

**Annual Report
for year ended
December 31, 1978**

Contents

Highlights 2
Letter to Shareholders 3
Electric Operations 5
Gas Operations 6
Research and Development 6
The Rising Cost of Doing Business 8
Financial Statements 14
Management's Discussion and Analysis
of the Summary of Operations 22
Financial and Statistical Information 23
Directors 28
Officers (*Inside back cover*)

Principal Office
89 East Avenue
Rochester, New York 14649
(716) 546-2700

Financial Contact
Paul W. Briggs
President

Annual Meeting
May 16, 1979
At Rochester, New York

New York Stock Exchange Symbol
Rochester Gas and Electric Corporation
Common Stock—RGS

Transfer and Dividend Disbursing Agent
Lincoln First Bank, N.A.
Stock Transfer Department
Post Office Box 1250
Rochester, New York 14603

Registrar
Security Trust Company of Rochester
One East Avenue
Rochester, New York 14638

Co-transfer Agent
Morgan Guaranty Trust Company of New York
30 West Broadway
New York, New York 10015

Co-registrar
The Chase Manhattan Bank, N.A.
One Chase Manhattan Plaza
New York, New York 10015

Agent for Automatic Dividend Reinvestment Plan
Lincoln First Bank, N.A.
Automatic Dividend Reinvestment Service
Post Office Box 1507
Rochester, New York 14603

Bond Trustee and Paying Agent
Bankers Trust Company
Post Office Box 318
Church Street Station
New York, New York 10015

Shareholder Inquiries

Communications regarding stock transfer requirements, lost certificates or dividend payments may be directed to Lincoln First Bank, N.A.

Other inquiries should be directed to D. W. Caple, Secretary and Treasurer at the Company.

The Company will provide, without charge, a copy of the Annual Report on Form 10-K filed with the Securities and Exchange Commission with respect to fiscal year 1978, upon written request of any shareholder addressed to the Secretary.

7905030359

Highlights	1978	1977	% Change
Common Stock			
Earnings per weighted average share	\$2.46	\$2.12	16
Number of shares (000's)			
Weighted average	13,774	12,474	10
Pro forma weighted average after stock dividend paid in following year (See Note)	14,187	12,848	10
Actual number at December 31	14,733	12,890	14
Number of shareholders	48,148	44,135	9
Price range (Sales on New York Stock Exchange)	High Low	High Low	
1st quarter	21½ 17½	20½ 17¾	
2nd quarter	18¾ 17¾	20% 18	
3rd quarter	19% 18	21¼ 19¾	
4th quarter	18¾ 16½	21% 19½	
Cash dividends paid (100% taxable)			
1st quarter	\$.35	\$.32	
2nd quarter	.35	.32	
3rd quarter	.36	.35	
4th quarter	.36	.35	
Stock dividend paid (See Note)	3%	3%	
Sales and Revenues			
Electricity to customers			
Kilowatt-hours (000's)	5,102,923	4,938,362	3
Revenue (000's)	\$202,631	\$179,940	13
Electricity to other utilities			
Kilowatt-hours (000's)	1,445,391	1,453,590	(1)
Revenue (000's)	\$ 28,676	\$ 26,403	9
Gas			
Therms (000's)	433,324	420,438	3
Revenue (000's)	\$118,531	\$105,797	12
Steam			
Pounds (000's)	2,963,500	2,950,287	
Revenue (000's)	\$ 19,110	\$ 19,004	1
Total revenues	\$368,948	\$331,144	11
Operating Expenses (000's)			
Electric and steam fuels	\$ 58,140	\$ 56,993	2
Purchased electricity	19,337	13,635	42
Purchased natural gas	71,109	62,086	15
Wages and benefits	54,390	50,318	8
Depreciation	22,206	21,053	5
Taxes—local, state and other	45,935	43,876	5
Federal income taxes charged to operations	11,041	3,858	186
Other expenses	37,541	34,548	9
Total operating expenses	\$319,699	\$286,367	12
Capital Expenditures, less allowance for funds used during construction (000's)	\$112,552	\$ 98,091	15
Net Utility Plant at December 31 (000's)	\$810,016	\$722,780	12
Number of Employees	2,622	2,624	

Note: The 20th annual stock dividend was paid February 23, 1979 at the rate of three percent.

To Shareholders:

After a disappointing year in 1977, common stock earnings in 1978 rebounded to \$2.46 per share. This represents an increase of 34 cents, or 16 percent more than the 1977 earnings of \$2.12 per share; a substantial improvement, especially since there were 1.3 million additional shares outstanding during 1978.

Earnings continue to be affected by the weak economy of the State, by inadequate rate relief, and by increasing costs, including those due to inflation and government regulation. Although earnings have improved, they are not at the level we believe they should be. On the plus side, some encouragement can be taken from the State government's more serious efforts to retain and attract business and industry.

Dividends paid per common share for the year totaled \$1.41, 12 cents more than the \$1.29 paid the previous year. Additionally, a three percent common stock dividend was paid in February 1979. This is the 20th consecutive year in which a stock dividend has been paid.

Total customer revenues for 1978 were \$340.3 million, a 12 percent increase over 1977 customer revenues of \$304.7 million. Revenue from electric sales to other utilities rose 8.6 percent in 1978 and totaled \$28.7 million. The gain resulted from a sustained strong market for RG&E's coal-fired electricity through the New York Power Pool to utilities that would otherwise have to rely on the more expensive oil-fired electric generation. These sales brought total revenues for the year to \$369.0 million, an 11 percent increase over 1977.

Kilowatt-hour sales of electricity to customers increased 3.3 percent for the year. Industrial kilowatt-hour sales led gains with a six percent increase over 1977, a relatively strong growth. Residential kilowatt-hour sales increased 2.5 percent.

Natural gas sales in therms were up 3.1 percent over 1977. The gain is attributed primarily to colder than normal weather and the addition of more than 2200 gas space heating customers following the 1977 lifting of a New York State Public Service Commission (PSC) prohibition on additional gas service.

The performance of the Ginna nuclear power plant was excellent. The plant was available 81 percent of the time during the year and had regained its maximum dependable capacity of 470,000 kilowatts following the May 1978 installation of a new turbine rotor. Thus the nuclear power plant economically provided 60 percent of the electricity on our own system and, when compared with an equivalent amount of energy generated by a coal-fired plant, saved our customers \$32 million in fuel costs for the year.

Operating expenses rose 11.6 percent, going to \$319.7 million in 1978 from \$286.4 million in 1977. Fuel expense, including purchased electricity and



Keith W. Amish

Francis E. Drake, Jr.

Paul W. Briggs

gas, went up 12.0 percent, an increase of \$15.9 million. Employee wages and benefits expense increased 8.1 percent, or \$4.1 million over 1977. The total number of employees, 2622, was reduced by two over the year while the number of customers continued to increase, resulting in improved productivity. Employee overtime was kept to a minimum. Taxes, including Federal income tax, increased \$9.2 million over 1977, or 19.4 percent.

Capital expenditures for 1978 were \$112.6 million, excluding Allowance for Funds Used During Construction (AFDC). This was 15 percent more than the 1977 capital expenditure of \$98.1 million.

A total of \$38.7 million was required during 1978 for additional electric generating capacity. This included \$3.6 million capital investment in our proposed Sterling nuclear power plant project, \$12.2 million for a 24 percent share of Niagara Mohawk Power Corporation's Oswego #6 oil-fired plant, and \$22.9 million for 14 percent of its Nine Mile Point #2 nuclear plant. The Niagara Mohawk plants have been rescheduled to be operational in 1980 and 1984 respectively. These later operational dates will not affect the Company's ability to meet projected increased customer electric demand unless we should experience an increase in the present growth rate of electric use.

Plans for a proposed 1,150,000 kilowatt nuclear power plant at Sterling, New York await reinstatement of a certification from the New York State Board on Electric Generation Siting and the Environment. In January 1978 this Board granted a construction certificate for the Sterling plant with an operational target for the year 1986. The Board suspended the certificate in May 1978 and requested further proof of "need" for the unit. Based on updated load growth projections that showed lower electric load growth in the State as a whole, the Siting Board felt there was a question as to the necessity for the unit in the time frame originally requested. The four partners in the Sterling

project subsequently advised the Siting Board that the operational date for the plant could be extended to 1988 if the updated growth estimates proved to be accurate.

RG&E continues to pursue the authorization for timely construction of the Sterling plant based on state-wide needs as well as customer needs on the Rochester system. Although construction cost estimates in an inflationary economy have greatly appreciated due to the delays in completion date of the project, it is our opinion that this plant represents the best and most economic option for meeting electric energy demands in New York State and the Rochester system.

We petitioned the PSC in May 1978 for rate increases amounting to a total of \$48.7 million in additional revenue, consisting of an 8.9 percent gas rate increase and a 17.8 percent increase in electric rates. The proceeding is in its final stages and the PSC decision is expected to be rendered in late April with the new rates to take effect in May.

The September 1978 sale of an additional 1,250,000 shares of common stock realized \$23.4 million in new capital. In December 1978 RG&E completed the private placement with institutional investors of \$40 million in first mortgage bonds at 9.5 percent interest.

More than 18 percent of holders of common stock are now participating in the Company's Automatic Dividend Reinvestment Plan as compared with 11 percent when the Plan was initiated in 1974. During 1978, they invested more than \$3.7 million in 206,427 new shares of common stock.

We have consistently expressed support for the creation of Empire State Power Resources, Inc. (ESPRI). This plan would have allowed power companies in New York State to join in common power plant licensing, financing and plant operation, yet sustain the autonomy of the companies. The plan would have benefited customers through lower generating costs than would otherwise be possible. The projected savings to RG&E customers alone through the year 1998 would approach \$1 billion. In February 1979, after five years of lengthy deliberations, the PSC took an informal poll that indicated that the proposal would be disapproved. We are still awaiting the formal decision. The verdict is very disappointing, and the higher costs it will produce for the long-suffering consumers cannot be justified, in our opinion.

Once again, the PSC reported that RG&E had the lowest number of customer complaints per capita of any power company in New York State. These figures are supported by our own consumer surveys that show customers give the Company very high marks for the quality and reliability of its service. The credit goes to our fine employees.

We anticipate modest increases in demand for both electricity and natural gas in 1979. Gas supplies are sufficient and we will continue to expand gas

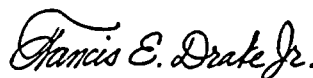
space heating service while balancing known supply with anticipated demand. Total kilowatt-hour sales of electricity to customers are projected to increase 3.1 percent. Our service area is expected to realize this growth despite the adverse economic factors that have significantly diminished load growth in other areas of the State.

Expenses will continue to increase, with taxes estimated to go up by 7.7 percent. Capital expenditures will go up to \$115 million, excluding AFDC.

Although we retain a markedly positive view of the future in our service area, efforts to improve performance as a utility are regularly hampered by events and circumstances largely outside our control. The costs associated with virtually every segment of our business continue to rise, and inflationary pressures will undoubtedly necessitate further increases in our rates for natural gas and electricity.

The cost problems are compounded by a regulatory environment that frustrates our attempts to build the generating capacity that will be required if there is to be economic growth in New York State. Along with increased taxes, the burdens of excessive regulation and extraordinary regulatory delays are passed on to our customers as increased prices, and this further compounds the problems faced by businesses and consumers within our service area.

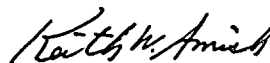
These problems are so important that we have taken the unusual step of preparing a special section to this report that can be found on page eight. We hope you will take the time to read it.



Francis E. Drake, Jr.
Chairman of the Board and
Chief Executive Officer

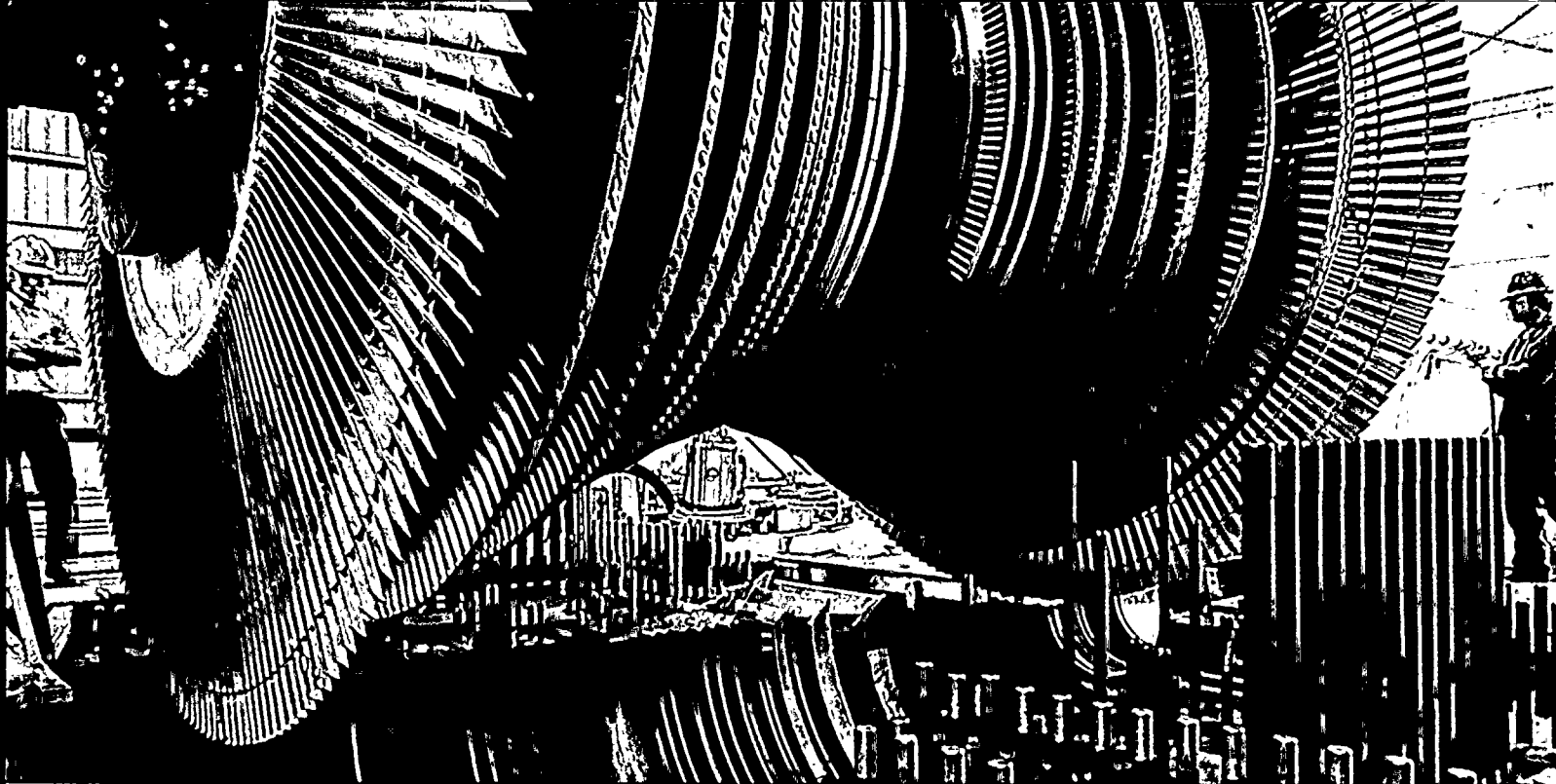


Paul W. Briggs
President



Keith W. Amish
Executive Vice President

March 15, 1979



Electric Operations

Generation Over the past few years, three incidents of blade failures in one of the rows of a low pressure turbine rotor at the Ginna nuclear power plant had reduced plant availability—the percentage of time the plant is in service. In 1976, for example, the plant's availability was only 58 percent. A temporary modification to the turbine following the third blade failure allowed continued plant operation, but only at 86 percent of capacity.

