

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

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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.

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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	18½	17½	20½	18	
3rd quarter	19½	18	21¼	19¾	
4th quarter	18¾	16½	21½	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.

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

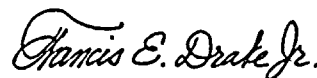
space heating service while balancing known supply with anticipated demand. Total kilowatt-hour sales of electricity to customers are projected to increase 3.1 percent. Our service area is expected to realize this growth despite the adverse economic factors that have significantly diminished load growth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

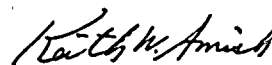
These problems are so important that we have taken the unusual step of preparing a special section to this report that can be found on page eight. We hope you will take the time to read it.



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

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

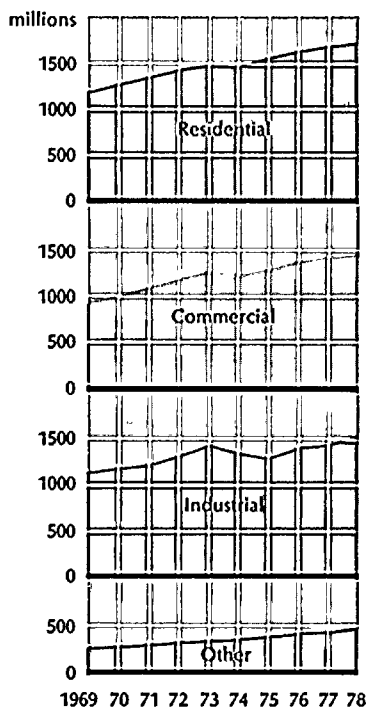
gas, went up 12.0 percent, an increase of \$15.9 million. Employee wages and benefits expense increased 8.1 percent, or \$4.1 million over 1977. The total number of employees, 2622, was reduced by two over the year while the number of customers continued to increase, resulting in improved productivity.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

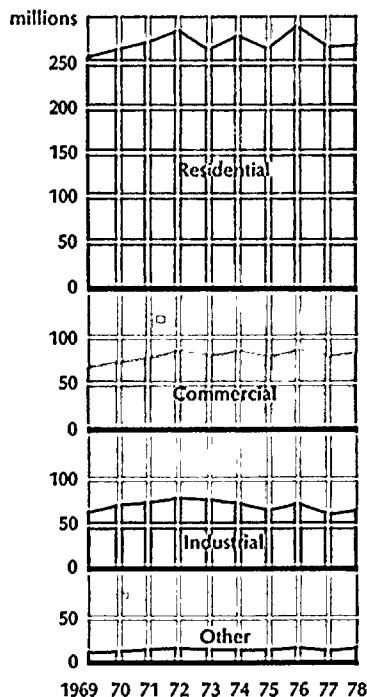
Plans for a proposed 1,150,000 kilowatt nuclear power plant at Sterling, New York await reinstatement of a certification from the New York State Board on Electric Generation Siting and the Environment. In January 1978 this Board granted a construction certificate for the Sterling plant with an operational 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

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 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.

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.

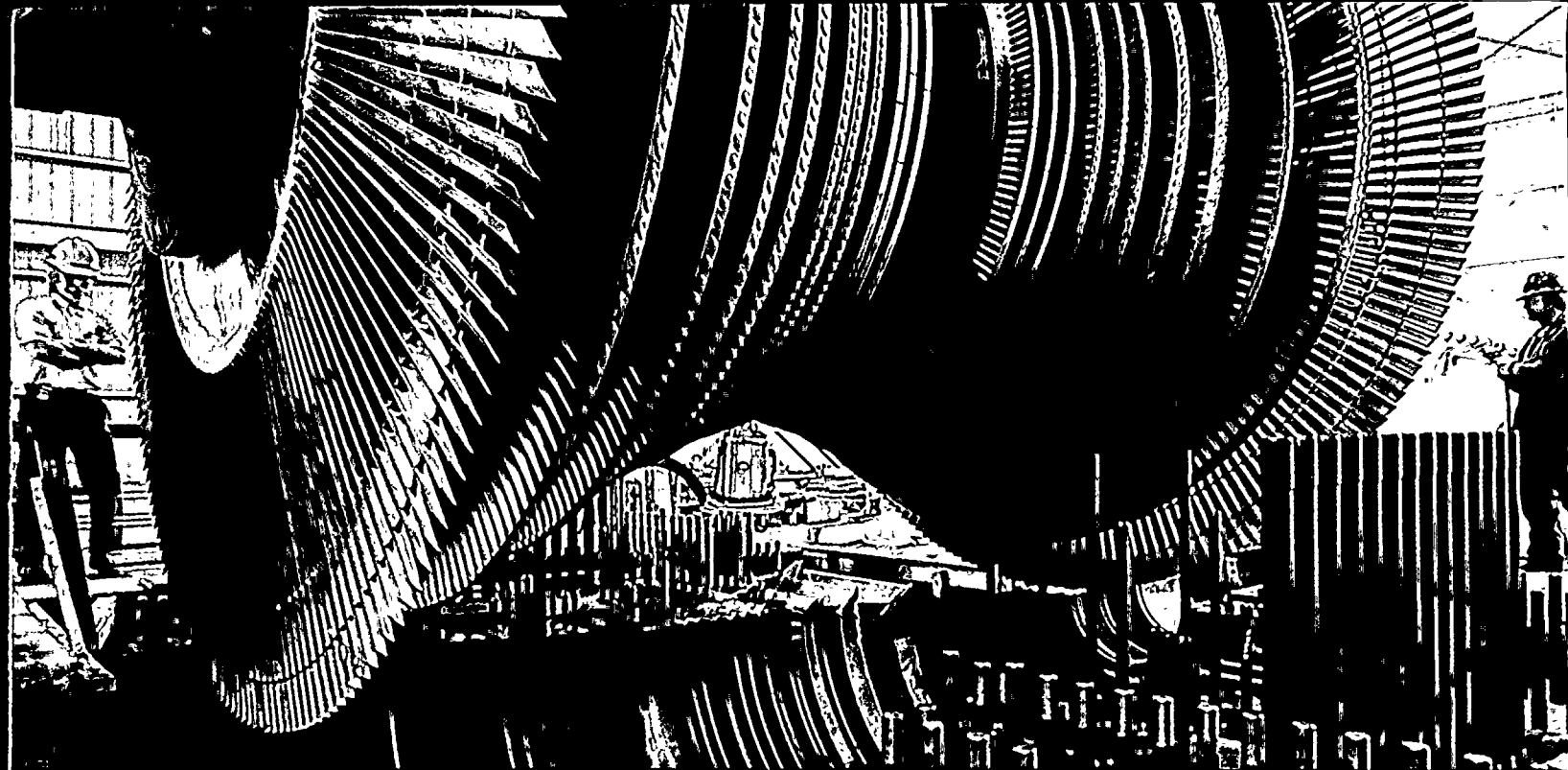
A broad, national program to encourage development of nuclear steam generation equipment and maintenance improvements was initiated in 1978 and is co-sponsored by RG&E. The research on a novel backhoe safety shutoff system that will prevent accidental damage to underground cable and pipeline has produced 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.



