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COUNSEL

June 5, 2003

VIA HAND DELIVERY

Hon. Janet Hand Deixler
Secretary
New York State Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

Re: **Case 03-E-_____ – Rochester Gas and Electric
Corporation – Electric Unbundling Filing**

Dear Secretary Deixler:

On behalf of Rochester Gas and Electric Corporation ("RG&E" or the "Company"), I am enclosing testimony, exhibits, tariffs and workpapers in support of a filing (the "Unbundling Filing") that responds to Ordering Paragraph 4 of the New York State Public Service Commission's (the "Commission's") Order Adopting Recommended Decision with Modifications (the "Order"), issued March 7, 2003 in RG&E's most recent electric and gas rate proceedings. In general, Ordering Paragraph 4 of the Order directed the Company to file within 90 days unbundled commodity charges and to create commodity options for all customers.

REVISED TARIFFS

In compliance with the requirements of the Commission, RG&E is transmitting for filing the following enclosed original and revised leaves:

PSC No. 19

1st Revised Leaf No. 161
Original Leaf No. 161.1
Original Leaf No. 161.2

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Original Leaf No. 161.3
Original Leaf No. 161.4
1st Revised Leaf No. 164
Original Leaf No. 164.1
Original Leaf No. 164.2
Original Leaf No. 164.3
Original Leaf No. 164.4
1st Revised Leaf No. 166
Original Leaf No. 166.1
Original Leaf No. 166.2
Original Leaf No. 166.3
Original Leaf No. 166.4
1st Revised Leaf No. 174
Original Leaf No. 174.1
Original Leaf No. 174.2
Original Leaf No. 174.3
Original Leaf No. 174.4
Original Leaf No. 174.5
1st Revised Leaf No. 190
Original Leaf No. 190.1
Original Leaf No. 190.2
Original Leaf No. 190.3
Original Leaf No. 190.4
1st Revised Leaf No. 191
1st Revised Leaf No. 194
Original Leaf No. 194.1
Original Leaf No. 194.2
Original Leaf No. 194.3
Original Leaf No. 194.4
Original Leaf No. 194.5
1st Revised Leaf No. 195
1st Revised Leaf No. 210
Original Leaf No. 210.1
Original Leaf No. 210.2
Original Leaf No. 210.3
Original Leaf No. 210.4

Effective July 1, 2003.

THE UNBUNDLING FILING

The tariff leaves, which are being filed in electronic format, are issued as of June 5, 2003, with an effective date of July 1, 2003. The Company's expectation is that the Unbundling Filing will be incorporated into RG&E's pending electric rate proceeding, Case 03-E-0765, and heard on a common record. As a result, the Company anticipates that a final decision in the pending

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electric rate proceeding will reflect the Commission's determination with respect to unbundled electric rates. Assuming the Commission will issue a rate order within the customary statutory 11-month suspension period, new electric rates would become effective May 1, 2004, unless a long-term rate plan is negotiated and approved earlier.

In this filing, RG&E proposes to unbundle its overall electric rates effective January 1, 2005, when the Company would institute delivery rates and commodity options. The first customer Enrollment Period would begin October 1, 2004 and continue for three months. The First Commodity Rate Period would cover the two-year period from January 1, 2005 through December 31, 2006. The second customer Enrollment Period would cover the months of October 2006 through December 2006, and would allow customers to choose among the commodity options to become effective January 1, 2007 and to continue through December 31, 2008. During the period May 1, 2004 through December 31, 2004, RG&E proposes to continue to charge customers bundled rates with an Electric Supply Reconciliation Mechanism, as explained in the pending electric rate proceeding.

Also being filed with the tariff leaves are fifteen (15) copies of the prepared written testimony and exhibits comprising RG&E's direct case in support of the Unbundling Filing. In light of the Commission's statement that it would incorporate the Unbundling Filing into RG&E's pending electric rate proceeding, copies have been served simultaneously on all parties that have entered an appearance in Case 03-E-0765. Eight witnesses (four of whom are supporting testimony on two separate panels) testify on behalf of RG&E and address the following subjects:

- Policy – James Lahtinen, Vice President, Rates and Regulatory Economics, of RG&E and an officer of New York State Electric & Gas Corporation (“NYSEG”).
- Unbundled Revenue Requirements Panel – A panel consisting of Joseph Syta, Controller and Treasurer, and Sean Ryan, Manager of Regulatory Accounting.
- Unbundled Rate of Return – Robert Rosenberg, Principal of the firm of Edgewood Consulting, Inc.
- Commodity Options – David Segal, a Principal of The NorthBridge Group.
- Unbundled Tariffs and Delivery Rate Design Panel – A panel consisting of Mark Marini, Manager-Regulatory and Tariffs, and Susan Morien, Director-Costs and Rates.
- Outreach and Education – Theresa VanBrooker, Manager, Business Processes.

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Mr. Lahtinen addresses a number of policy-related issues. Included among those subjects are a discussion of: (1) how the Unbundling Filing meets the requirements outlined in Ordering Clause 4 of the Order; (2) how the Unbundling Filing relates to the Company's pending electric rate proceeding; and (3) how gains and losses from the sale of RG&E-owned generation could be treated in a manner that would not disrupt the introduction of the proposed commodity options. Mr. Lahtinen also discusses the Company's intention to enter into settlement negotiations.

Mr. Rosenberg concludes that the unbundled return on equity for RG&E's delivery and generation operations is 11.2% and 13.32%, respectively. That information was then factored into the rates of return for the two operations and reflected in the calculations of the Unbundled Revenue Requirements Panel, which derives an unbundled delivery revenue requirement of \$338.7 million. Rates and tariffs to recover unbundled delivery revenue requirements were developed by the Unbundled Tariffs and Delivery Rate Design Panel.

Mr. Segal presents three commodity options: (1) the Fixed Price Option, that would be offered by RG&E; (2) the Variable Price Option, that would also be offered by RG&E; and (3) the ESCO Price Option, that would be offered by alternative energy suppliers. Those three options are modeled after the successful program that is already in place for NYSEG. Ms. VanBrooker presents a detailed outreach and education plan, similar to the previously approved plan for NYSEG, to familiarize customers with their new commodity choices.

SETTLEMENT DISCUSSIONS

In its pending electric and gas rate filing, RG&E proposed that settlement discussions begin promptly to develop long-term electric and gas incentive rate plans that would implement state policy. Already Administrative Law Judge Robert Garlin has been appointed as the Settlement Judge, and he will be conducting a technical conference on June 9, 2003 that will, among other things, cover the schedule and procedures for settlement negotiations. The initiation of settlement discussions will help serve to advance state policy on divestiture of generation, commodity options and multi-year performance-based electric and gas rate plans.

PROCEDURAL MATTERS

Notice of this filing will be published in accordance with 16 NYCRR Section 720-8.1 and proof of publication will be submitted upon completion. In addition, the Company will issue appropriate bill inserts in accordance with 16 NYCRR Section 720.9.1.

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Acknowledgement of the receipt of this letter is requested and an extra copy is enclosed for that purpose.

Respectfully submitted,

Frank J. Miller

Frank J. Miller

FJM/kl

Enclosure

cc: All Parties in Cases 03-E-0765 and 03-G-0766
ALJ J. Michael Harrison
ALJ Robert Garlin