RG&E worked with the manufacturer in redesigning blades for a new turbine rotor to solve the problem. The new rotor was installed in May 1978 and it has performed very well. The plant is once again operating economically and efficiently at full capacity, providing more than half of the electricity for the Company's system. During the seven-month period from the time the rotor was replaced to the end of the year, the Ginna nuclear power plant recorded a remarkable 98 percent availability. For the entire year, the plant's availability was a noteworthy 81 percent.

For further reliability, the original rotor has been rebuilt with the improved blades and was replaced in the second low pressure turbine unit during the 1979 annual refueling, maintenance and inspection shutdown. The displaced rotor will be rebuilt and kept at the nuclear power

Following a major redesign of blade configuration, this new, 80-ton low pressure turbine rotor was installed at the Ginna nuclear power plant.

plant as a spare to significantly reduce shutdown time in the event of any future, unforeseen rotor problem.

Distribution In the Rochester vicinity, a substation was constructed to meet electric demand at the new manufacturing plant at Rochester Products, Fuel Systems Division of General Motors. An additional overhead transmission line was constructed to the Xerox Corporation facility in Webster providing greater capacity for Xerox and other area customers. As part of the 115 KV transmission construction project in the Rochester area, a major circuit was reconstructed in western Monroe County that increased capacity to suburban customers in the Town of Gates, including the expanding Apparatus Division of Eastman Kodak Company located there.

RG&E continued its construction program extending 34.5 KV distribution facilities in the Genesee District, south of Rochester. The Canandaigua-Finger Lakes District expanded 115 KV facilities in meeting sustained growth in its area. A new 12.5 KV service was installed at the recently completed Voplex plant in Canandaigua.

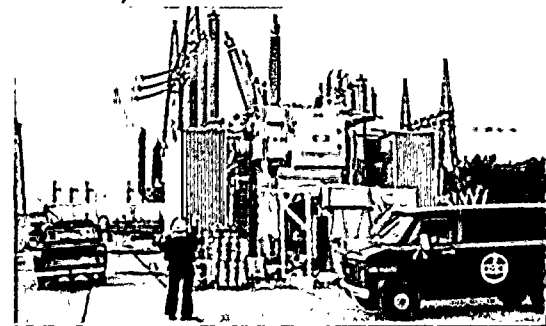
In the Lakeshore District to the east, plans call for the construction of a 115 KV transmission line along the recently acquired right-of-way section

of the Hojack Line railroad to meet growth in that outlying district.

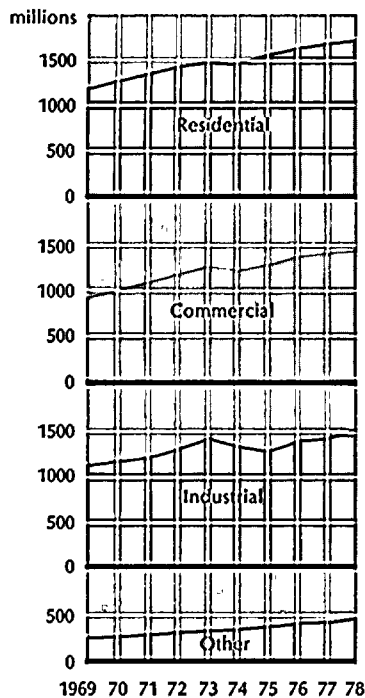
Streetlighting modernization programs in 1978 resulted in more than 2000 older incandescent lamps being replaced with high pressure sodium units in the northern part of the City of Rochester. This project, paid for by the City, increases lighting efficiency and enhances public safety. A streetlighting modernization program was completed in the Village of Mt. Morris, and another is underway in the Village of Webster.

Electric and gas facility relocation on public property became a larger-than-normal undertaking in 1978 due to the extensive activity in road construction and highway improvement. The \$7 million expense for this work must ultimately be borne by the Company's customers since there is only occasional and very minor reimbursement from government agencies that order the relocations.

This electric transformer replaced a unit that failed in service in 1978. It is one of two transformers at an interconnection that reduces 345,000 volts to 115,000 volts for transmission in the RG&E system.



Electric Kilowatt-Hour Sales to our Customers by Classes



Total Electric KWH Sales In Millions	
Year	Total
1978	5103
1977	4938
1976	4806
1975	4521
1974	4408
1973	4540
1972	4292
1971	3982
1970	3802
1969	3578

Gas Operations

Supply Adequate RG&E's supply of natural gas, under contract with Consolidated Gas Supply Corporation, remains adequate. Deliveries of liquefied natural gas (LNG) from Algeria to our supplier continue on schedule, adding 15 percent to the supplier's capacity. This, combined with increasing yields from the supplier's Louisiana offshore wells, provides assurances for adequate gas volumes in meeting existing and projected demands.

New Gas Service RG&E installed more than 1300 gas service lines to new residential, commercial and industrial customers in 1978. Including heating system conversions, more than 2200 gas space heating customers were added during 1978. This expansion followed Public Service Commission approval in 1977 of the Company's petition to lift the prohibition on accepting new or additional gas service. The additional services have helped slow the decline in total gas deliveries seen over the last several years that resulted from customer attrition and conservation. RG&E estimates that more than 3400 space heating customers will be added in 1979 including new homes, commercial establishments and heating system conversions.

Therm Billing Liquefied natural gas (LNG) has a higher heat value (BTU's per cubic foot) than the domestic gas we have previously received. When LNG is mixed with domestic gas, as in the supplier's delivery to RG&E, the thermal value varies. For this reason, RG&E has changed its gas billing from hundreds of cubic feet to therms, one therm being one hundred thousand BTU's. Starting in May 1979, a gas customer's bill will be calculated according to the average heat value (therms) used during the billing month. While this new system should have no effect on the amount of the customer's bill, it ensures that the Company's gas revenues will more accurately reflect the heat value of the gas sold.

Research and Development

In 1978 RG&E invested \$2.8 million in research and development projects. Half of that amount was directed to nation-wide utility industry supported research organizations as well as the research arm of New York State utilities, known by the acronym ESEERCO. One such ESEERCO program helps support the nuclear fusion experiments at the University of Rochester. The New York State Energy Research and Development Authority directly assessed RG&E \$600,000 for state government sponsored research and development projects.

The other half of the research and development funds was allocated to Company-sponsored and -coordinated projects such as the gas furnace demonstration program in which a number of residential gas furnaces have been modified for test purposes in an attempt to improve efficiencies. So far, an average gas saving of 17 percent has been achieved in the test homes while maintaining comfortable heating levels.

A broad, national program to encourage development of nuclear steam generation equipment and maintenance improvements was initiated in 1978 and is co-sponsored by RG&E. The research on a novel backhoe safety shutoff system that will prevent accidental damage to underground cable and pipeline has produced a prototype that will be field-tested this year. In another research area under RG&E coordination, data collected from several utilities were analyzed to determine spawning habits of fish along the southern shoreline of Lake Ontario. In all, RG&E directly supported more than 40 research and development projects in 1978.

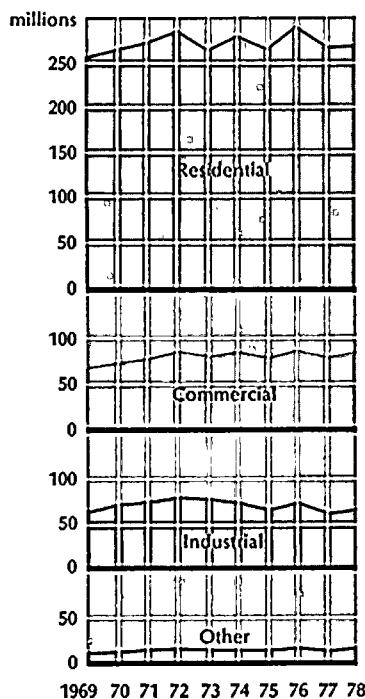
Management Appointment



Joseph J. Hartman was elected to the position of Vice President, Gas and Transportation by the board of directors effective December 1, 1978. He succeeded Elvin A. Skibinski who retired after 33 years of service.

Mr. Hartman joined RG&E in 1946 as a co-op student in the Gas Department. He held a series of engineering positions in the Gas Department until 1974 when he was appointed Superintendent of General Maintenance.

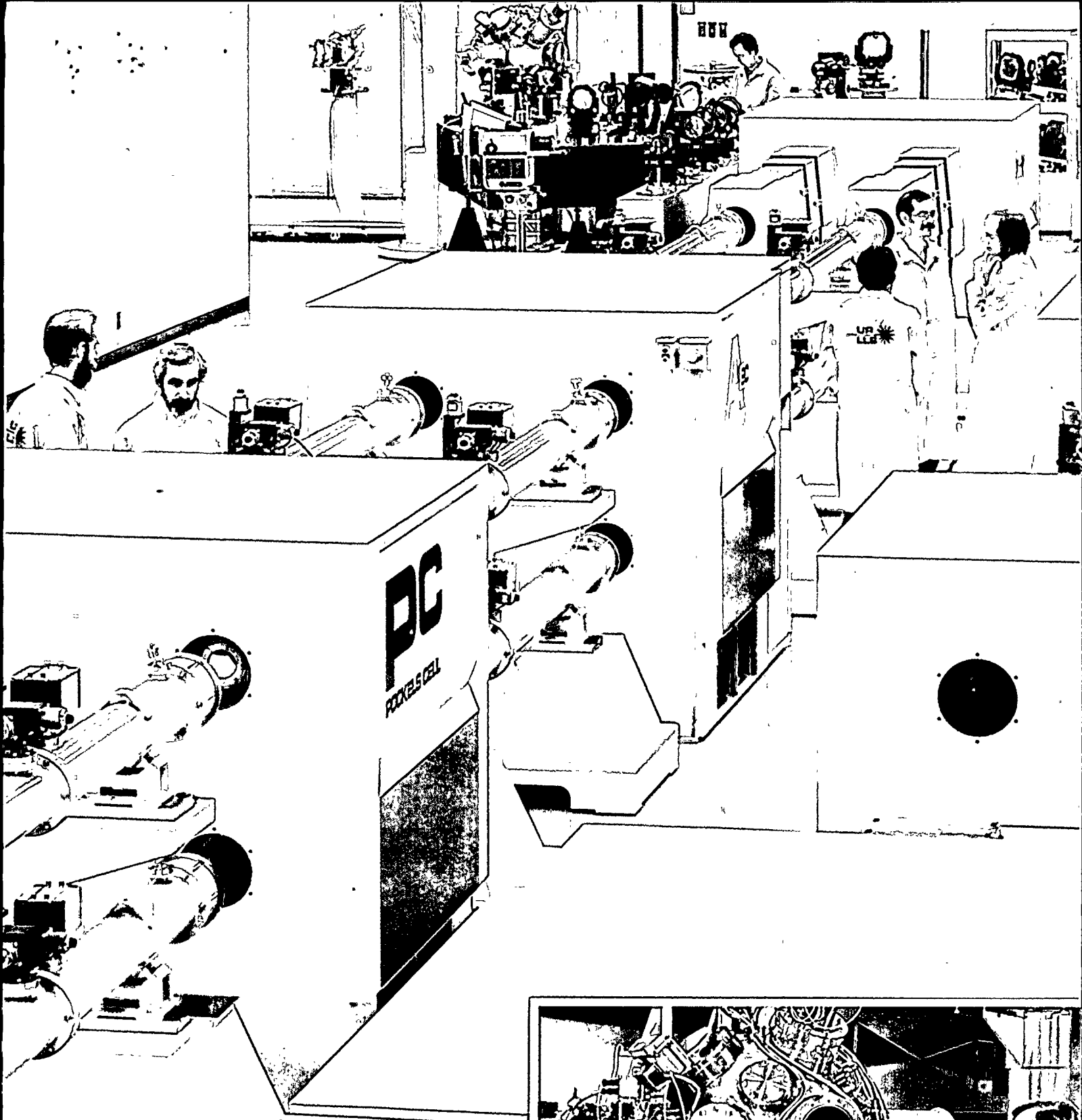
Gas Therm Sales to our Customers by Classes



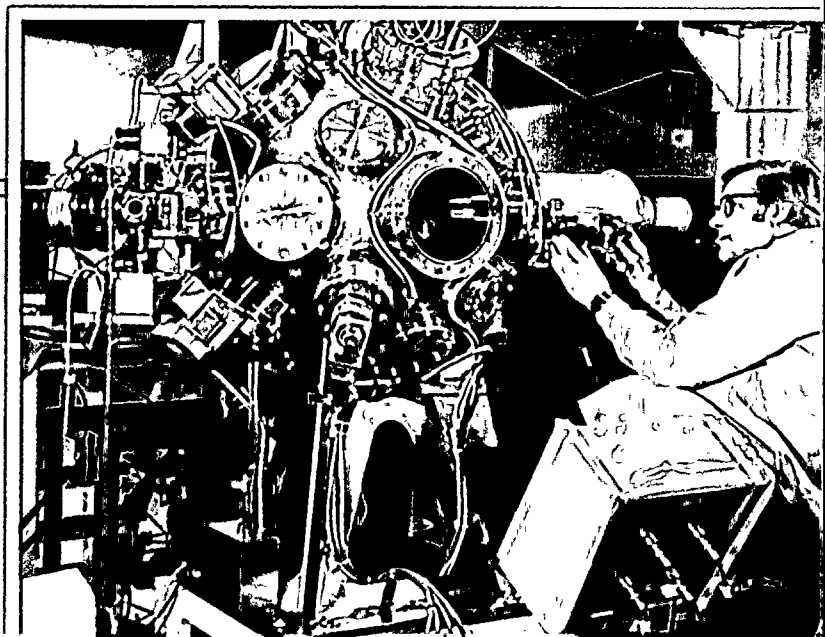
Total Gas Therm Sales In Millions	
Year	Total
1978	433
1977	420
1976	468
1975	424
1974	454
1973	435
1972	469
1971	442
1970	425
1969	403

RG&E engineers designed an uncommon type of gas pipeline support in this bridge that crosses the Barge Canal. The support cables are underneath the pipe instead of above.