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.

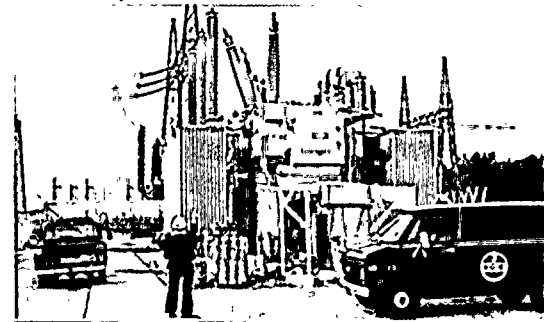
In the Lakeshore District to the east, plans call for the construction of a 115 KV transmission line along the recently acquired right-of-way section

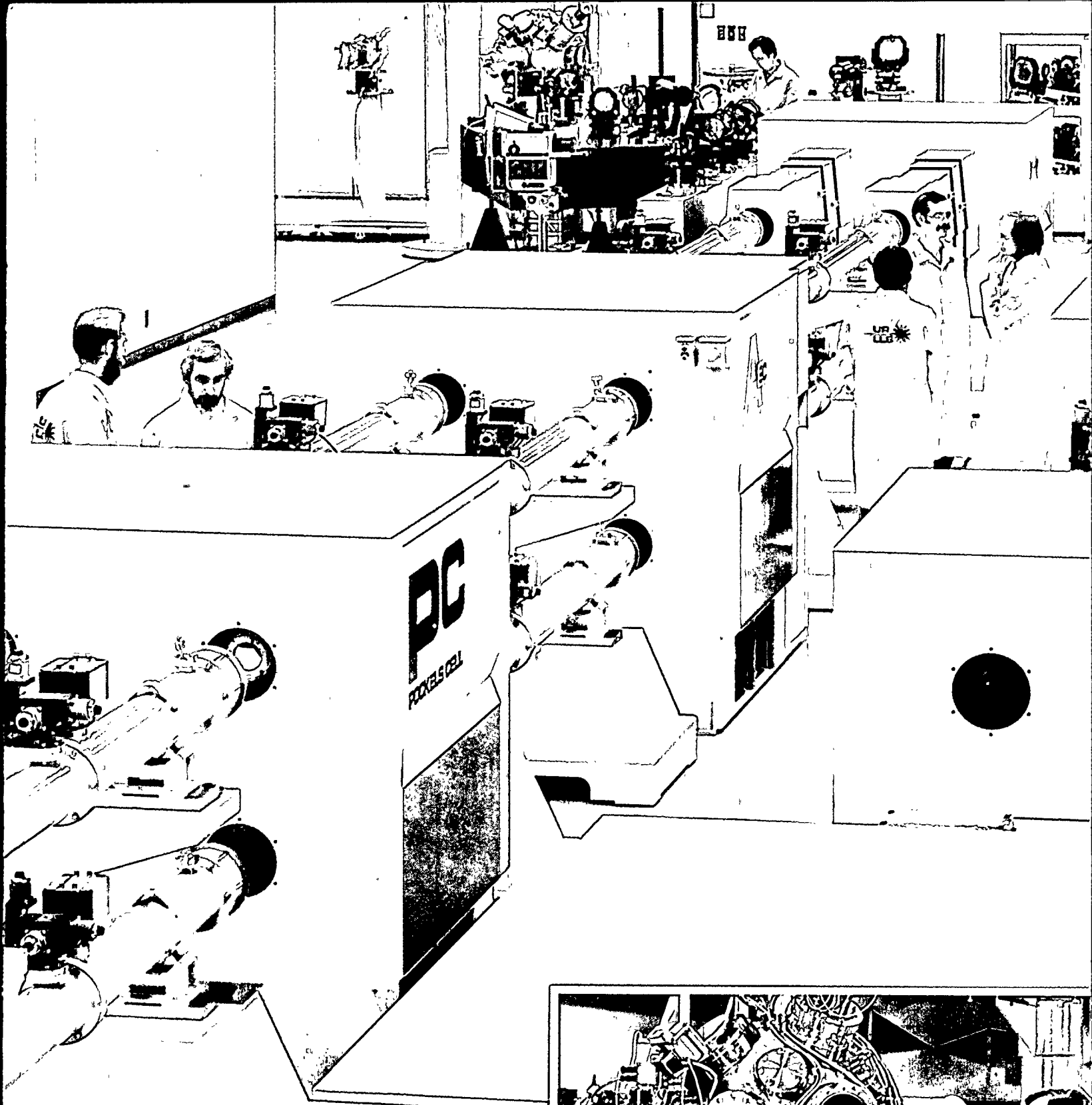
of the Hojack Line railroad to meet growth in that outlying district.

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.

