of Interest Deduction:

| <u>Capital Structure</u>  | <u>PBA ADJ<br/>Per<br/>Staff</u> | <u>Percent</u> | <u>Cost Rate</u> | <u>Interest<br/>Deduction Per<br/>Staff</u> |
|---------------------------|----------------------------------|----------------|------------------|---|
| Long-Term Debt - Embedded | \$512,095                        | 60.82%         | 4.58%            | \$14,265                                    |
| Customer Deposits         | \$512,095                        | 0.74%          | 3.76%            | 142   |
| Long-Term Debt - Imputed  | \$512,095                        | 0.00%          | 0.00%            | 0   |
| Preferred Stock           | \$512,095                        | 0.44%          |                  |   |
| Common Equity             | \$512,095                        | 38.00%         |                  |   |
| Sub total                 |                                  | <u>100.00%</u> | <u>8.34%</u>     | <u>14,407</u>                               |
|                           |                                  |                |                  | 0   |
| Interest Deduction        |                                  |                |                  | <u>\$14,407</u>                             |

**New York State Electric and Gas Corporation  
Summary of Adjustments  
For the Rate Year Ending December 31, 2006  
(\$000's)**

| Adj.<br>No. | <u>Explanation</u>  | <u>\$ Amount</u> |
|-------------|---|------------------|
| 1           | <b><u>Miscellaneous Revenues</u></b><br>To eliminate GCIM   | <u>1,847</u>     |
| 2           | <b><u>O&amp;M EXPENSES</u></b>  |                  |
| a)          | EEMC - To eliminate Incentive Compensation payments.  | <u>(304)</u>     |
| b)          | Eliminate SIR costs due to full funding   | <u>(1,250)</u>   |
| c)          | Eliminate regulatory credits (OPEB interest & pension deferral)   | <u>9,219</u>     |
| 3           | <b><u>Depreciation</u></b><br>To eliminate depreciation on software.  | <u>(3,219)</u>   |
| 4           | <b><u>To eliminate TCI Income</u></b>   | <u>656</u>       |
| 5           | <b><u>STATE INCOME TAXES</u></b><br>To track interest expense calculation associated with other adjustments.                    | <u>4,834</u>     |
| 5           | <b><u>FEDERAL INCOME TAXES</u></b><br>To track interest expense calculation associated with other adjustments.                  | <u>4,834</u>     |
| 6           | <b><u>RATE BASE</u></b>   |                  |
| a)          | <b><u>Plant-In-Service</u></b><br>To eliminate software in rate base (net of tax).  | <u>(10,507)</u>  |
|             | <b><u>Cash Working Capital - Delivery</u></b>   |                  |
| b)          | To track adjustments to O&M Expenses.   | <u>2,119</u>     |
| b)          | To track adjustments to O&M Expenses.   | <u>(156)</u>     |
| c)          | <b><u>Deferred Debits/Credits - Net of Tax</u></b><br>Reflect OPEB reserve in rate base - eliminate OPEB interest credit to O&M | <u>(28,571)</u>  |
|             | <b><u>Positive Benefit Adjustments</u></b>  |                  |
|             | Loss on Reacquired Debt   | (4,174)          |
|             | Sabanes Oxley & other minor gas deferrals   | (785)            |
|             | Site Remediation  | (14,185)         |
|             | 2006 Flood  | (1,380)          |
|             | Total Deferred Debits/Credits   | <u>(20,524)</u>  |
| d)          | <b><u>EBCap</u></b><br>To reduce EBCAP consistent with Commission determination on electric rate C. 05-E-1222                   | <u>(51,655)</u>  |

**IBERDROLA ACQUISITION  
NEW YORK STATE ELECTRIC & GAS CORPORATION  
CASE 07-M-0906  
POSITIVE BENEFIT ADJUSTMENTS - Updated  
\$(000)**