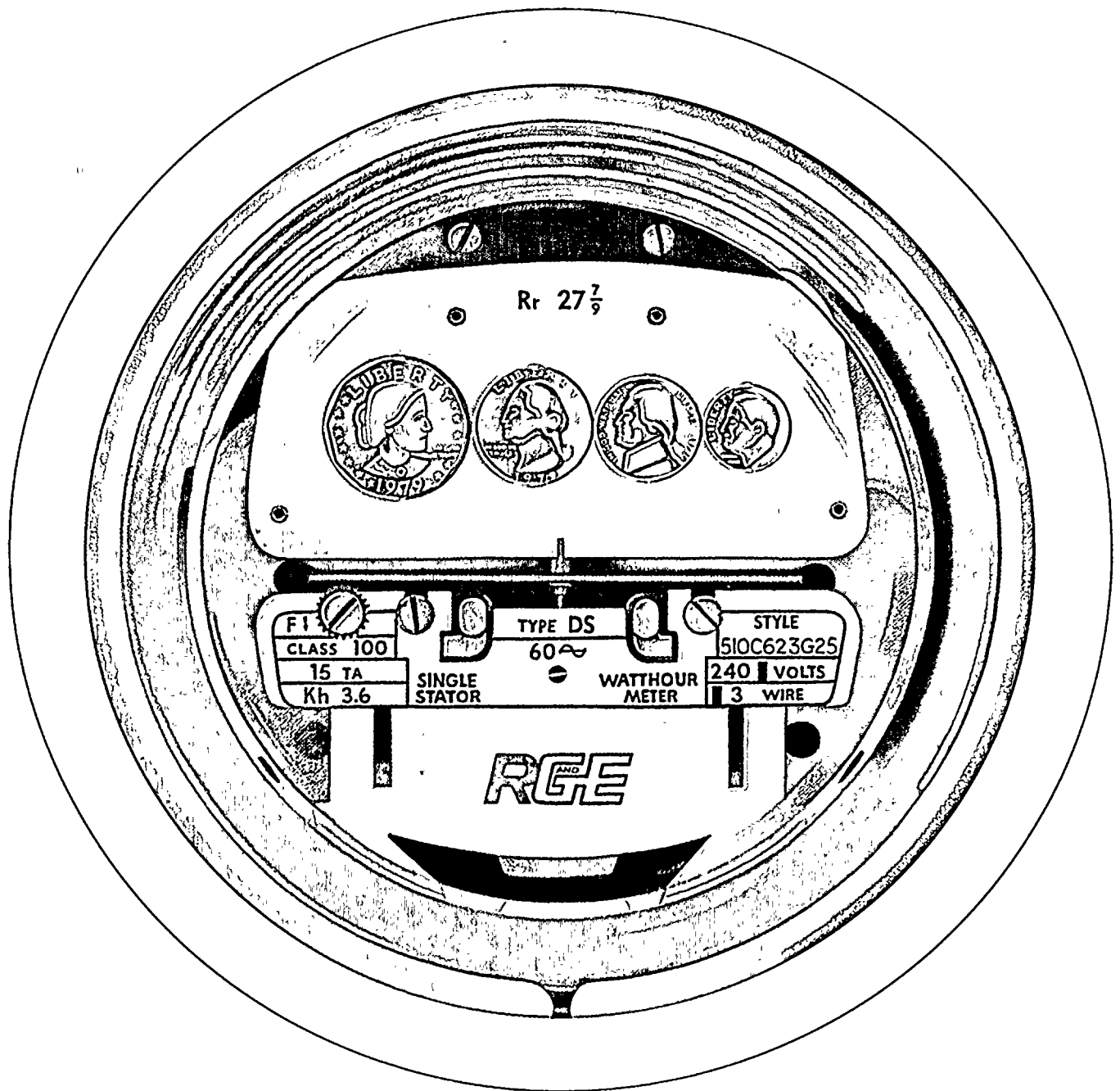




In the Laboratory for Laser Energetics of the College of Engineering and Applied Science at the University of Rochester, experiments are conducted in an attempt to harness thermal energy from nuclear fusion. Powerful laser beams are focused through mirrors and converge on a minute hydrogen pellet inside a target chamber (photo inset). The project is supported in part by RG&E, and the experiment may one day lead to a virtually inexhaustible source of thermal energy for the generation of electricity.



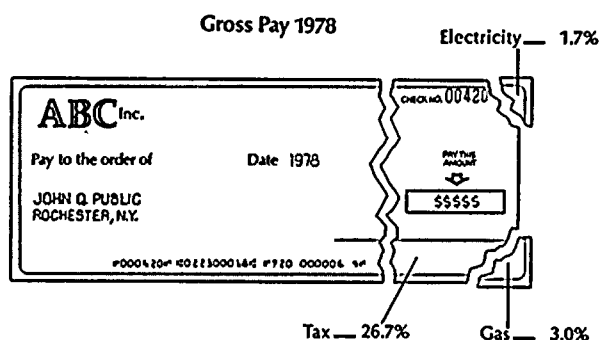
Some Plain Talk



The cost of living has gone up drastically over the years, and we know it will continue to rise until inflation, at least, is brought under control. But, it's not just the cost of living that's gone up, it's the cost of doing business, too. The inflationary economy has adversely affected business and industry as well as the individual. Despite efforts to minimize expenses, the rising cost of doing business has affected RG&E, particularly on costs over which the Company can exert little or no control.

This special section of the 1978 annual report is intended to portray, in plain talk, the rising costs and their effect on RG&E, its customers and shareholders.

Before getting into specifics on the cost increases, let's take a look at the overall impact on RG&E customers in general. From 1970 to 1978 the cost of electricity to RG&E customers had risen 84.5 percent, and the cost of gas went up 109 percent. How has the higher cost of electricity and gas affected most RG&E customers? Based on wage figures published by the New York State Department of Labor, our records show that in 1970 the typical Rochester production worker paid 1.6 percent of his or



her gross income for electricity. In 1978, despite more than a ten percent increase in electric use by the average residential customer, the same worker still paid just 1.7 percent of gross pay for electricity. If that worker was a gas space heating customer, he or she paid 3.1 percent of gross income for gas in 1970, and only 3.0 percent in 1978. In the meantime the tax bite (property, income, social security and sales) out of that same gross pay went from 23.9 to 26.7 percent.

Most pay has kept pace with the inflationary impact on prices. Even though more actual dollars are needed to pay for electricity and gas, these forms of energy absorb about the same amount of gross income as they did nearly ten years ago. The problem is that government taxes are taking greater amounts of the devalued gross paycheck dollars.

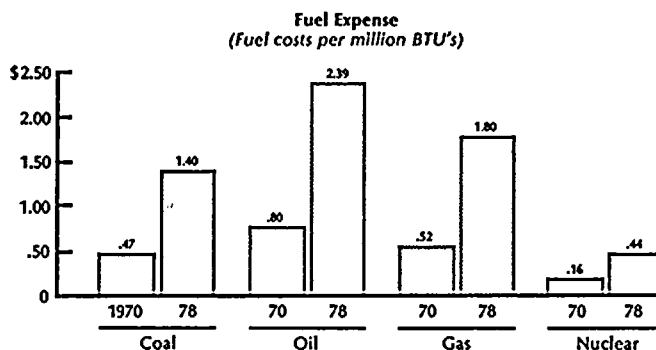
We're certainly not saying that all of our customers have incomes that have kept pace with escalating inflation. The senior citizen, for example, on low, fixed income is having an extremely difficult time meeting the continually increasing costs of all essentials for living, including heat and electricity.

The plight of a senior citizen in the situation described above is a very complex social problem that stems from rampant inflation. And, as a social problem, it is one that should not be placed upon any one segment of the economy or any one industry, whether it be a regulated natural monopoly or not. Recognizing this social problem, we at RG&E have expressed our support for an energy stamp program and have even offered to help develop such a plan. But, so far, the authorities have not accepted the offer. Further, we have contended that residential heat and electricity are just as essential to our customers as food, and should be tax-exempt. In that regard, the State did reduce sales tax on electricity and gas by one percent in 1978.

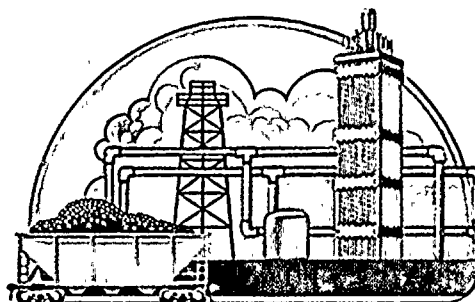
On the subject of rising costs, pressure groups and consumer activists often suggest that utilities, like RG&E, should hold the line on "their" rising costs and maintain existing rates or even lower them by reducing "profits." Well, the fact is, RG&E has no control over most of the costs that comprise the rates. And as for "profits," there really aren't any profits in a strict sense of the word as we'll point out later. Let's take a look at the costs in RG&E's business.

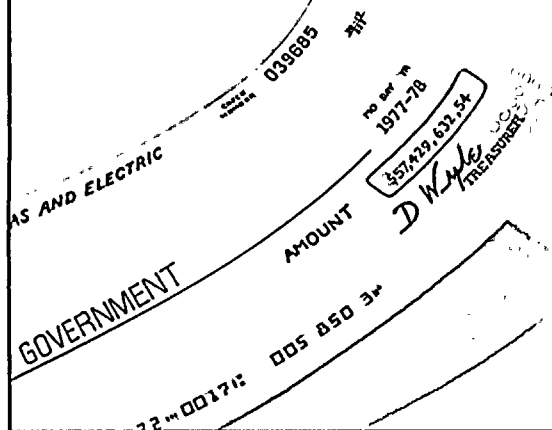
1. Fuels

Fuel expense consumes the largest portion of the revenue dollar. Today 40 cents of each revenue dollar go to pay for the fuels used in the generation of electricity, steam, and for the cost of natural gas. Over a nine-year period through the end of 1978, the cost of coal per ton more than doubled while oil and natural gas had tripled in cost. Nuclear fuel, processed and ready for use in a power plant, had a fourfold cost increase, yet it still remains the most economical fuel for electric generation as seen in the accompanying chart that compares fuel cost on a BTU or heat value basis.



The market price of fuels is beyond the influence of RG&E's prudent and aggressive purchasing procedures. Rising inflation gradually boosted fuel prices. The single most devastating factor, though, was the 1973 Arab Oil Embargo that not only caused the price of oil to double in a year, but also illustrated that the United States had become dangerously dependent on foreign oil sources. This dependence, combined with the rapid cost increases, produced trade deficits that have seriously eroded the value of the American dollar and have helped promote uncontrolled inflation. It's a serious situation and one that is increasingly agitated by a glut of self-defeating laws, regulations and taxes enacted by the federal and state governments.

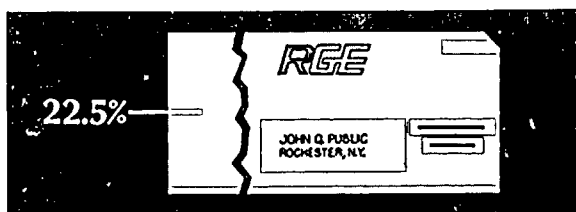




2. Tax

RG&E's tax expense has tripled since 1970 going from \$19 million to \$57 million in 1978. And, the 1978 figure doesn't even include the \$15.5 million in sales tax RG&E had to collect from customers in their bills for the State and local governments. Aside from the visible sales tax, "hidden" taxes in the customer bills account for more than 15 cents of every dollar the customer pays to RG&E. When sales taxes are included, the typical residential customer's bill is more than 22 percent tax. And that's a cost of government, not of energy.

Tax Portion of 1978 Customer Bill — 22.5%



Tax is another example of expense where RG&E can exercise little or no control. Of course, it could be pointed out that property taxes do mount up as we expand facilities such as substations, transformers and power lines. But, even here there is no option. We are obligated to meet growth, and are required by PSC law to serve the instant energy demands of customers regardless of the amounts called for. And just like every other property owner, we pay high tax rates on inflated values. The effect is cumulative.

3. Wages & Benefits

Expense for employee wages and benefits has increased 80 percent since 1970, a relatively small increase compared to other items mentioned. This is an area where RG&E may and does exercise control—reasonable control. And it has to be reasonable if the Company is to retain competent personnel and remain competitive in the labor and professional employment market. Let's face it, we're in a highly complex, technical business. Low or inadequate wages would produce nothing but a false economy.

More importantly, RG&E employees are qualified, dedicated and productive people who are entitled to fair return for their efforts.

The ratio of RG&E customers to employees in 1970 was 168 to one. In 1978 there were 186 customers for each RG&E employee. This means that our employees have increased their productivity as their contribution in the struggle against inflation. Productive, competent employees provide for the best interest of the shareholder and the customer.

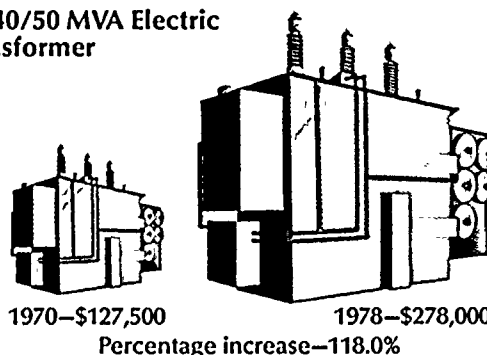
RG&E will continue to exercise control of wage and benefit expenses, and we are observing the current voluntary anti-inflationary guidelines.



4. Materials & Services

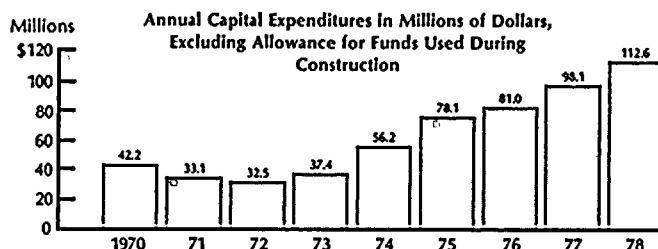
In addition to the expenses just discussed, seven percent of the 1978 revenue dollar was used to pay for miscellaneous materials and services. Among other items this category includes fees assessed by regulatory agencies, expenses for regulatory compliance, legal counsel, and building and grounds maintenance. Here, too, there is really little choice. We do, however, request bids where we can and look for the best price in the marketplace.

30/40/50 MVA Electric Transformer



5. Capital

Gas and electric companies constitute the most capital-intensive industry in the entire economy. The average manufacturing concern, for example, invests 75 cents in plant for each dollar of gross income while RG&E has had to invest more than three dollars for each gross income dollar. Large amounts of money are required to pay for facility expansion, improvement and replacement. Prices for materials and labor have gone up, and so has the cost of borrowing the money to finance the new facilities. For the most part, these costs cannot be controlled by us. Just as inflation has driven up costs in the markets where people shop, it has also affected the markets where utilities purchase their hardware and money.



In 1978, \$112 million were needed to cover the cost of new facilities required to serve customers. Although 40 percent of that capital was raised internally, the rest had to come from a highly competitive money market. There is no alternative. Regardless of market conditions we cannot and would not elect to ignore necessary additions to serve customer energy needs. To compromise on improvements and replacements that protect the energy systems is to gamble on efficient and reliable service to our customers, and we won't do that.

Cost of capital is a major area where we can exercise little or no control other than continuing to employ efficient methods for raising funds in the capital marketplace where costs are rising rapidly. In March 1979, for example, we had to replace a maturing \$16.7 million three percent interest bond with short-term notes at more than 11 percent interest.

Although this may seem a little strange at first, RG&E's "profits" are actually an expense. Our "profit" is nothing more than the amount that the New York State Public Service Commission (PSC) allows us to pay for the money we have to borrow to build the facilities needed to serve customers. Put another way, we are allowed to earn a "rate of return" on the capital invested in plant used to serve the public. The rates of return are set by the PSC, but are in no way guaranteed. Without the ability to pay the cost of money in interest and shareholder dividends we would not be able to raise the capital necessary to continue

to serve customers. So, when it comes right down to it, RG&E's "profit," or the interest cost of money, is a cost of doing business, and it's certainly one over which we have little control.

6. The Net Result

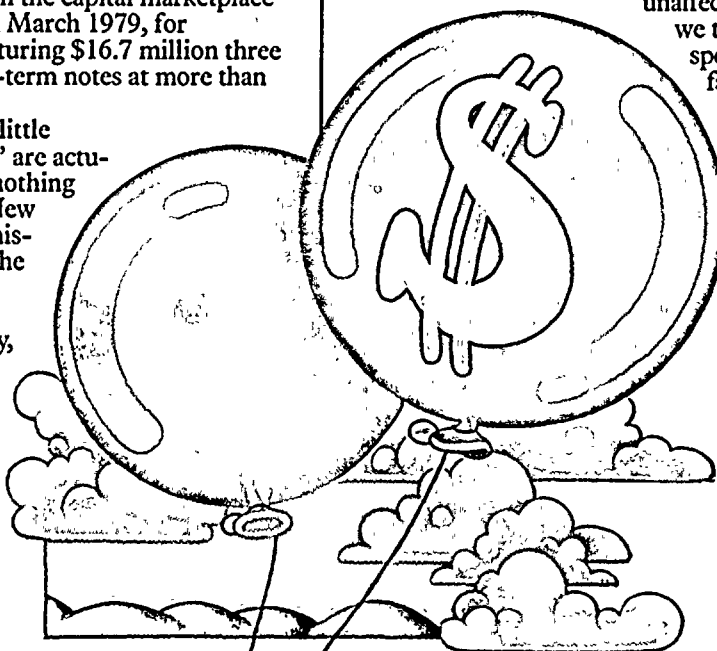
RG&E has a responsibility to supply electricity, gas and steam to its customers at the most economical prices. But, try as we may, we have little control over most of the expenses incurred in fulfilling this responsibility. We have consistently applied sound management policies and principles in attempting to minimize the amount of rate increases while maintaining the Company as a sound investment and reliable supplier. It's very disconcerting to realize that uncontrollable costs have accounted for more than 80 percent of customer cost increase since 1970!