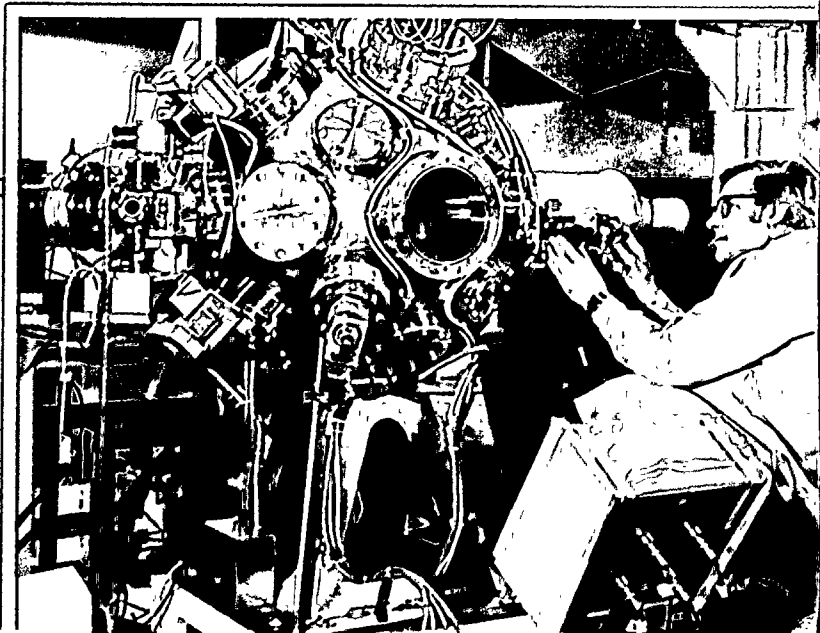
Electric and gas facility relocation on public property became a larger-than-normal undertaking in 1978 due to the extensive activity in road construction and highway improvement. The \$7 million expense for this work must ultimately be borne by the Company's customers since there is only occasional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

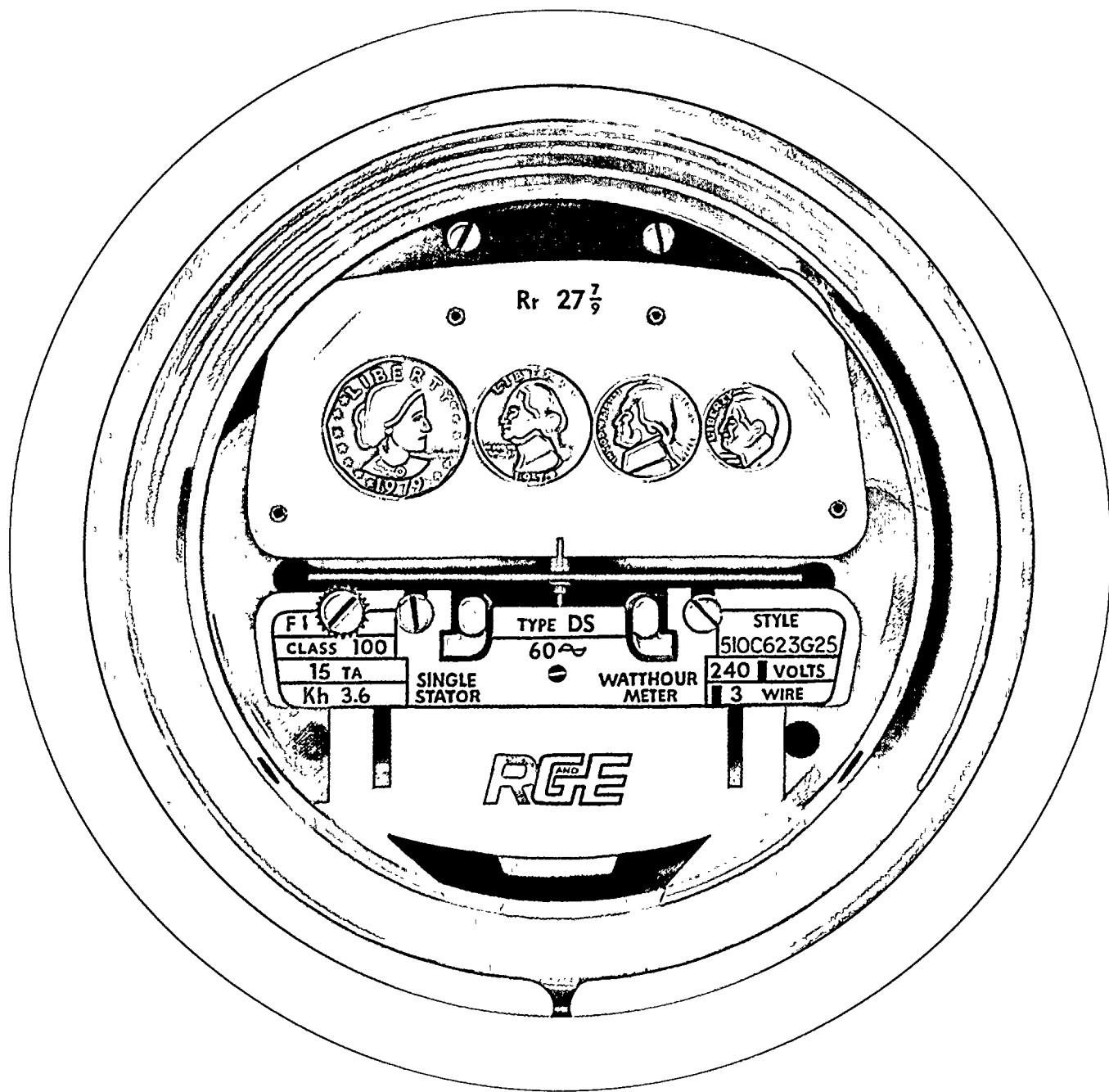




In the Laboratory for Laser Energetics of the College of Engineering and Applied Science at the University of Rochester, experiments are conducted in an attempt to harness thermal energy from nuclear fusion. Powerful laser beams are focused through mirrors and converge on a minute hydrogen pellet inside 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.



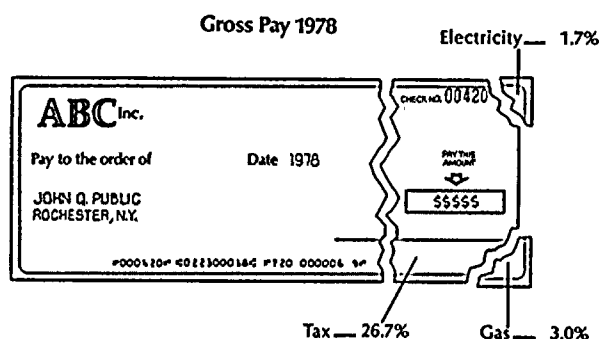
Some Plain Talk



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.