| <b>Delivery Related</b>                          | <b>Balance Sheet</b>     |                          |              | <b>Income Statement</b> |                       |
|--|--------------------------|--------------------------|--------------|-------------------------|-----------------------|
|  | <b><u>ELECTRIC</u></b>   | <b><u>GAS</u></b>        | <b>Notes</b> | <b><u>ELECTRIC</u></b>  | <b><u>GAS</u></b>     |
| <b><u>Regulatory Asset Cost Eliminations</u></b> | <b><u>@ 12/31/08</u></b> | <b><u>@ 12/31/08</u></b> |              |                         |                       |
| Loss on Reacquired debt                          | 23,611                   | 6,913                    | (a)          |                         |                       |
| Sarbanes Oxley & other minor gas @ 12/31/06      | 0                        | 1,062                    | (b)          |                         |                       |
| Low Income & MTA Surcharge                       | 3,800                    | 0                        | (b)          |                         |                       |
| Gas Pension Deferral - not in rate base          | 0                        | 24,900                   | (a)          |                         |                       |
| Deferred Gas Costs                               | 0                        | 625                      | (a)          |                         |                       |
| 2006 Flood                                       | 0                        | 2,285                    | (a)          |                         |                       |
| Environmental -SIRC                              | <u>88,906</u>            | <u>23,491</u>            | (c)          | <u>(3,500)</u>          | <u>(1,250)</u>        |
| <b>Subtotal</b>                                  | <b><u>116,317</u></b>    | <b><u>59,276</u></b>     |              | <b><u>(3,500)</u></b>   | <b><u>(1,250)</u></b> |
| <br>   |                          |                          |              |                         |                       |
| <b><u>Increase Operating Reserves</u></b>        |                          |                          |              |                         |                       |
| Storms   | 50,000                   | n/a                      | (d)          |                         |                       |
| OPEB Top Off to ASGA 2009                        | 5,417                    | n/a                      | (e)          |                         |                       |
| Stray Voltage                                    | <u>26,110</u>            | <u>0</u>                 | (f)          |                         |                       |
| <b>Subtotal</b>                                  | <b><u>81,527</u></b>     | <b><u>0</u></b>          |              |                         |                       |
| <br>   |                          |                          |              |                         |                       |
| <b><u>Commodity Related</u></b>                  |                          |                          |              |                         |                       |
| Absorb Sarnac IPP cost in 2009                   | <u>0</u>                 | <u>0</u>                 | (g)          | <u>49,200</u>           | <u>n/a</u>            |
| <b>Subtotal</b>                                  | <b><u>197,844</u></b>    | <b><u>59,276</u></b>     |              |                         |                       |
| <br>   |                          |                          |              |                         |                       |
| <b>Associated Deferred Taxes</b>                 | <b><u>(78,376)</u></b>   | <b><u>(23,482)</u></b>   |              |                         |                       |
| <br>   |                          |                          |              |                         |                       |
| <b>Total Positive Benefit Adjustment</b>         | <b><u>119,468</u></b>    | <b><u>35,794</u></b>     |              | <b><u>45,700</u></b>    | <b><u>(1,250)</u></b> |

**Notes**

- (a) Company 10-10-07 Filing (p.78)
- (b) Company 10-16-07 Filing (p.172)
- (c) Eliminate deferred balance at November, 2007 allocated 79.1% electric, 20.9% gas - income reflects full funding
- (d) Increase Major Storm reserve by five year amount above rates.
- (e) Appendix A of OPEB JP related to 2009
- (f) Annual Request In C. 05-E-1222 above rates for five years
- (g) One -half of 2008 NBC filing request

|  |               |                         |              |  |                    |
|--|---------------|-------------------------|--------------|--|--------------------|
| CASE 07-M-0906                         |               | REVISED: APRIL 11, 2008 |              |  |                    |
| NYSEG - Electric - Staff Initial Brief |               |                         |              |  | Exhibit_128 (JB-7) |
| ASGA Adjustments with NCR              | Prior Year    |                         |              |  |                    |
| \$ 000 s                               | Adjustments   | <u>NCR</u>              | <u>Total</u> |  |                    |
| 2002                                   | 0             | 0                       | 0            |  |                    |
| 2003                                   | 11,503        | 561                     | 12,064       |  |                    |
| 2004                                   | 11,116        | 1,289                   | 24,470       |  |                    |
| 2005                                   | 7,459         | 1,879                   | 33,809       |  |                    |
| 2006                                   | 15,136        | 2,833                   | 51,778       |  |                    |
| 2007                                   | 9,690         | 3,681                   | 65,150       |  |                    |
| June 2008                              | 0             | 1,602                   | 66,752       |  |                    |
| Total                                  | <u>54,904</u> | <u>11,845</u>           |              |  |                    |