The cost of doing business, especially power company business, is high, and it continues to go higher, driven by unbalanced federal and state budgets. Most of the cost is in fuels, taxes, capital expenditures and the cost of money. And, part of the cost is a result of heavy regulation by all layers of government. We are not saying that regulation is unnecessary. Some of it is beneficial. But, like everything else, regulation has a price.

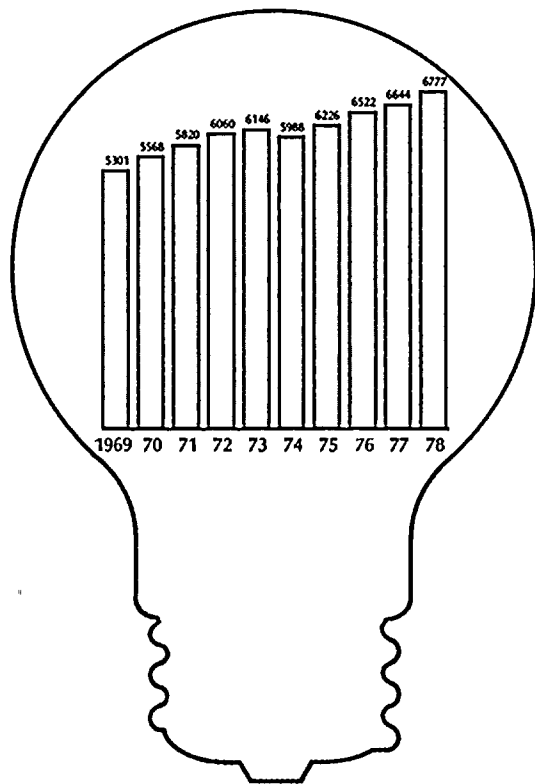
Since 1970, RG&E's spending for capital improvements just to comply with regulatory requirements and laws approaches \$100 million. This expense amounts to almost a \$20 million annual cost to customers. To this we can add at least another \$10 million a year in operational expense to comply with various other federal and state regulatory requirements. Thus, a very conservative estimate of the annual cost of government regulation to our customers is \$30 million, a very real part of the rising cost of energy.

We have taken this opportunity to present a story to you our shareholders, and hopefully to many of our customers. It is not a unique story because each of you is experiencing the same pressures, the same cost increases, the same inflation, over-regulation and taxes. But, because utilities are sometimes regarded by the uninformed as

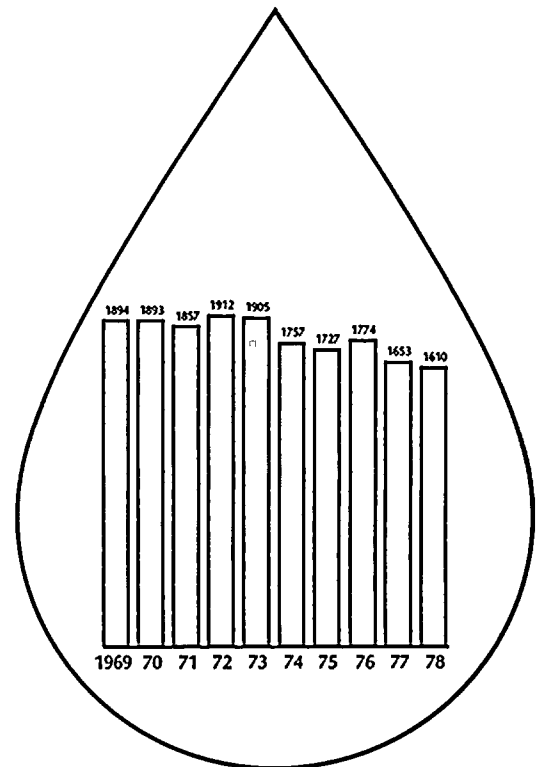
unaffected by such pressures, we thought it important to spell out how these same factors, over which we have little or no control, are driving up the absolute cost of energy.



Average Annual Use Per Residential Electric Customer
Kilowatt - Hours



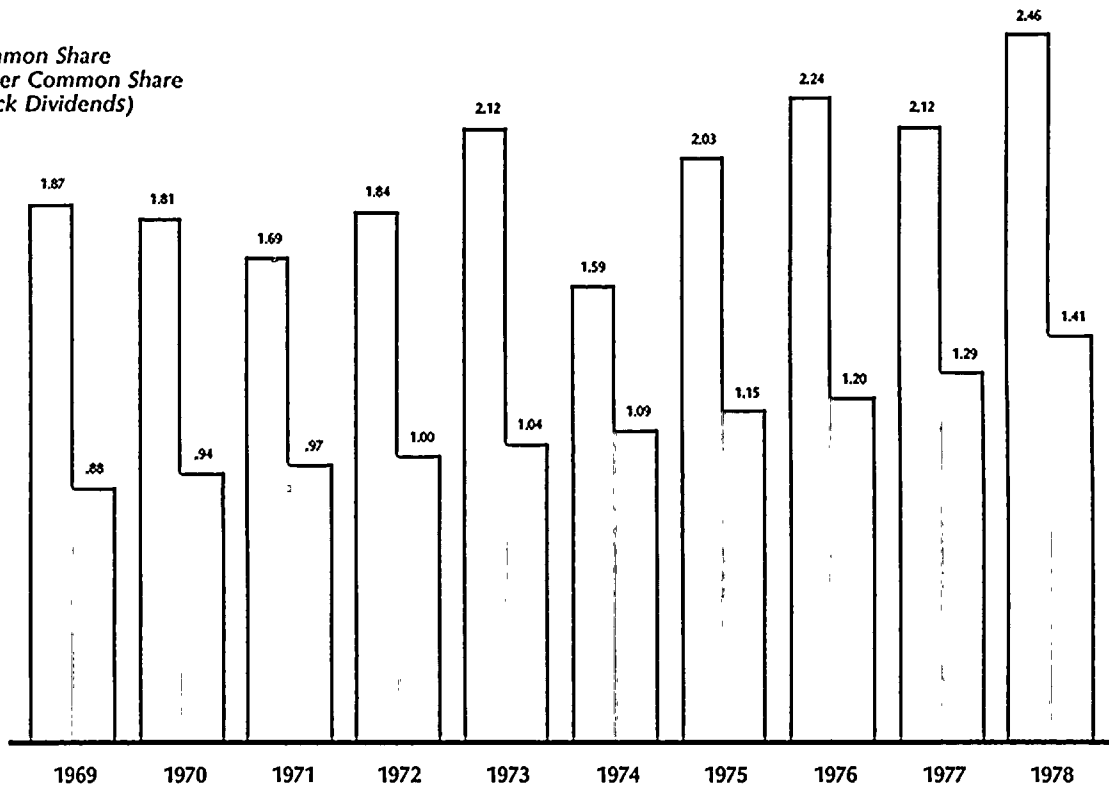
Average Annual Use Per Residential Space Heating Gas Customer
Therms*



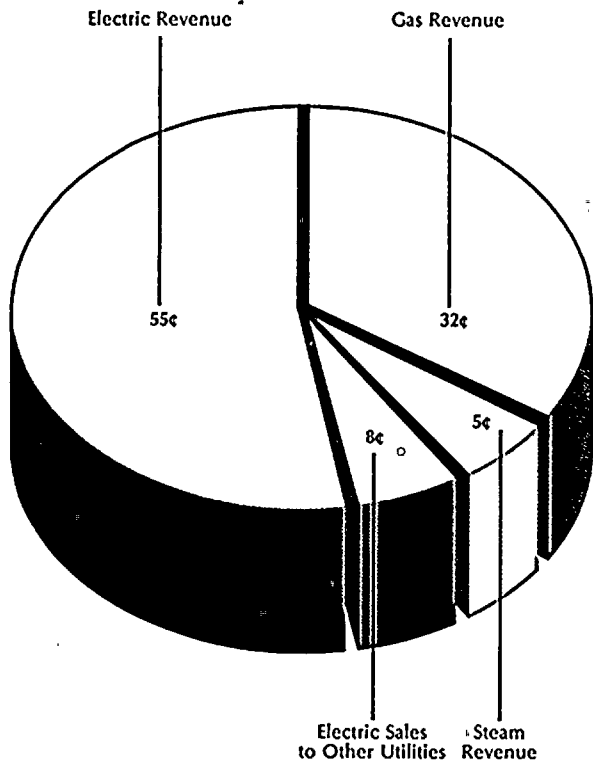
*Adjusted for normalized weather by degree days.

Earnings and Dividends Per Common Share
in Dollars

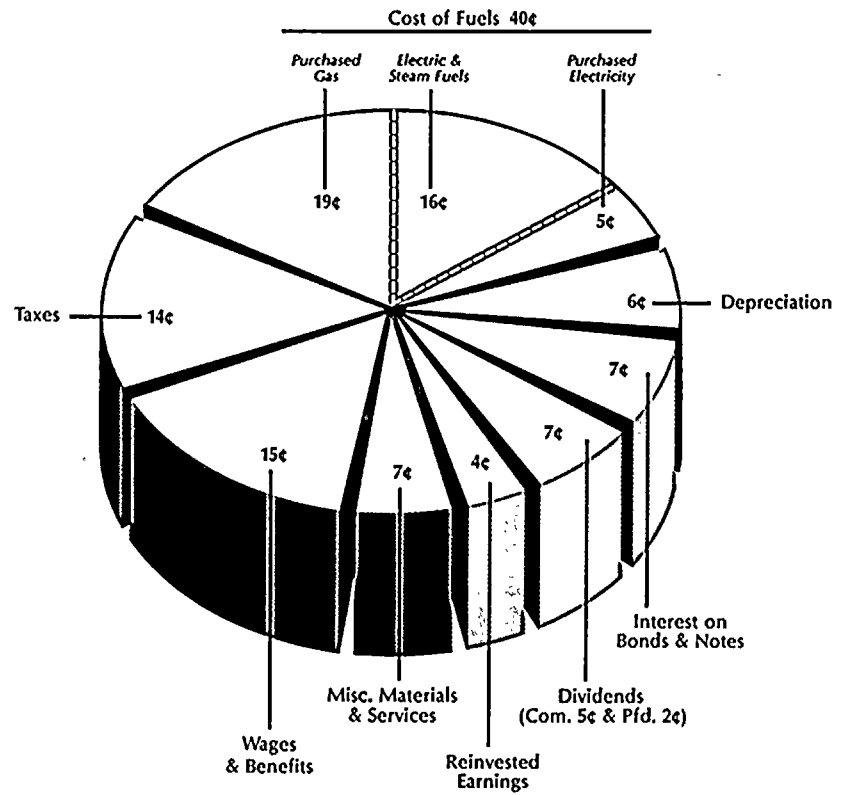
- Earnings per Common Share
- Cash Dividends per Common Share
(Adjusted for Stock Dividends)



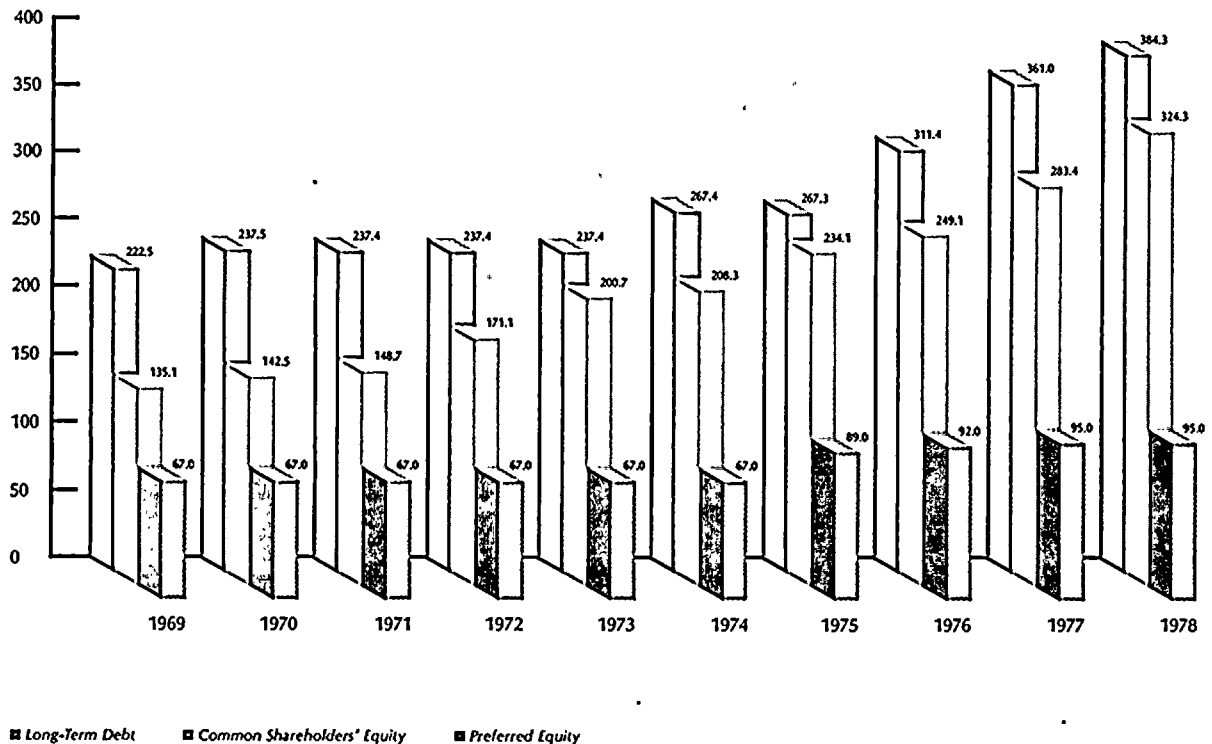
Source of 1978 Revenue Dollar
in Cents



Use of 1978 Revenue Dollar
in Cents



Capitalization
in Millions of Dollars



Statement of Income (Thousands of Dollars)

	1978	1977
Operating Revenues (Note 1)		
Electric	\$202,631	\$179,940
Gas	118,531	105,797
Steam	19,110	19,004
	340,272	304,741
Electric sales to other utilities	28,676	26,403
Total Operating Revenues	368,948	331,144
Operating Expenses (Note 1)		
Operation		
Electric and steam fuels	58,140	56,993
Purchased electricity	19,337	13,635
Purchased natural gas	71,109	62,086
Other	65,685	62,494
Maintenance	26,246	22,372
Depreciation	22,206	21,053
Taxes—local, state and other	45,935	43,876
Federal income tax—current (Note 3)	5,166	961
—deferred (Note 3)	5,875	2,897
Total Operating Expenses	319,699	286,367
Operating Income	49,249	44,777
Other Income and Deductions		
Allowance for other funds used during construction (Note 1)	8,705	6,473
Other—net	4,418	1,310
Total Other Income and Deductions	13,123	7,783
Income before Interest Charges	62,372	52,560
Interest Charges		
Long-term debt	25,594	22,542
Short-term debt	1,588	1,319
Other—net	416	494
Allowance for borrowed funds used during construction (Note 1)	(4,812)	(4,844)
Total Interest Charges	22,786	19,511
Net Income	39,586	33,049
Dividends on Preferred and Preference Stock, at required rates	5,678	6,512
Earnings Applicable to Common Stock	\$ 33,908	\$ 26,537
Weighted average number of shares outstanding in each period, adjusted for stock dividends (000's) ..	13,774	12,474
Earnings per Common Share (Note 1)	\$2.46	\$2.12
Cash Dividends per Common Share, adjusted for stock dividends (Note 1)	\$1.41	\$1.29

Statement of Retained Earnings (Thousands of Dollars)