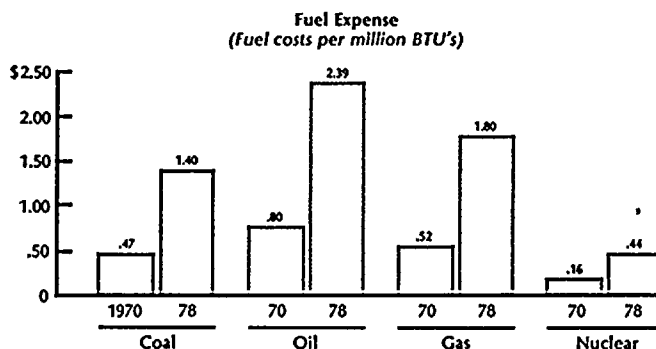
We're certainly not saying that all of our customers have incomes that have kept pace with escalating inflation. The senior citizen, for example, on low, fixed income is having an extremely difficult time meeting the continually increasing costs of all essentials for living, including heat and electricity.

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.

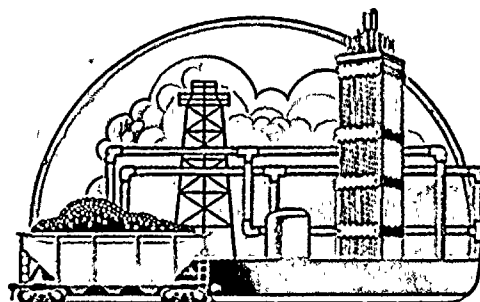
On the subject of rising costs, pressure groups and consumer activists often suggest that utilities, like RG&E, should hold the line on "their" rising costs and maintain existing rates or even lower them by reducing "profits." Well, the fact is, RG&E has no control over most of the costs that comprise 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.

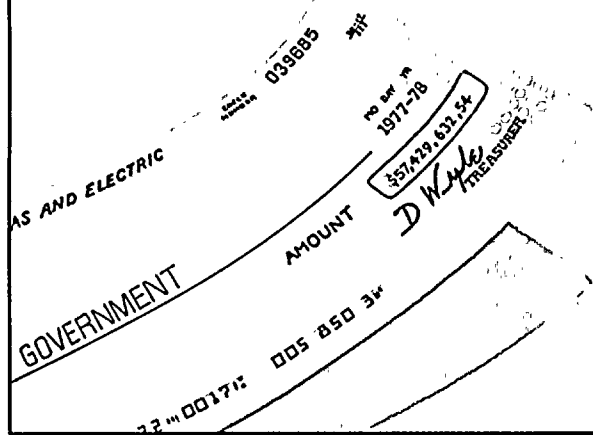
1. Fuels

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.

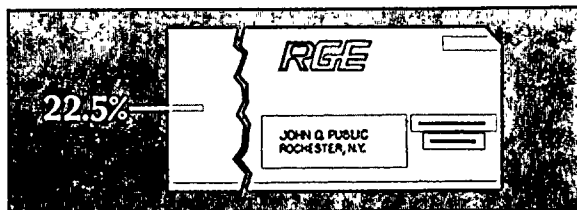




2. Tax

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.

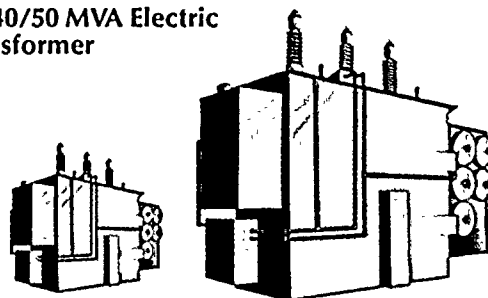
RG&E will continue to exercise control of wage and benefit expenses, and we are observing the current voluntary anti-inflationary guidelines.