	1978	1977
Balance at beginning of period	\$ 70,819	\$ 67,812
Add		
Net income	39,586	33,049
Total	110,405	100,861
Deduct		
Issuance costs of preferred stock (Note 4)		701
Dividends on capital stock		
Cumulative preferred stock, at required rates (Note 4)	3,550	6,453
Preference stock (Note 4)	2,128	59
Common stock		
Cash (Note 1)	19,269	16,009
Stock (Note 4)	8,120	6,820
Total	33,067	30,042
Balance at end of period	\$ 77,338	\$ 70,819

Balance Sheet (Thousands of Dollars)

1978 1977

ASSETS
Utility Plant, at original cost (Note 1)

Electric	\$669,104	\$609,387
Gas	171,120	162,946
Steam	17,735	17,442

	857,959	789,775
Less—Accumulated depreciation and amortization	261,477	229,122

	596,482	560,653
Construction work in progress	213,534	162,127

Net Utility Plant	810,016	722,780
-------------------	---------	---------

Investment in subsidiary, at equity	1,996	1,947
-------------------------------------	-------	-------

Current Assets

Cash (Note 5)	11,777	6,617
Accounts receivable	31,700	30,332
Materials and supplies, at average cost		
Fossil fuel	12,673	10,787
Construction and other supplies	9,643	9,724
Prepayments	1,160	927

Total Current Assets	66,953	58,387
----------------------	--------	--------

Deferred Debits

Unamortized debt expense	3,620	3,348
Deferred fuel cost (Note 1)	5,362	6,338
Other (Note 4)	5,439	5,574

Total Deferred Debits	14,421	15,260
-----------------------	--------	--------

Total Assets	\$893,386	\$798,374
--------------	-----------	-----------

CAPITALIZATION AND LIABILITIES
Capitalization (Note 4)

Long-term debt	\$384,303	\$361,022
Preferred stock	67,000	67,000
Preference stock	28,000	28,000
Common shareholders' equity		
Common stock	246,938	212,533
Retained earnings	77,338	70,819

Total common shareholders' equity	324,276	283,352
-----------------------------------	---------	---------

Total Capitalization	803,579	739,374
----------------------	---------	---------

Current Liabilities

Short-term debt (Note 5)		9,000
Long-term debt due within one year	16,677	
Accounts payable	29,021	18,635
Taxes accrued, including income taxes	11,335	4,610
Interest accrued	7,667	7,355
Payroll accrued	2,596	2,388
Other	1,066	825

Total Current Liabilities	68,362	42,813
---------------------------	--------	--------

Deferred Credits and Other Liabilities

Accumulated deferred income taxes (Notes 1 and 3)	18,394	15,233
Other	3,051	954

Total Deferred Credits and Other Liabilities	21,445	16,187
--	--------	--------

Commitments and Other Matters (Note 6)

Total Capitalization and Liabilities	\$893,386	\$798,374
--------------------------------------	-----------	-----------

Statement of Changes in Financial Position (Thousands of Dollars)

1978

1977

Sources of Funds
Operations

Net income	\$ 39,586	\$ 33,049
Principal non-cash charges (credits) to income		
Depreciation	22,206	21,053
Amortization of nuclear fuel	15,746	14,386
Deferred fuel costs	976	(2,886)
Deferred income taxes—net	3,161	2,675
Allowance for funds used during construction	(13,517)	(11,317)
Other—net	1,204	757
Total from Operations	69,362	57,717

Financing

Sale of long-term debt	40,000	50,000
Sale of common stock	27,186	24,579
Sale of preference stock		28,000
Total from Financing	67,186	102,579
Total Sources of Funds	\$136,548	\$160,296

Uses of Funds
Utility plant

Plant additions	\$105,191	\$ 94,958
Nuclear fuel additions	20,878	14,450
Less: allowance for funds used during construction	13,517	11,317
Net Additions to Utility Plant	112,552	98,091
Dividends on preferred stock	3,550	6,453
Dividends on preference stock	2,128	59
Dividends on common stock	19,269	16,009
Reduction of short-term debt—net	9,000	9,051
Retirement of long-term debt	16,677	333
Redemption of preferred stock, including call premium		27,750
Capital stock expense	902	167
Expense of issuing long-term debt	490	892
Other—net	(2,037)	1,406
Increase (decrease) in working capital (excluding short-term debt)	(25,983)	85
Total Uses of Funds	\$136,548	\$160,296

Changes in Components of Working Capital
Increase (decrease) in current assets

Cash	\$ 5,160	\$ 188
Accounts receivable	1,368	(3,474)
Materials and supplies		
Fossil fuel	1,886	(49)
Construction and other supplies	(81)	351
Prepayments	233	281
Total	8,566	(2,703)

Increase (decrease) in current liabilities (excluding short-term debt)

Accounts payable	10,386	482
Taxes	6,725	1,651
Accrued interest and payroll	520	1,234
Long-term debt due within one year	16,677	(6,000)
Other—net	241	(155)
Total	34,549	(2,788)

Increase (decrease) in Working Capital excluding short-term debt	\$(25,983)	\$ 85
---	-------------------	--------------

Notes to Financial Statements

Note 1. Summary of Accounting Policies

General. The Company is subject to regulation by the Public Service Commission of the State of New York (PSC) with respect to its rates for service and the maintenance of its accounting records. The Company's accounting policies conform to generally accepted accounting principles as applied to New York State public utilities giving effect to the rate-making and accounting practices and policies of the PSC.

A description of the Company's principal accounting policies follows.

Utility Plant and Depreciation. The cost of additions to utility plant and replacement of retirement units of property is capitalized. Cost includes labor, material, and similar items as well as indirect charges for engineering, supervision, etc. The Company capitalizes an allowance for funds used during construction approximately equivalent to the cost of capital devoted to plant under construction. Replacement of minor items of property is included in maintenance expenses. Costs of depreciable units of plant retired are eliminated from utility plant accounts, and such costs, plus removal expenses, less salvage, are charged to accumulated depreciation and amortization.

Depreciation in the financial statements is provided on a straight-line basis at rates based on the estimated useful lives of property, which have resulted in provisions of 3.0% and 3.1% per annum, of average depreciable property in 1977 and 1978, respectively.

Jointly-Owned Facilities. The following table sets forth the major electric generation projects currently planned which will add to the Company's present generating capability. Each participant must provide its own financing for these projects.

	Oswego Fossil Unit #6 [Ⓐ]	Nine Mile Point Nuclear Unit #2 [Ⓐ]	Sterling Nuclear [Ⓐ]
Estimated year of completion	1980	1984	1988
Net megawatt capability	850	1084	1150
RG&E's share—megawatts	204	150	322
—percent	24	14	28
(Millions of Dollars)			
Total estimated project costs [Ⓐ]	\$252.6 [Ⓐ]	\$1,441.4 [Ⓐ]	\$1,354.7 [Ⓐ]
RG&E's share	60.6	201.8	379.3
RG&E's actual			
construction costs [Ⓐ] —1977	10.0	21.7	3.5
—1978	12.2	22.9	3.5

[Ⓐ]To be constructed and operated by Niagara Mohawk Power Corporation.

[Ⓐ]To be constructed and operated by Rochester Gas and Electric Corporation.

[Ⓐ]Construction costs exclude allowance for funds used during construction and certain overhead costs to be capitalized.

[Ⓐ]Total project costs include \$8.5 million for oil handling facilities, of which RG&E has not agreed upon the percentage participation, and excludes common facilities.

[Ⓐ]Total project costs include \$89.4 million for the initial nuclear fuel loading and excludes common facilities.

[Ⓐ]Total project costs include \$114.7 million for the initial nuclear fuel loading.

Nuclear Fuel and Decommissioning Costs. The cost of nuclear fuel and estimated permanent storage costs are charged to operating expense on the basis of the thermal output of the reactor. These costs are charged to customers through base rates and through the fuel cost adjustment clause.

Due to a Federal government policy adopted in 1977, the Company has changed its nuclear fuel cost computation to reflect the costs of permanent storage of spent nuclear fuel. Prior years' nuclear fuel cost computations anticipated spent nuclear fuel would be reprocessed. Cumulative prior years' fuel expenses would have been increased by approximately \$8.0 million if they had been determined on the basis of current cost estimates for permanent storage of spent nuclear fuel, rather than on an estimated amount for reprocessing. If the government's permanent storage policy is continued, the Company believes that such amount will be fully allowable for rate-making purposes.

Decommissioning costs (costs to take the plant out of service in the future) for the Company's Ginna nuclear power plant cannot be estimated at this time. The Company believes that the costs of decommissioning will be fully allowable for rate-making purposes.

Allowance for Funds Used During Construction. The Company capitalizes an Allowance for Funds Used During Construction (AFDC) based upon the net cost of borrowed funds for construction purposes and a reasonable rate upon the Company's other funds when so used. The rate used for this purpose was 8¾%, which became effective in May 1976. In accordance with the order issued by the Federal Energy Regulatory Commission, AFDC is segregated into two component parts and classified in the Statement of Income to disclose an Allowance for Borrowed Funds Used During Construction as a credit to Interest Charges and an Allowance for Other Funds Used During Construction as a part of Other Income.

In December 1977, the Company began computing AFDC on its share of Nine Mile Point Nuclear Unit #2 and Oswego Fossil Unit #6 at an average reduced rate of 6.85%, which is net of the income tax effect of the interest portion of AFDC.

Rates and Revenue. Revenue is recorded on the basis of meters read during the calendar year.

Tariffs for electric and steam service include fuel cost adjustment clauses which serve to adjust electric and steam rates from time to time to reflect changes in the average costs of fuels used in electric and steam generation from the average cost of such fuels during the base period. Tariffs for gas service contain a comparable clause to adjust gas rates for changes in the price of purchased natural gas.

Deferred Fuel Costs. Fuel costs which are recoverable under the electric, gas and steam cost adjustment clauses included in the tariff schedules of the Company are deferred until they are billed to customers. A reconciliation of recoverable gas costs with billed gas revenues is done annually as of August 31, and the excess or deficiency is refunded to or recovered from the customers during a subsequent twelve month period.

Federal Income Tax. For income tax purposes, depreciation is computed using the most liberal methods permitted. In addition, certain costs capitalized for financial reporting purposes are deducted currently for income tax purposes. The resulting tax reductions are offset by provisions for deferred income taxes only to the extent ordered or permitted by regulatory authorities.

The 10% investment tax credit rate, which had been scheduled to return to 4% in 1981, has been made permanent by the Revenue Act of 1978. The prior rate of 4% is applied to reduce the current tax provision while, as recommended by the PSC, normalized tax accounting is followed in the application of the remaining 6%.

The Company uses the separate period approach in calculating the interim quarterly tax provision.

Pension Plan. The Company's retirement plan is noncontributory and covers all regular employees. Current service costs are funded annually. Past service costs are being amortized over a 40 year period.

Retirement plan expenditures for the years 1977 and 1978 were \$9.2 million and \$9.9 million, respectively. The actuarially

computed value of vested benefits at December 31, 1978 exceeds the assets in the plan by approximately \$15 million.

Earnings and Dividends Per Share. Earnings applicable to each share of common stock are based on the weighted average number of shares outstanding during the respective years, adjusted for stock dividends. Assuming the 1,250,000 shares of common stock issued on September 27, 1978 were outstanding at the beginning of 1978 and the proceeds were applied to reduce the short term debt, the earnings per share for 1978 would have been \$2.36. Cash dividends per share are based on the shares outstanding at the time dividends are paid, adjusted for stock dividends. Cash dividends per share at the rates declared in each period amount to \$1.34 for 1977 and \$1.42 for 1978.

Note 2. Departmental Financial Information (Thousands of Dollars)

The Company's records are maintained by operating departments, in accordance with PSC accounting policies, giving effect to the rate-making process. The following is the operating data for each of the Company's departments and no interdepartmental adjustments are required to arrive at the operating data included in the Statement of Income.

	Electric	Gas	Steam	Total
Operating information—1978				
Operating revenues	\$231,307	\$118,531	\$ 19,110	\$368,948
Operating expenses, excluding provision for income taxes	<u>181,428</u>	<u>107,873</u>	<u>19,357</u>	<u>308,658</u>
Pretax operating income	49,879	10,658	(247)	60,290
Provision for income taxes	<u>9,244</u>	<u>1,966</u>	<u>(169)</u>	<u>11,041</u>
Net operating income	<u>\$ 40,635</u>	<u>\$ 8,692</u>	<u>\$ (78)</u>	<u>49,249</u>
Other income—net				13,123
Interest charges				22,786
Net income per statement of income				<u>\$ 39,586</u>
Other information				
Depreciation	\$ 16,984	\$ 4,641	\$ 581	\$ 22,206
Nuclear fuel amortization	15,746			15,746
Capital expenditures	<u>100,194</u>	<u>11,903</u>	<u>455</u>	<u>112,552</u>
Investment information—December 31, 1978				
Identifiable assets	<u>\$711,917</u>	<u>\$146,299</u>	<u>\$ 15,716</u>	<u>\$873,932</u>
Assets utilized for overall Company operations (a)				19,454
Total assets per balance sheet				<u>\$893,386</u>
Operating information—1977				
Operating revenues	\$206,343	\$105,797	\$ 19,004	\$331,144
Operating expenses, excluding provision for income taxes	<u>165,858</u>	<u>97,465</u>	<u>19,186</u>	<u>282,509</u>
Pretax operating income	40,485	8,332	(182)	48,635
Provision for income taxes	<u>4,041</u>	<u>147</u>	<u>(330)</u>	<u>3,858</u>
Net operating income	<u>\$ 36,444</u>	<u>\$ 8,185</u>	<u>\$ 148</u>	<u>44,777</u>
Other income—net				7,783
Interest charges				19,511
Net income per statement of income				<u>\$ 33,049</u>
Other information				
Depreciation	\$ 15,333	\$ 5,140	\$ 580	\$ 21,053
Nuclear fuel amortization	14,386			14,386
Capital expenditures	<u>90,722</u>	<u>6,943</u>	<u>426</u>	<u>98,091</u>
Investment information—December 31, 1977				
Identifiable assets	<u>\$626,464</u>	<u>\$141,130</u>	<u>\$ 16,619</u>	<u>\$784,213</u>
Assets utilized for overall Company operations (a)				14,161
Total assets per balance sheet				<u>\$798,374</u>

(a) Consists primarily of cash, prepayments and unamortized debt expense.

Npte 3. Federal Income Tax Provision (Thousands of Dollars)

The following is a reconciliation for the years 1977 and 1978 of the difference between the amount of Federal income tax expense reported in the Statement of Income and the amount computed by multiplying the income before tax by the statutory tax rate.