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

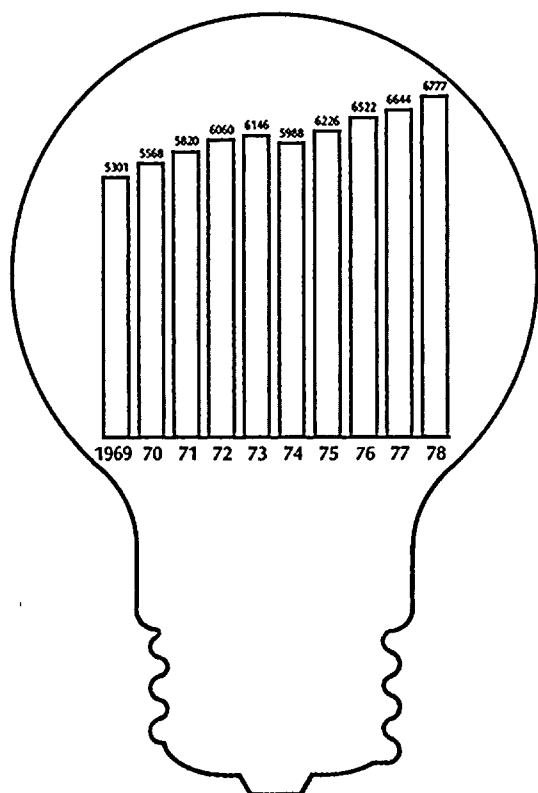


1970—\$127,500

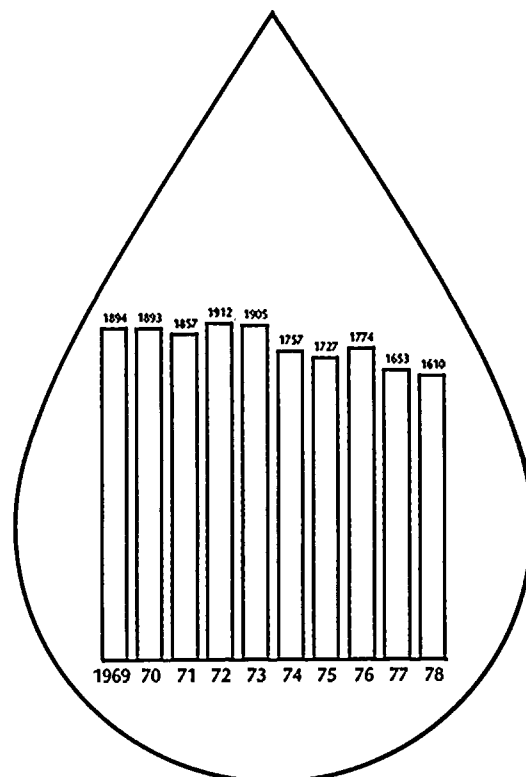
1978—\$278,000

Percentage increase—118.0%

Average Annual Use Per Residential Electric Customer
Kilowatt - Hours



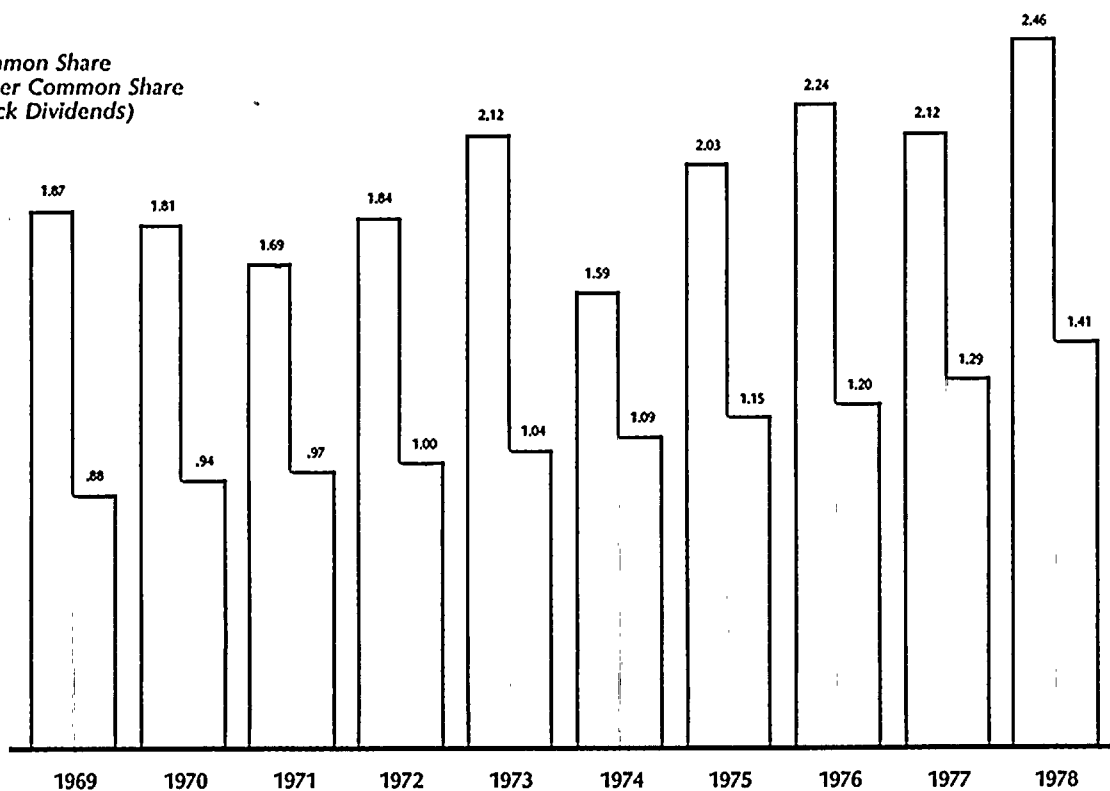
Average Annual Use Per Residential Space Heating Gas Customer
Therms*



*Adjusted for normalized weather by degree days.

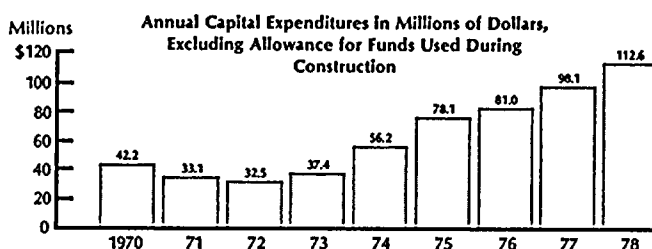
Earnings and Dividends Per Common Share
in Dollars

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



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

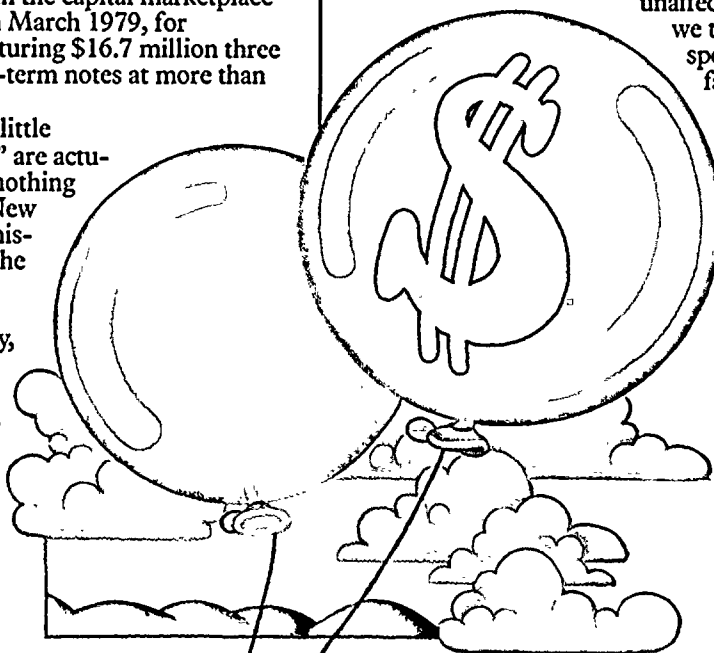
RG&E has a responsibility to supply electricity, gas and steam to its customers at the most economical prices. But, try as we may, we have little control over most of the expenses incurred in fulfilling this responsibility. We have consistently applied sound management policies and principles in attempting 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.