	1978	% of Pretax Income	1977	% of Pretax Income
Net income	Amount \$39,586		Amount \$33,049	
Federal income tax				
Current	5,166		961	
Deferred	5,875		2,897	
Charged to operating expense	11,041		3,858	
Amort. of deferred investment tax credit	(513)		(222)	
AFDC net of tax rate difference	(2,201)			
Other	(2,501)		(1,460)	
Included in Other Income	(5,215)		(1,682)	
Actual Federal income tax expense	5,826		2,176	
Income before Federal income tax	\$45,412		\$35,225	
Computed tax expense	\$21,797	48.0	\$16,908	48.0
Increases (reductions) in tax resulting from:				
Excess of tax depreciation less amount deferred	(3,525)	(7.8)	(3,580)	(10.2)
Expenses capitalized for financial statements including interest, payroll and use tax, etc.	(9,361)	(20.6)	(7,765)	(22.0)
Investment tax credit	(4,955)	(10.9)	(2,624)	(7.4)
Property taxes on basis of date of taxable status	224	.5	(254)	(.7)
Cost of removal, less net amount deferred	(724)	(1.6)	(655)	(1.9)
Revenue taxes (deducted when paid)	2,133	4.7		
Miscellaneous items, net	237	.5	146	.4
Actual Federal income tax expense	\$ 5,826	12.8	\$ 2,176	6.2

A summary of the deferred amounts charged or (credited) to income is as follows:

	1978	1977
Investment tax credit	\$ 6,629	\$ 2,003
Class life depreciation	1,763	1,379
Fuel costs	(469)	1,386
Nuclear fuel amortization	(142)	(362)
Nuclear fuel storage costs	(4,989)	(3,346)
Fossil plant abandonment costs		2,160
765 KV Transmission system abandonment costs	850	
Other	(481)	(545)
	\$ 3,161	\$ 2,675

Note 4. Capitalization

Long-Term Debt

			(Thousands) Principal Amount December 31,	
First Mortgage Bonds	% Series	Due	1978	1977
3	L	Mar. 1, 1979	\$ 16,677	\$ 16,677
2½	M	Aug. 15, 1980	12,000	12,000
3½	N	June 1, 1982	6,000	6,000
3½	O	Mar. 1, 1985	10,000	10,000
4½	R	July 1, 1987	15,000	15,000
5	S	Oct. 15, 1989	12,000	12,000
4½	T	Nov. 15, 1991	15,000	15,000
4½	U	Sept. 15, 1994	16,000	16,000
5.3	V	May 1, 1996	18,000	18,000
6¼	W	Sept. 15, 1997	20,000	20,000
6.7	X	July 1, 1998	30,000	30,000
8	Y	Aug. 15, 1999	30,000	30,000
9½	Z	Sept. 1, 2000	30,000	30,000
10½	AA	Aug. 1, 1983	29,667	29,667
9½	BB	June 15, 2006	50,000	50,000
8½	CC	Sept. 15, 2007	50,000	50,000
9½	DD	Dec. 1, 2003	40,000	
			400,344	360,344
Less: Series L due in 1979			16,677	
Total Long-Term Debt			\$383,667	\$360,344

Bond premium applicable to the years 1977 and 1978 is \$677,702 and \$635,667, respectively.

Sinking and improvement fund requirements aggregate \$333,540 per annum. Such requirements may be met by certification of additional property or by depositing cash with the Trustee. The 1977 and 1978 requirements were met by certification of additional property.

Capital Stock.

Preferred Stock (cumulative)—Par value \$100; 2,000,000 shares authorized:

		(Thousands) December 31,		Redemption (per share) (a)	
%	Series	Shares Outstanding	1978	1977	
4	F	120,000	\$12,000	\$12,000	105 At any time
4.10	H	80,000	8,000	8,000	101 At any time
4½	I	60,000	6,000	6,000	101 At any time
4.10	J	50,000	5,000	5,000	102.50 At any time
4.95	K	60,000	6,000	6,000	102 At any time
4.55	M	100,000	10,000	10,000	102 Before 3/1/80
7.50	N	200,000	20,000	20,000	108 Before 6/1/79
11	O				(b)
		670,000	\$67,000	\$67,000	

(a) Redeemable at the option of the Company on 30 days' minimum notice, plus accrued dividends in all cases.

(b) Called for redemption on December 20, 1977. The issuance costs related to Series O were charged to retained earnings, and the call premium of \$2,750,000 related to this series was reported as other deferred debits and, beginning in January 1978, is being amortized in accordance with an order from the PSC.

The Company's Certificate of Incorporation was amended on June 1, 1977 to authorize 4,000,000 additional shares of cumulative preferred stock, having a par value of \$25 per share. None of this preferred stock has been issued.

Preference Stock—Par value \$1; 5,000,000 shares authorized:

		Shares Outstanding	(Thousands) December 31,		Issued
			1978	1977	
7.6	A	280,000	\$28,000	\$28,000	12/20/77

During January 1985, the Company must offer to purchase on October 1, 1985 all of the outstanding 7.6% Series A preference stock at a price of \$100 per share. The shares remaining outstanding after such offer are callable at \$100 per share at the option of the Company at any time after December 20, 1987.

Preference stock is subordinate to preferred stock but is senior to common stock.

Common Stock—Par value \$5; 25,000,000 shares authorized:

	Per Share	Shares	(Thousands) Amount	
			1978	1977
Outstanding, December 31, 1976		11,366,111	\$181,301	
3% Stock Dividend	20.00	340,984	6,820	
Sale of Stock	21.00	1,000,000	21,000	
TRASOP*	20.91	24,300	508	
Automatic Dividend	18.31-			
Reinvestment Plan	20.94	158,236	3,071	
Capital Stock Expense			(167)	
Outstanding, December 31, 1977		12,889,631	212,533	
3% Stock Dividend	21.00	386,689	8,120	
Sale of Stock	18.75	1,250,000	23,438	
Automatic Dividend	17.19-			
Reinvestment Plan	19.25	206,427	3,749	
Capital Stock Expense			(902)	
Outstanding, December 31, 1978		<u>14,732,747</u>	<u>\$246,938</u>	

*Tax Reduction Act Stock Ownership Plan

The Company's Certificate of Incorporation was amended on June 1, 1977 to authorize an additional 10,000,000 shares of common stock, par value \$5 per share.

At December 31, 1978 there were 415,797 shares of common stock reserved and unissued under the Automatic Dividend Reinvestment Plan. No other shares of common, preferred or preference stock are reserved for officers and employees or for options, warrants, conversions, and other rights.

Note 5. Cash and Short-Term Debt

At December 31, 1978, the Company had \$7 million in temporary cash investments.

Under informal agreements with certain banks, the Company is expected to maintain an average compensating balance of 10 percent of the lines of credit plus an additional 10 percent of the principal amount of each borrowing. Under the agreements, withdrawal of the compensating balances is not legally restricted, and at December 31, 1978 the balances amounted to \$4.4 million. Bank lines of credit aggregated \$64 million and borrowings are at current floating prime interest rates. The

Company also issues commercial paper at various discount rates, usually maturing within 30-45 days.

Balances and average interest rates of short-term borrowings as of December 31 for the years indicated were as follows:

	1978		1977	
	Rates	Amount (Thousands)	Rates	Amount (Thousands)
Outstanding short-term debt and average interest rate at end of period:				
Notes Payable . . .			7.00%	\$ 7,000
Commercial Paper .			6.63	2,000
Maximum short-term debt outstanding during the period:				
Notes Payable . . .		\$15,500		25,000
Commercial Paper .		15,900		26,500
Weighted average short-term debt and interest rates during the period:				
Notes Payable . . .	8.82%	7,769	6.42	10,960
Commercial Paper .	7.84	9,450	5.35	11,148

The above averages were based upon the daily balances and interest rates in effect for the periods during which short-term borrowings were outstanding and before giving effect to the additional interest cost resulting from compensating balances.

Note 6. Commitments and Other Matters

The Company's capital expenditures program involves an estimated expenditure of \$115 million, not including allowance for funds used during construction, in 1979 and the Company has entered into certain commitments for purchase of materials and equipment in connection with such program.

Operations of the Company's generating stations are subject to various Federal, state and local environmental standards.

Under the Clean Water Act, the Company is required to obtain permits to discharge pollutants into the waters of the United States. The United States Environmental Protection Agency (EPA) issued National Pollutant Discharge Elimination System permits for all the Company's major generating facilities, but a number of conditions relating to thermal and chemical discharge limitations were contested by the Company in adjudicatory hearing requests submitted to EPA. The Company, the New York State Department of Environmental Conservation (which became a party to the adjudicatory hearings) and EPA have settled the hearing requests as described below.

The Company has reached agreement with the regulatory agencies on non-thermal effluent limitations and final permits containing these agreed limitations have been issued and are now in effect. Construction of treatment facilities is required to enable Company compliance with permit limitations for two of the Company's generating stations. Pending completion of these facilities, the regulatory agencies have agreed in an Enforcement Compliance Schedule Letter to exercise their prosecutorial discretion to refrain from prosecuting the Company for violation of certain effluent limitation deadlines contained in the Clean Water Act so long as the Company adheres to a specified construction schedule for the facilities. Construction of these treatment facilities is expected to require capital expenditures estimated at \$10.5 million over the next two years.

The Company has pursued resolution of the contested thermal limitations by submitting demonstrations in an effort to justify less stringent limitations for three generating stations. The thermal conditions of the permits remain stayed pending resolution of the thermal issues either through regulatory agencies' approval of the demonstrations and less stringent thermal limitations or, in the absence of such approval, through the resumption of the adjudicatory hearing process. If the demonstrations and less stringent thermal limitations are not approved for any of the three facilities, the Company could be required to install cooling towers which would involve capital expenditures estimated at \$53 million plus significant operating and maintenance expenses.

The Company believes that additional expenditures and costs made necessary by environmental regulations will be fully allowable for rate-making purposes.

Through December 31, 1978, the Company has expended approximately \$28.4 million (excluding land) with respect to its interest in the Sterling nuclear plant. The Company estimates that if it were required to cancel all existing contracts relating to the construction of this project, it could incur up to \$6 million in cancellation charges. The Company believes that, if it were required to cancel the project, the PSC would permit it to amortize all expenditures involved over a period of several years and to recover those expenditures through rate relief.

On December 1, 1978, the PSC ruled that the case involving the 765 KV transmission facility that the Company had planned to construct be dismissed. The Company has petitioned the PSC requesting the amortization of the \$2.1 million in expenditures for the line over a 3 year period, and to allow the Company to recover the unamortized costs through rate relief.

Note 7. Interim Financial Information (Unaudited)

In the opinion of the Company, the following quarterly information includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results of operations for such periods. The variations in operations reported on a quarterly basis are a result of the seasonal nature of the Company's business and the availability of the Company's Ginna nuclear plant. Earnings per common share have been adjusted for stock dividends.

	Quarter Ended (Thousands)			
	Dec. 31, 1978	Sept. 30, 1978	June 30, 1978	Mar. 31, 1978
Operating revenues . .	\$92,312	\$73,665	\$86,942	\$116,029
Operating income . . .	8,466	9,527	12,009	19,247
Net income	7,088	6,596	9,909	15,993
Earnings on common stock	5,669	5,175	8,490	14,574
Earnings per common share (in dollars) . .	.38	.37	.63	1.09
	Dec. 31, 1977	Sept. 30, 1977	June 30, 1977	Mar. 31, 1977
Operating revenues . .	\$84,458	\$67,199	\$74,138	\$105,349
Operating income . . .	9,395	7,479	10,626	17,277
Net income	6,444	4,619	7,775	14,211
Earnings on common stock	4,657	3,044	6,200	12,636
Earnings per common share (in dollars) . .	.35	.24	.51	1.04

Note 8. Replacement Cost Information (Unaudited)

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of productive capacity greater than the historical costs of such assets reported in the Company's financial statements. In compliance with reporting requirements, estimated replacement cost information is disclosed in the Company's annual report to the Securities and Exchange Commission on Form 10-K.

Report of Independent Accountants

To the Shareholders and Board of Directors of Rochester Gas and Electric Corporation

In our opinion, the accompanying balance sheets and the related statements of income, retained earnings, and of changes in financial position appearing on pages 14 through 16 present fairly the financial position of Rochester Gas and Electric Corporation at December 31, 1978 and 1977, and the results of its operations and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co

1900 Lincoln First Tower
Rochester, New York 14604
January 26, 1979

Management's Discussion and Analysis of the Summary of Operations

The following financial review explains significant changes in the amounts of revenues and expenses between 1978/1977 and between 1977/1976. The Notes to Financial Statements on page 17 of this report contain additional related information.

Operating Revenues

Changes in Operating Revenues Increase or (Decrease) from Prior Year (Thousands of Dollars)

	Electric Department		Gas Department		Steam Department	
	1978	1977	1978	1977	1978	1977
Customer Revenues (Estimated) from:						
Rate Increases	\$12,181	\$ 5,312	\$ 2,555	\$ 2,683	\$ —	\$ —
Fuel Cost Adjustment	6,446	410	5,582	12,475	(23)	1,824
Weather Effects	221	(82)	3,259	(1,144)	367	(198)
Customer Sales	3,485	3,605	(289)	(7,631)	(314)	(997)
Other	358	137	1,627*	(1,613)*	76	(8)
Total Change in Customer Revenues	22,691	9,382	12,734	4,770	106	621
Electric Sales to Other Utilities	2,273	8,144	—	—	—	—
Total Change in Operating Revenues	<u>\$24,964</u>	<u>\$17,526</u>	<u>\$12,734</u>	<u>\$4,770</u>	<u>\$106</u>	<u>\$ 621</u>

*Reflects a one-time \$10 gas heating bill credit in the aggregate amount of approximately \$1.6 million that was applied to residential customers in February 1977. The credit was made by the Company on its own initiative in order to alleviate the economic burden to customers who were faced with record high gas heating bills caused by the severe weather conditions in January 1977 and, in some cases, with reduced income due to plant shutdowns forced by natural gas curtailments.

Revenues from electric sales to other utilities increased in both 1978 and 1977. Fluctuations in electric sales to other utilities and in purchased electricity discussed under Operating Expenses below generally are related to the output and availability of electric generation from the Ginna nuclear plant.

Operating Expenses

Changes in Operation and Maintenance Expenses Increase or (Decrease) from Prior Year (Thousands of Dollars)

	1978	1977
Electric and Steam Fuels	\$ 1,147	\$10,632
Purchased Electricity	5,702	(4,560)
Purchased Natural Gas	9,023	5,894
Other Operation	3,191	4,817
Maintenance	3,874	2,166
Total Change in Operation and Maintenance Expense	<u>\$22,937</u>	<u>\$18,949</u>

The 1977 increase in electric and steam fuels expense was mainly due to an increase in electricity generated in 1977 and an increased fuel cost per kilowatt-hour generated by nuclear fuel. Purchased electricity expense increased in 1978 due to both higher costs and higher kilowatt-hour purchases while the decrease in 1977 reflected mainly decreased purchases netted against a relatively modest increase in the cost per kilowatt-hour.

Purchased natural gas expense increased in both 1978 and 1977 as a result of higher pipeline rates and increased consumption due to colder weather in 1978.

The increase in maintenance expense of \$3.9 million in 1978 and \$2.2 million in 1977 reflects increases in the cost of labor and material to repair and maintain existing facilities, and increased activity in the repair and upkeep of transmission and distribution facilities.

Changes in Taxes

Taxes—local, state and other increased \$2.1 million in 1978 principally due to higher gross income taxes based on increased revenues. The 1977 increase of \$3.4 million was also due to higher gross income taxes as well as higher property taxes resulting from the addition of new plant and increased property tax rates.

Total Federal income taxes increased \$3.7 million in 1978 after declining \$1.8 million in 1977. See Note 3 to the Notes to Financial Statements for a detailed analysis.

Other Statement of Income Items

The increase in allowance for funds used during construction of \$2.2 million in 1978 and \$3.8 million in 1977 was due to increases in utility plant expenditures in both periods. See Note 1 to the Notes to Financial Statements.

Other—other income and deductions increased \$3.1 million during 1978 principally due to added non-operating Federal income tax credits.

Interest on long term debt increased \$3.1 million in 1978 and \$3.2 million in 1977 as a result of additional bonds issued in December 1978, September 1977 and June 1976.

Dividends on preferred and preference stock decreased \$.8 million in 1978 due to the refunding in December 1977 of a series of preferred stock with the proceeds from the sale of a series of preference stock having a lower dividend rate.

Summary of Operations (Thousands of Dollars)

	1978	1977	1976	1975	1974*	1973
Operating Revenues						
Electric	\$202,631	\$179,940	\$170,558	\$146,629	\$127,560	\$116,512
Gas	118,531	105,797	101,027	82,478	75,463	64,633
Steam	19,110	19,004	18,383	17,337	16,321	10,014
	340,272	304,741	289,968	246,444	219,344	191,159
Electric sales to other utilities	28,676	26,403	18,259	25,496	14,697	21,112
Total Operating Revenues	368,948	331,144	308,227	271,940	234,041	212,271
Operating Expenses						
Operation						
Electric and steam fuels	58,140	56,993	46,361	46,268	36,693	25,612
Purchased electricity	19,337	13,635	18,195	12,212	12,070	8,841
Purchased natural gas	71,109	62,086	56,192	42,247	37,342	29,923
Other	65,685	62,494	57,677	50,629	44,356	40,999
Maintenance	26,246	22,372	20,206	19,700	17,966	15,888
Depreciation	22,206	21,053	18,621	17,414	16,491	15,145
Taxes—local, state and other	45,935	43,876	40,502	36,157	32,410	29,993
Federal income tax—current	5,166	961	(291)	4,162	(3,126)	6,724
—deferred	5,875	2,897	5,656	1,133	4,277	915
Total Operating Expenses	319,699	286,367	263,119	229,922	198,479	174,040
Operating Income	49,249	44,777	45,108	42,018	35,562	38,231
Other Income and Deductions						
Allowance for other funds used during construction	8,705	6,473	4,678	2,310	1,128	274
Other—net	4,418	1,310	1,128	537	670	715
Total Other Income and Deductions	13,123	7,783	5,806	2,847	1,798	989
Income before Interest Charges	62,372	52,560	50,914	44,865	37,360	39,220
Interest Charges						
Long-term debt	25,594	22,542	19,378	16,963	14,965	13,738
Short-term debt	1,588	1,319	1,054	1,568	2,255	1,246
Other—net	416	494	246	1,227	210	103
Allowance for borrowed funds used during construction	(4,812)	(4,844)	(2,853)	(1,264)	(613)	(173)
Total Interest Charges	22,786	19,511	17,825	18,494	16,817	14,914
Net Income	39,586	33,049	33,089	26,371	20,543	24,306
Dividends on Preferred and Preference Stock, at required rates	5,678	6,512	6,245	4,054	3,550	3,550
Earnings Applicable to Common Stock	\$ 33,908	\$ 26,537	\$ 26,844	\$ 22,317	\$ 16,993	\$ 20,756
Weighted average number of shares outstanding in each period, adjusted for stock dividends (000's)	13,774	12,474	11,983	10,987	10,628	9,753
Earnings per Common Share	\$2.46	\$2.12	\$2.24	\$2.03	\$1.59	\$2.12
Cash Dividends per Common Share, adjusted for stock dividends	\$1.41	\$1.29	\$1.20	\$1.15	\$1.09	\$1.04

* In 1974, the Company began deferring a portion of increased fuel costs to the period in which the related revenues were recorded.

Condensed Balance Sheet (Thousands of Dollars)	1978	1977	1976	1975	1974	1973
ASSETS						
Utility Plant, at original cost	\$857,959	\$789,775	\$727,687	\$693,404	\$659,308	\$618,891
Less—Accumulated depreciation and amortization	261,477	229,122	198,778	185,455	167,645	150,600
	596,482	560,653	528,909	507,949	491,663	468,291
Construction work in progress	213,534	162,127	120,702	79,381	39,324	24,542
Net utility plant	810,016	722,780	649,611	587,330	530,987	492,833
Investment in Subsidiary, at equity	1,996	1,947	1,911	1,871	1,834	
Current Assets	66,953	58,387	61,090	53,796	52,678	38,982
Deferred Debits	14,421	15,260	8,151	7,450	8,213	4,874
Total Assets	\$893,386	\$798,374	\$720,763	\$650,447	\$593,712	\$536,689

CAPITALIZATION AND LIABILITIES

Capitalization						
Long-term debt	\$384,303	\$361,022	\$311,395	\$267,314	\$267,348	\$237,382
Preferred stock	67,000	67,000	92,000	89,000	67,000	67,000
Preference stock	28,000	28,000				
Common shareholders' equity						
Common stock	246,938	212,533	181,301	173,586	154,758	148,566
Retained earnings	77,338	70,819	67,812	60,502	53,568	52,184
Total common shareholders' equity	324,276	283,352	249,113	234,088	208,326	200,750
Total Capitalization	803,579	739,374	652,508	590,402	542,674	505,132
Current Liabilities	68,362	42,813	54,652	51,712	43,952	29,091
Deferred Credits and Other Liabilities	21,445	16,187	13,603	8,333	7,086	2,466
Total Capitalization and Liabilities	\$893,386	\$798,374	\$720,763	\$650,447	\$593,712	\$536,689

At December 31

Financial Data	1978	1977	1976	1975	1974	1973
Capitalization Ratios (percent)						
Long-term debt	47.8	48.8	47.7	45.3	49.3	47.0
Preferred and preference stock	11.8	12.9	14.1	15.1	12.3	13.3
Common shareholders' equity	40.4	38.3	38.2	39.6	38.4	39.7
Total	100.0	100.0	100.0	100.0	100.0	100.0
Book Value per Common Share Adjusted for Stock Dividends—Year End						
	\$22.01	\$21.34	\$20.89	\$19.69	\$19.55	\$18.91
Internal Generation of Funds (percent)	39.5	35.9	44.6	42.5	42.3	89.8
Rate of Return On Average Common Equity—Year End (percent)						
	11.22	10.02	11.16	10.18	8.44	11.35
Effective Federal Income Tax Rate (percent)	12.8	6.2	10.6	14.4	1.7	22.9
Depreciation Rate—Electric	3.09	3.00	2.90	2.79	2.79	2.71
—Gas	2.79	2.67	2.63	2.60	2.60	2.48
Interest Coverages						
Before federal income taxes (incl. AFDC)	2.65	2.45	2.79	2.56	2.20	3.09
(excl. AFDC)	2.16	1.98	2.43	2.38	2.10	3.04
After federal income taxes (incl. AFDC)	2.43	2.36	2.60	2.33	2.18	2.61
(excl. AFDC)	1.94	1.89	2.24	2.15	2.08	2.58

Electric Department	1978	1977	1976	1975	1974	1973
Electric Revenue (000's)						
Residential	\$ 72,854	\$ 64,986	\$ 61,498	\$ 53,904	\$ 45,354	\$ 42,125
Commercial	58,985	53,520	50,791	43,884	37,908	34,387
Industrial	48,792	41,783	39,402	33,244	30,858	27,597
Other	22,000	19,651	18,867	15,597	13,440	12,403
Electric revenue from our customers	202,631	179,940	170,558	146,629	127,560	116,512
Other electric utilities	28,676	26,403	18,259	25,496	14,697	21,112
Total electric revenue	231,307	206,343	188,817	172,125	142,257	137,624
Electric Expense (000's)						
Fuel used in electric generation	45,093	44,010	34,247	33,442	25,739	19,461
Purchased electricity	19,337	13,635	18,195	12,212	12,070	8,841
Other operation	47,602	45,011	40,930	35,662	32,177	28,378
Maintenance	19,305	16,339	14,796	14,282	12,390	11,029
Depreciation	16,983	15,333	13,865	12,731	11,977	11,026
Taxes—local, state and other	33,108	31,530	28,543	25,369	22,784	21,281
Electric revenue deductions	181,428	165,858	150,576	133,698	117,137	100,016
Operating Income before Federal Income Tax	49,879	40,485	38,241	38,427	25,120	37,608
Federal income tax	9,244	4,041	3,102	5,069	(433)	7,235
Operating Income from Electric Operations (000's) \$	40,635	\$ 36,444	\$ 35,139	\$ 33,358	\$ 25,553	\$ 30,373
Electric Operating Ratio %	56.8	57.7	57.3	55.5	57.9	49.2
Electric Sales—KWH (000's)						
Residential	1,701,938	1,660,425	1,618,314	1,530,421	1,456,335	1,468,376
Commercial	1,417,624	1,392,023	1,366,094	1,294,816	1,226,333	1,261,697
Industrial	1,517,988	1,431,855	1,384,235	1,284,940	1,346,116	1,424,639
Other	465,373	454,059	437,097	411,122	379,379	385,243
Electric sales to our customers	5,102,923	4,938,362	4,805,740	4,521,299	4,408,163	4,539,955
Other electric utilities	1,445,391	1,453,590	1,187,942	1,864,050	1,182,902	2,269,686
Total electric sales	6,548,314	6,391,952	5,993,682	6,385,349	5,591,065	6,809,641
Electric Customers at December 31						
Residential	251,645	250,121	249,177	246,613	244,063	241,032
Commercial	24,137	24,023	23,983	23,874	23,827	23,436
Industrial	1,348	1,353	1,371	1,380	1,365	1,360
Other	2,423	2,328	2,271	2,305	2,316	1,995
Total electric customers	279,553	277,825	276,802	274,172	271,571	267,823
Electricity Generated and Purchased—KWH (000's)						
Fossil	2,025,645	2,272,182	2,060,186	1,731,723	1,961,453	1,869,079
Nuclear	3,206,313	3,018,305	2,040,746	3,026,894	2,079,539	3,395,564
Hydro	192,278	222,391	277,010	265,401	234,568	243,582
Pumped storage	133,287	193,340	118,716	98,743	131,311	57,801
Less energy for pumping	(189,453)	(283,573)	(180,317)	(148,180)	(192,311)	(86,362)
Other	1,086	850	2,797	2,198	12,806	8,776
Total generated—Net	5,369,156	5,423,495	4,319,138	4,976,779	4,227,366	5,488,440
Purchased	1,579,863	1,400,505	2,106,904	1,888,091	1,836,911	1,709,420
Total electric energy	6,949,019	6,824,000	6,426,042	6,864,870	6,064,277	7,197,860
Electric Generation Costs (000's)						
Fossil	\$38,995	\$40,557	\$36,901	\$33,120	\$30,361	\$18,099
Nuclear	25,561	22,330	13,485	14,191	7,980	10,368
Hydro	1,229	1,132	973	1,030	1,085	1,083
Other	57	44	118	63	321	123
Electric Department Fuel						
Fossil —Total BTU (million)	21,139,146	23,862,599	21,822,976	18,388,874	20,911,993	20,331,338
—Cents per million BTU	144.27	136.92	137.42	142.18	117.05	62.12
Nuclear—Total BTU (million)	35,812,171	37,822,209	23,837,620	33,128,471	22,909,968	36,683,359
—Cents per million BTU	43.97	38.04	25.69	22.91	11.28	18.62
System Net Capability—KW at December 31						
Fossil	443,000	443,000	452,000	452,000	452,000	457,000
Nuclear	470,000	470,000	470,000	470,000	470,000	420,000
Hydro	47,000	47,000	47,000	47,000	47,000	53,100
Other	29,000	29,000	29,000	29,000	29,000	42,500
Purchased	339,000	338,000	342,000	356,000	347,000	352,000
Total system net capability	1,328,000	1,327,000	1,340,000	1,354,000	1,345,000	1,324,600
Net Peak Load—KW	983,000	987,000	934,000	925,000	880,000	922,000
Annual Load Factor—Net %	63.9	62.0	63.8	61.7	63.3	61.0

Gas Department	1978	1977	1976	1975	1974	1973
Gas Revenue (000's)						
Residential	\$ 5,096	\$ 4,828	\$ 4,426	\$ 3,964	\$ 3,809	\$ 3,627
Residential spaceheating	74,425	66,900	63,974	52,584	47,758	40,453
Commercial	20,535	18,057	16,848	13,593	12,533	10,433
Industrial	13,891	12,014	11,900	9,167	8,583	7,648
Municipal and other	4,584	3,998	3,879	3,170	2,780	2,472
Total gas revenue	118,531	105,797	101,027	82,478	75,463	64,633
Gas Expense (000's)						
Purchased natural gas	71,109	62,086	56,192	42,247	37,342	29,923
Other operation	15,810	15,072	14,921	13,310	11,492	11,420
Maintenance	5,768	5,078	4,510	4,500	4,757	4,043
Depreciation	4,641	5,140	4,194	4,137	3,978	3,615
Taxes—local, state and other	10,545	10,089	9,729	8,715	7,937	7,281
Gas revenue deductions	107,873	97,465	89,546	72,909	65,506	56,282
Operating Income before Federal Income Tax	10,658	8,332	11,481	9,569	9,957	8,351
Federal income tax	1,966	147	2,212	914	1,221	840
Operating Income from Gas Operations (000's) . .	\$ 8,692	\$ 8,185	\$ 9,269	\$ 8,655	\$ 8,736	\$ 7,511
Gas Operating Ratio %	78.2	77.7	74.9	72.8	71.0	70.2
Gas Sales—Therms (000's)						
Residential	13,465	13,833	14,404	14,328	14,903	15,141
Residential spaceheating	255,951	252,923	275,582	249,224	263,290	245,368
Commercial	82,451	77,751	86,400	78,217	84,872	79,039
Industrial	63,709	59,956	72,847	65,760	73,926	78,137
Municipal	17,748	15,975	18,598	16,705	16,696	17,148
Total gas sales	433,324	420,438	467,831	424,234	453,687	434,833
Gas Customers at December 31						
Residential	38,013	39,977	40,892	41,437	42,884	45,958
Residential spaceheating	154,366	152,856	153,583	153,848	151,154	144,847
Commercial	12,092	11,268	11,475	11,390	11,478	11,303
Industrial	759	746	757	756	767	762
Municipal	1,084	989	936	957	1,024	865
Total gas customers	206,314	205,836	207,643	208,388	207,307	203,735
Gas—Therms (000's)						
Purchased for reforming and mixing			9,830	23,160	31,518	30,834
Purchased for resale	449,904	428,811	478,935	421,252	438,494	422,718
Other	13,178	10,123	7,911	7,019	7,063	6,535
Total gas available	463,082	438,934	496,676	451,431	477,075	460,087
Cost of gas per therm	15.26¢	14.43¢	11.37¢	10.19¢	8.49¢	7.13¢
Total Daily Capacity—Therms at December 31						
Mixed gas				269,000	410,844	410,844
Straight natural gas	4,164,000	4,164,000	4,164,000	3,895,000	3,871,448	3,762,672
Total daily capacity	4,164,000	4,164,000	4,164,000	4,164,000	4,282,292	4,173,516
Maximum daily sendout—Therms	3,183,678	3,578,468	3,497,861	3,041,070	3,192,631	2,985,392
Degree Days (Customer Billing)						
For the period	7,021	6,726	6,905	6,211	6,808	5,883
Percent (warmer) colder than normal	4.5	(0.1)	1.6	(7.2)	1.3	(12.2)

Steam Department

	1978	1977	1976	1975	1974	1973
Steam Revenue (000's)						
Commercial	\$ 6,087	\$ 6,352	\$ 6,401	\$ 5,668	\$ 5,419	\$ 3,668
Industrial	10,732	10,455	9,799	9,862	9,396	5,470
Municipal and other	2,291	2,197	2,183	1,807	1,506	876
Total steam revenue	19,110	19,004	18,383	17,337	16,321	10,014
Steam Expense (000's)						
Fuel used in steam generation	13,047	12,983	12,114	12,826	10,954	6,151
Other operation	2,273	2,411	1,826	1,657	687	1,201
Maintenance	1,173	955	900	918	819	816
Depreciation	581	580	562	546	536	504
Taxes—local, state and other	2,282	2,257	2,230	2,073	1,689	1,431
Steam revenue deductions	19,356	19,186	17,632	18,020	14,685	10,103
Operating Income before Federal Income Tax	(246)	(182)	751	(683)	1,636	(89)
Federal income tax	(168)	(330)	51	(688)	363	(436)
Operating Income from Steam Operations (000's) .	\$ (78)	\$ 148	\$ 700	\$ 5	\$ 1,273	\$ 347
Steam Operating Ratio %	86.3	86.0	80.7	88.8	76.3	81.6
Steam Sales—Lbs. (000's)						
Commercial	898,904	933,609	1,041,415	980,324	1,160,122	1,268,917
Industrial	1,718,565	1,682,033	1,738,391	1,839,402	2,127,837	2,136,794
Municipal	346,031	334,645	367,553	325,727	334,463	318,323
Total steam sales	2,963,500	2,950,287	3,147,359	3,145,453	3,622,422	3,724,034
Steam Customers at December 31						
Commercial	238	254	271	281	292	302
Industrial	70	74	77	77	78	78
Municipal	31	32	32	31	31	30
Total steam customers	339	360	380	389	401	410
Steam Produced—Lbs. (000's)						
Produced by steam department	1,353,053	1,194,132	1,408,029	1,387,363	1,532,246	1,442,472
By-product steam from electric department	1,987,638	2,133,853	2,193,283	2,344,693	2,588,120	2,613,321
Total steam produced	3,340,691	3,327,985	3,601,312	3,732,056	4,120,366	4,055,793
Steam Department Fuel						
Total BTU (million)	5,705,943	5,548,290	6,022,360	6,230,767	6,807,500	6,849,830
Cents per million BTU	226.21	232.60	203.35	203.08	196.31	89.80