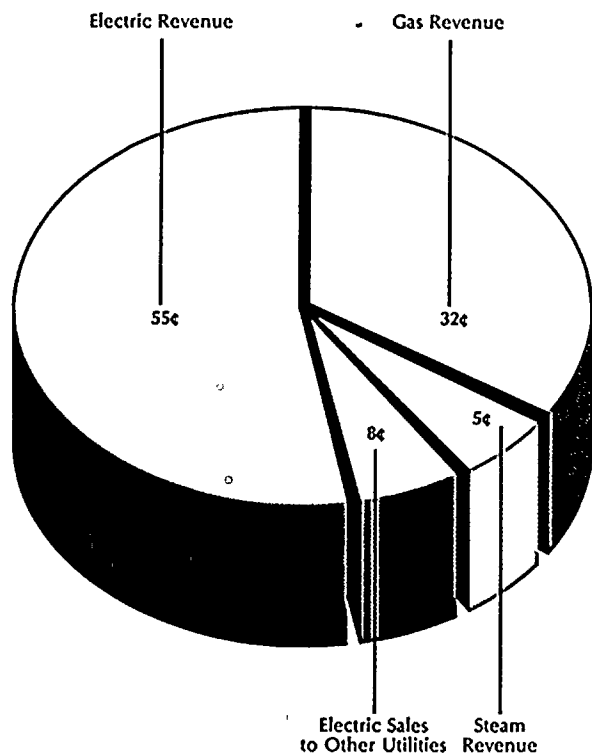
Statement of Income (Thousands of Dollars)

	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

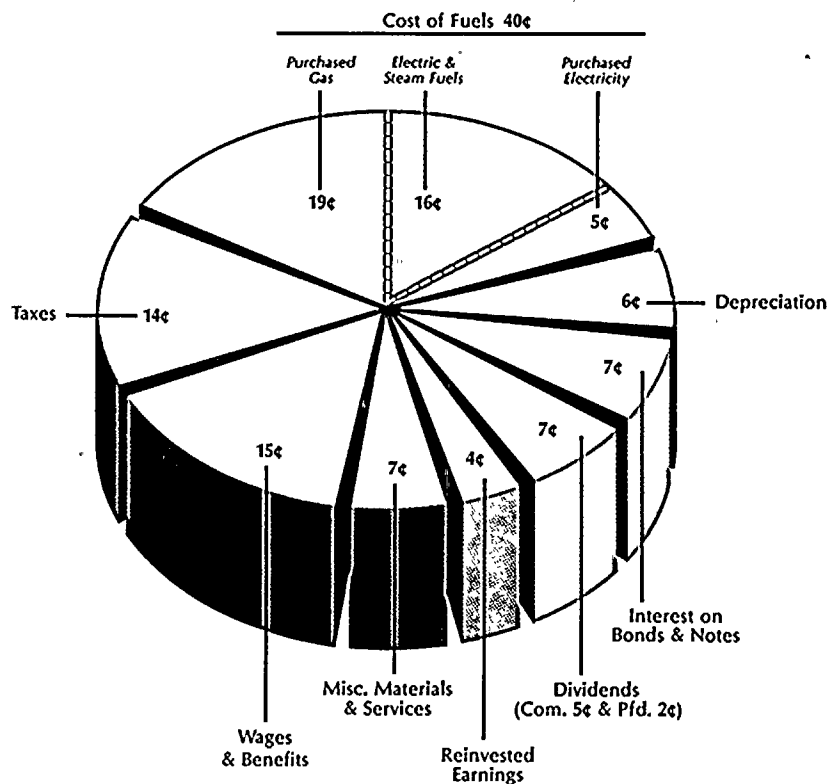
Statement of Retained Earnings (Thousands of Dollars)

	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

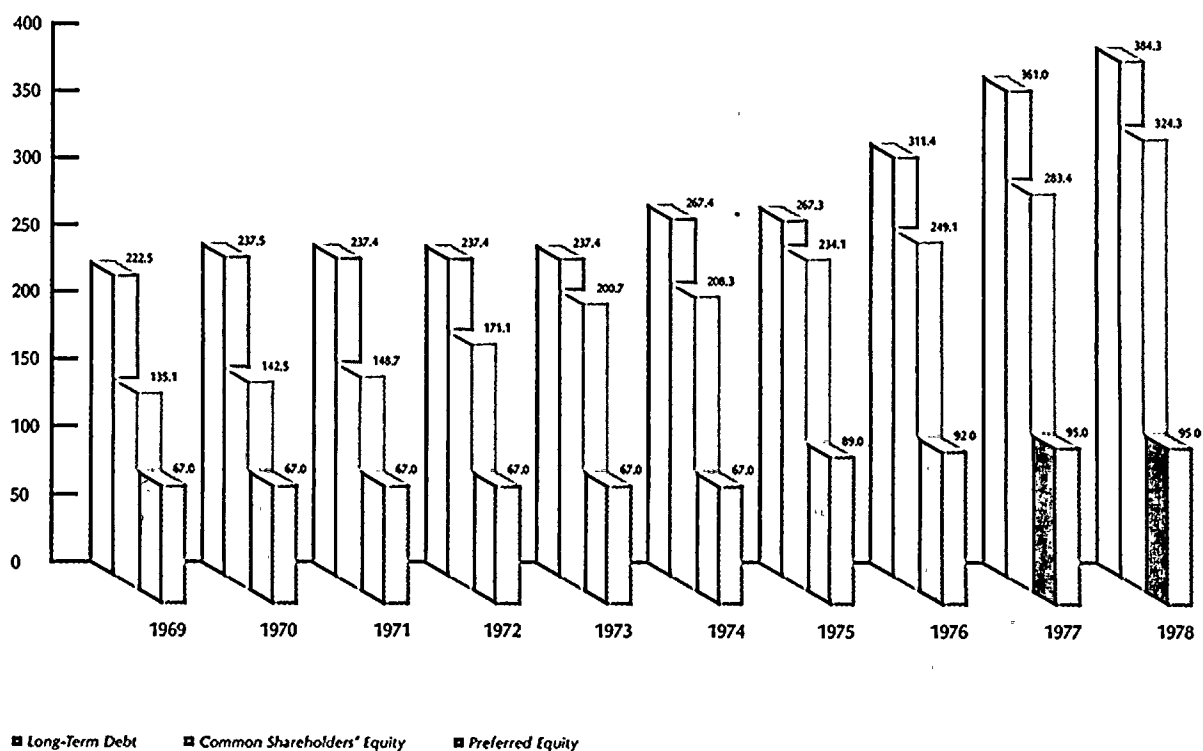
**Source of 1978 Revenue Dollar
in Cents**



**Use of 1978 Revenue Dollar
in Cents**



**Capitalization
in Millions of Dollars**



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
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Investment in subsidiary, at equity	1,996	1,947
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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
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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
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Total Capitalization	803,579	739,374
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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
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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 ^①	\$252.6 ^②	\$1,441.4 ^③	\$1,354.7 ^④
RG&E's share	60.6	201.8	379.3
RG&E's actual			
construction costs ^⑤ —1977	10.0	21.7	3.5
—1978	12.2	22.9	3.5

①To be constructed and operated by Niagara Mohawk Power Corporation.

②To be constructed and operated by Rochester Gas and Electric Corporation.

③Construction costs exclude allowance for funds used during construction and certain overhead costs to be capitalized.

④Total 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.

⑤Total project costs include \$89.4 million for the initial nuclear fuel loading and excludes common facilities.

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

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

Note 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
	Amount		Amount	
Net income	\$39,586		\$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)	
First Mortgage Bonds			Principal Amount	
%	Series	Due	1978	1977
3	L	Mar. 1, 1979	\$ 16,677	\$ 16,677
2¾	M	Aug. 15, 1980	12,000	12,000
3¾	N	June 1, 1982	6,000	6,000
3¾	O	Mar. 1, 1985	10,000	10,000
4¾	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
4¾	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
10¼	AA	Aug. 1, 1983	29,667	29,667
9¼	BB	June 15, 2006	50,000	50,000
8¾	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)		Redemption	
%	Series	Shares Outstanding	1978	1977	(per share) (a)
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
4¾	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
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
Construction work in progress	596,482	560,653	528,909	507,949	491,663	468,291
Net utility plant	213,534	162,127	120,702	79,381	39,324	24,542
Investment in Subsidiary, at equity	810,016	722,780	649,611	587,330	530,987	492,833
Current Assets	1,996	1,947	1,911	1,871	1,834	
Deferred Debits	66,953	58,387	61,090	53,796	52,678	38,982
Total Assets	14,421	15,260	8,151	7,450	8,213	4,874
	\$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

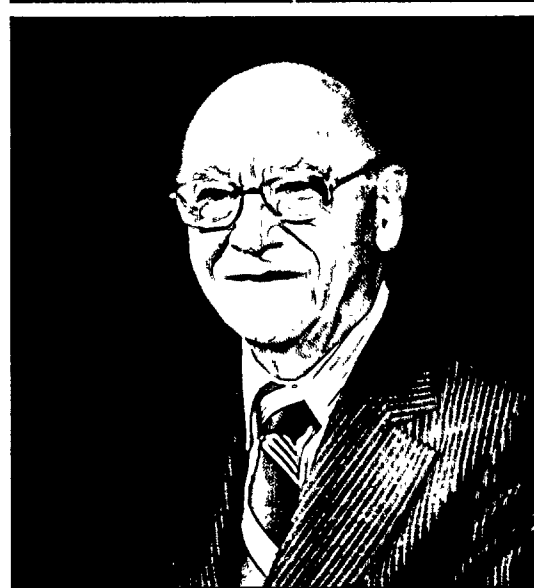
	1978	1977	1976	1975	1974	1973
Steam Revenue (000's)						
Commercial	\$ 6,087	\$ 6,352	\$ 6,401	\$ 5,668	\$ 5,419	\$ 3,668
Industrial	10,732	10,455	9,799	9,862	9,396	5,470
Municipal and other	2,291	2,197	2,183	1,807	1,506	876
Total steam revenue	19,110	19,004	18,383	17,337	16,321	10,014
Steam Expense (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

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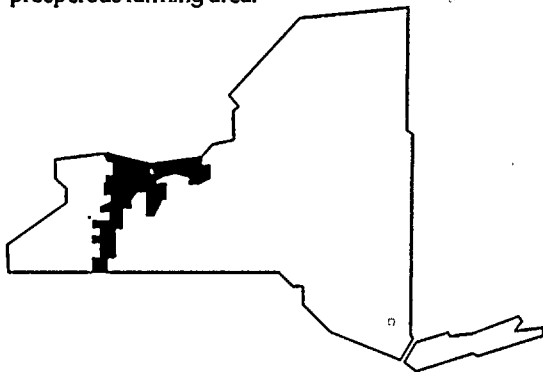
About the Cover

During 1980 RG&E ran an advertising campaign to inform customers and the community about some of the work that goes on and about the people who do the work. Six employees representing a cross-section of RG&E operations and services were chosen as subjects for the television spot announcements and the print advertisements. No one wrote words for them to say. The words are their own, and they are presented in this report.

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.



**RG&E People.
Your Neighbors
on the job.**



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To Shareholders:

On October 1, 1980, Francis E. Drake, Jr. retired at the normal retirement age of 65 after a 43-year career with RG&E, the last 13 years of which he served as chief executive officer. Paul W. Briggs was elected to succeed Mr. Drake as chairman of the board and chief executive officer.

Keith W. Amish, former executive vice-president, was elected to replace Mr. Briggs as president, and became chief operating officer. Leon D. White, Jr. succeeded Mr. Amish as executive vice-president with responsibility for operations.