Rate Increases

Granted					
Class of Service	Effective Date of Increase	Amount of Increase (Annual Basis) (000's)	Percent Increase	Rate of Return on Rate Base Authorized	Rate of Return on Equity Authorized
Electric	October 25, 1972	\$10,154	11.5%	7.96%	12.00%
	October 23, 1974	17,992	16.0	8.83	13.19
	April 20, 1976	11,002	7.9	9.35	13.50
	November 11, 1977	10,186	5.8	9.31	12.80
	February 18, 1978	3,000	1.6	9.31	12.80
Gas	April 28, 1972	3,676	6.8	7.77	12.00
	October 23, 1974	4,854	7.6	8.42	12.09
	April 20, 1976	4,983	6.3	9.35	13.50
	November 11, 1977	2,536	2.4	9.31	12.80
	February 2, 1978	678	.6	9.31	12.80
Steam	May 11, 1972	897	11.4	6.48	
	November 12, 1973	500	5.1	7.25	
	April 15, 1975	2,475	12.0	8.69	

Pending Requests

Class of Service	Date of Filing	Amount (000's)	Percent
Electric	May 26, 1978	\$37,946	17.8%
Gas	May 26, 1978	10,789	8.9



Directors

Keith W. Amish*

*Executive Vice President,
Rochester Gas and Electric Corporation*

Paul W. Briggs*

*President,
Rochester Gas and Electric Corporation*

John D. Cockcroft*

*Former Chairman of the Board,
The R. T. French Company*

Wilmot R. Craig†

*Former Chairman of the Board,
Lincoln First Banks Inc.*

E. Kent Damon††

*Vice President and Secretary,
Xerox Corporation*

Francis E. Drake, Jr.*

*Chairman of the Board and Chief Executive Officer,
Rochester Gas and Electric Corporation*

J. Wallace Ely*†

*Chairman of the Board,
Security New York State Corporation*

Walter A. Fallon

*Chairman of the Board and Chief Executive Officer,
Eastman Kodak Company*

Ernest J. Howe*††

*Chairman of the Executive and Finance Committee,
Rochester Gas and Electric Corporation*

*Member of the Executive and Finance Committee of the Board of Directors

†Member of the Audit Committee of the Board of Directors



Officers

Francis E. Drake, Jr.
Chairman of the Board and Chief Executive Officer
Age 63, Years of Service, 41

Paul W. Briggs
President
Age 56, Years of Service, 33

Keith W. Amish
Executive Vice President
Age 55, Years of Service, 31

Joseph J. Hartman
Vice President, Gas and Transportation
Age 54, Years of Service, 32

John L. Kennedy
Vice President, Rates and Governmental Affairs
Age 60, Years of Service, 38

John E. Maier
Vice President, Employee Relations
Age 51, Years of Service, 31

Richard J. Rudman
Vice President, Electric Transmission and Distribution
Age 51, Years of Service, 33

Harry G. Saddock
Vice President, Electric System Planning and Operation
Age 49, Years of Service, 28

Mario Silvestrone
Vice President, Consumer Services, Corporate Communications and Purchasing
Age 55, Years of Service, 28

Leon D. White, Jr.
Vice President, Electric and Steam Production
Age 59, Years of Service, 41

Dean W. Caple
Secretary and Treasurer
Age 55, Years of Service, 30

Francis A. Sullivan, Jr.
Controller
Age 55, Years of Service, 28

Robert W. Ball
Assistant Treasurer
Age 62, Years of Service, 40

David C. Heiligman
Assistant Secretary
Age 38, Years of Service, 15

Robert C. Henderson
Assistant Controller
Age 38, Years of Service, 15

Stephen Kowba
Assistant Controller
Age 59, Years of Service, 28

John M. Kuebel
Auditor
Age 43, Years of Service, 14



Daniel G. Kennedy*
Partner,
Nixon, Hargrave, Devans & Doyle

A. J. McMullen
Chairman of the Executive Committee, Garlock Inc.,
and Director of the parent company, Colt Industries, Inc.

Paul A. Miller
Former President,
Rochester Institute of Technology

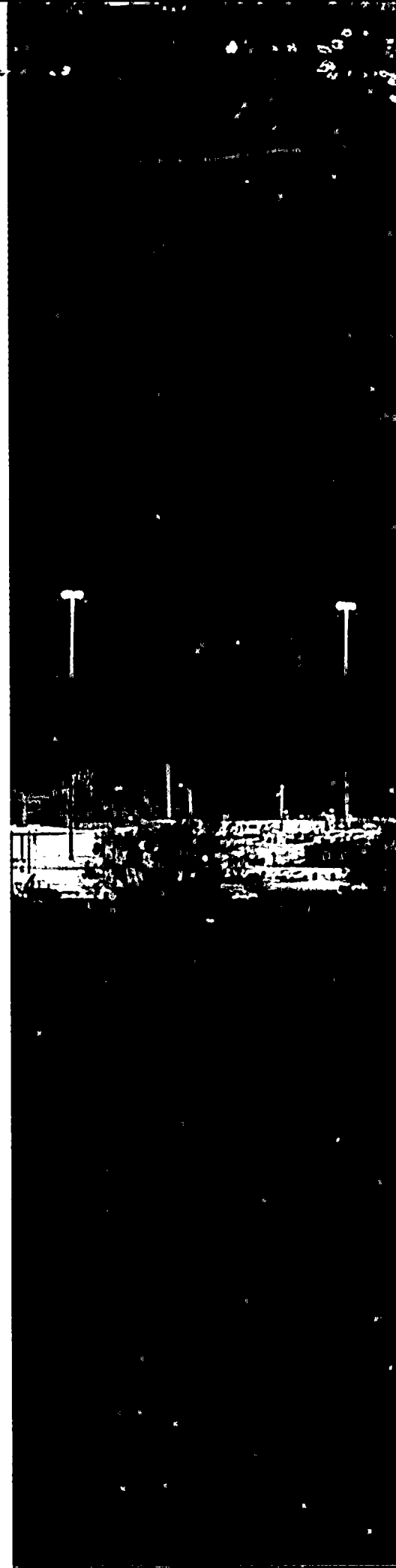
Edward J. Nelson
Former President,
Rochester Gas and Electric Corporation

William S. Vaughn*††
Former Chairman of the Board,
Eastman Kodak Company

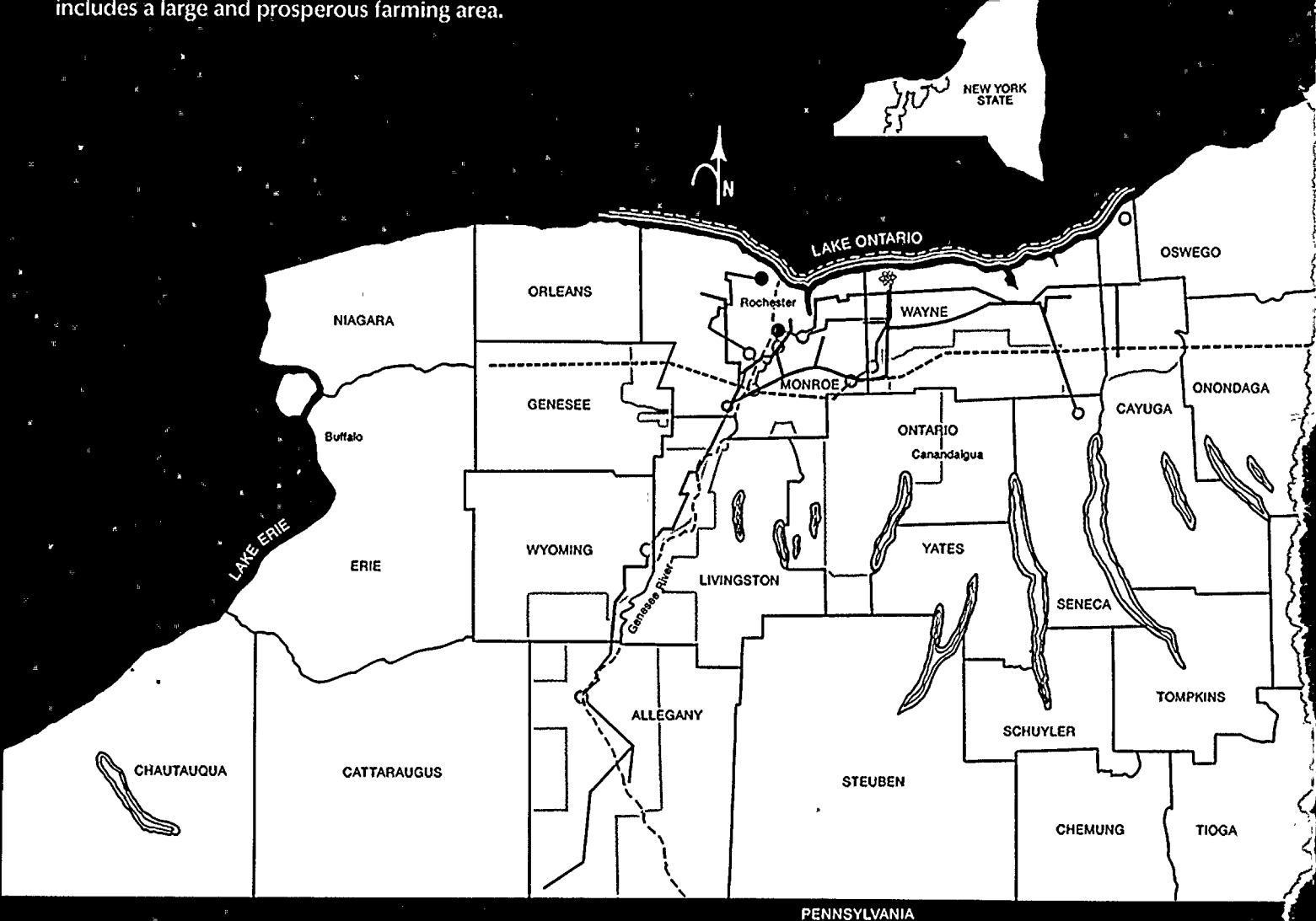
William G. vonBerg†
Chairman of the Board and Chief Executive Officer,
Sybron Corporation



Rochester Gas and Electric Corporation
89 East Avenue
Rochester, New York 14649



includes a large and prosperous farming area.

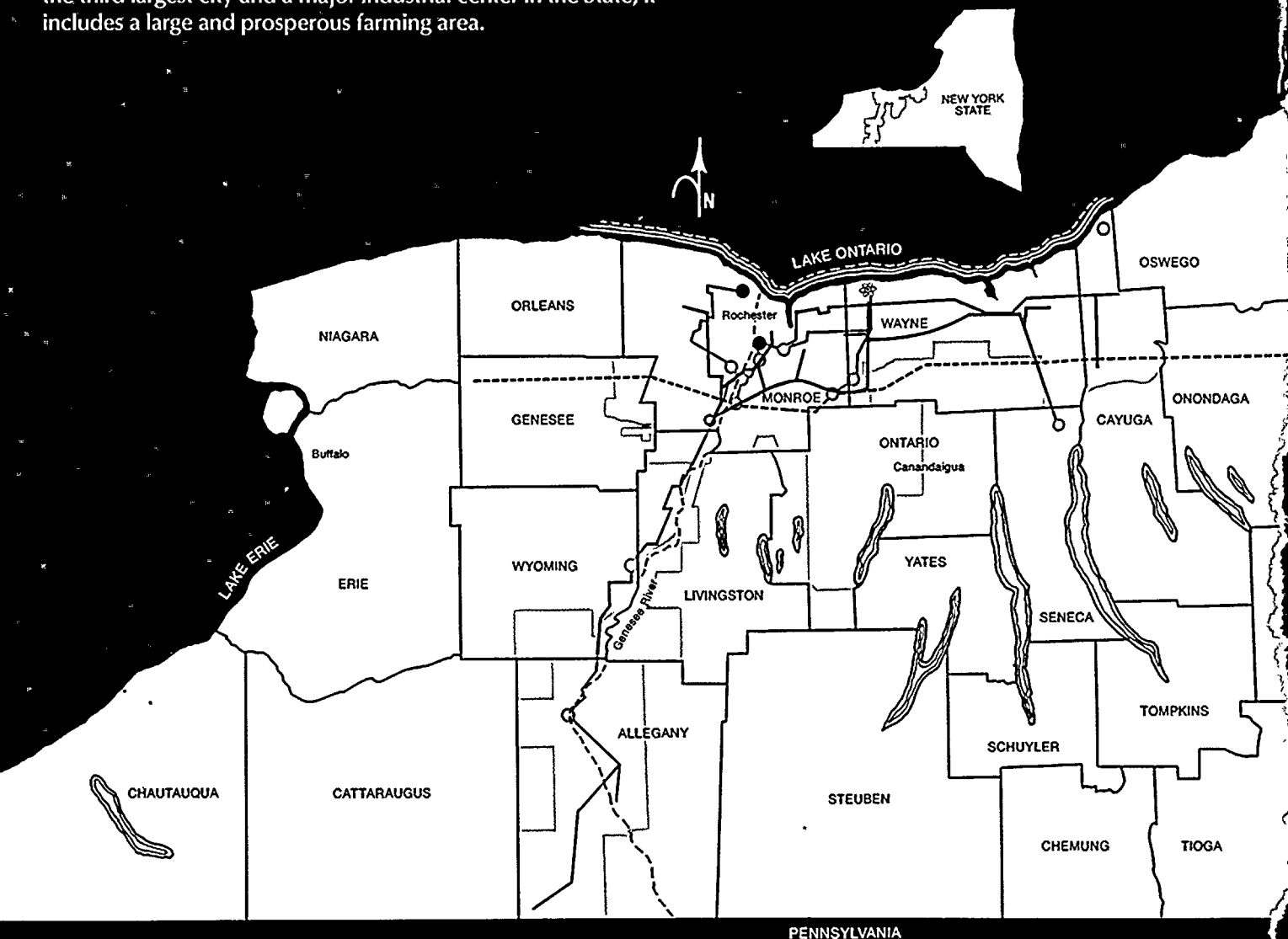


RG&E Service Area/Business

The Company supplies electric, gas and steam service wholly within the State of New York, and is engaged in the production, transmission, distribution and sale of these services in a nine-county area centering around the City of Rochester.

The Company's territory, which has a population of approximately 880,000, is well diversified among residential, commercial and industrial consumers. In addition to the City of Rochester, which is the third largest city and a major industrial center in the State, it includes a large and prosperous farming area.

- Major RG&E Electric Lines
- Major RG&E Gas Lines
- - N.Y.S. Power Authority Electric Line
- Russell and Beebee Fossil-Fired Electric Generating Stations
- * Ginna Nuclear Power Station
- Major Electric Interconnections
- Natural Gas Supply Stations
- Sterling Plant Site



Cover

RG&E's 470,000 kilowatt Ginna nuclear power plant stands out at night under the new security lighting system. The year 1979 marks the tenth year of the nuclear plant's highly successful operation.

Rochester
Gas and Electric
Corporation

Annual Report
1978