In bringing about what we consider to be an innovative management structure, we established two senior vice-president positions to complete a five-member, senior management team to address the complex decisions that have to be made in the utility business today. Harry G. Saddock was elected senior vice-president, finance and rates, and Mario Silvestrone was elected senior vice-president, general services. Consolidation of these two areas of RG&E's operations under senior vice-presidents is intended to allow for broader management influence and participation in the policy decision-making processes and to reinforce management communication channels in the Company.

Several promotions and reassignments have been made among other officers of the Company, and they are detailed on page 13 of this report. These changes were made primarily to offer advanced cross-training in critical executive positions. We view our redesign of senior management structure as a timely step as we move into this decade.

Common stock earnings in 1980 increased \$1.8 million, or five percent over 1979. Earnings per share of common stock rose a modest one percent, going from \$2.08 to \$2.10. The 1980 per-share earnings reflect the addition of some 657,000 weighted average shares of common stock.

Total customer revenues for 1980, excluding electric sales to other utilities, showed a significant 18 percent increase over the previous year. However, revenue

growth resulting from increased unit sales of electricity and gas was small. When adjusted for the influences of rate increases, fuel adjustments and weather, "real" growth in customer revenues was less than one percent over 1979.

However, revenues from electric sales to other utilities through the New York Power Pool increased 40 percent over 1979. Shareholders and customers alike benefit from these sales which are made mainly from our coal-fired generating units. There is a strong demand for coal-fired generation as downstate utilities reduce generation from their more expensive oil-fired units.

Expenses increased in 1980 and inflation continues to be a major contributing factor. Operating expenses rose 21 percent over 1979. The cost of fuels again rose dramatically and now consumes almost half of each RG&E revenue dollar. The cost of fossil fuels alone went up 45 percent in 1980. The tremendous upsurge in interest costs made the heavy financing requirements in our highly capital-intensive business even more burdensome. Total interest charges, excluding allowance for borrowed funds used during construction, rose 17 percent while preferred stock dividends went up 34 percent. These costs, like taxes, are expenses over which we have little control. Where we can exert some degree of control over costs, we economize. But, despite the problems with costs, we think we have been able to achieve a temporary workable balance among the financial pressures, customer requirements and the reasonable expectations of shareholders.

The minimal growth in RG&E's 1980 energy sales reflected the severity of the recession seen in the first half of the year; things looked a little better during the second half. With regard to growth, we remain confident about the overall economic climate in our service territory. Monroe County, where most of our customers are located, is considered one of the strongest centers of economic growth in New York State. While that growth doesn't compare with the healthy advances seen in the 60's, it is still very good as measured against other parts of the State and the Northeast in general.

Eastman Kodak Company has announced plans for a sizeable expansion in the Rochester area. Some other industries and businesses have expressed intentions to expand, and several large renovation and construction projects are underway in metropolitan Rochester.

In 1980, Rochester area companies added nearly 6,000 new jobs—twice as many as the year before. More than \$537 million was spent in plant expansion, \$213 million more than was spent by business and industry in 1979. The economic stability in our service area presents strong resistance to the type of erosion that is being felt in other parts of the State and we remain optimistic about the economic future of our locale.

In August 1980 we petitioned the New York State Public Service Commission (PSC) for electric, gas and steam rate increases. The request followed closely on the heels of \$48 million in rate increases granted a month earlier in July. Unrelenting inflation, coupled with the lengthy 11-month rate hearing process, make rate increase requests virtually an annual requirement. It is also essential for us to phase rate increase requests with the PSC policy of basing them solely on forecast data for a one-year test period. The July 1980 rate increases, for example, were based on forecasts for a 12-month period running through July 1981. The rate increases we are now seeking will be decided for the period from August 1981 through July 1982.

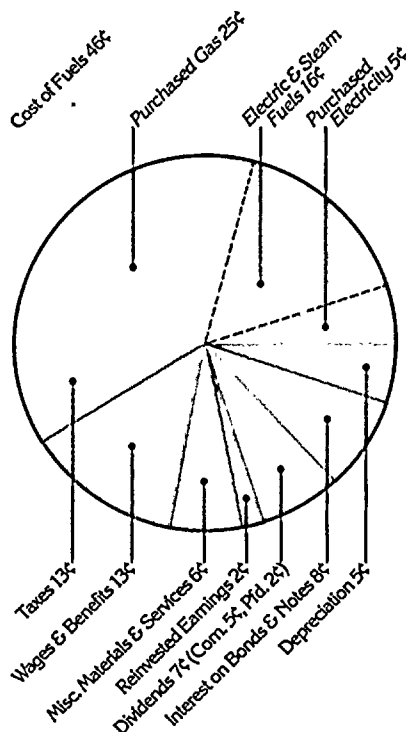
In the current rate case, we are seeking new rates that would produce an additional \$61.9 million in annual electric revenues, \$7.8 million in gas revenues and \$3.6 million in steam revenues. In January 1981 we requested a temporary increase in electric and gas rates pending the July 1981 decision. We also asked that the steam rate increase be put into effect immediately. The move was necessitated by soaring interest rates, higher costs and a need to protect the Company's security ratings. The steam rates were approved and made effective February 18. The decision on the temporary electric and gas rates was pending at the time this report went to press.

Annual Report 1980

for the Year Ended December 31

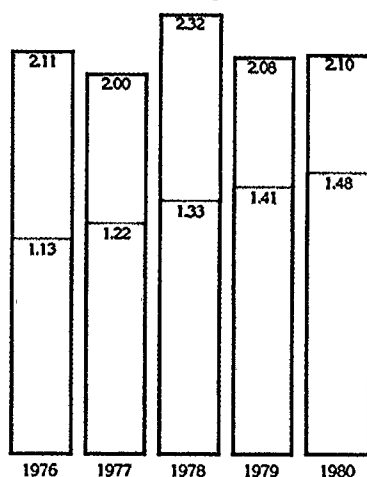
Highlights

Use of 1980 Revenue Dollar
(In Cents)



Earnings and Dividends Per Common Share
(In Dollars)

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



1980 1979 % Change

Sales, Revenues and Earnings (Thousands, Except Per Share Amounts)

Electricity to customers			
Kilowatt-hours	5,186,423	5,163,520	
Revenue	\$ 245,005	\$ 219,373	12
Electricity to other utilities			
Kilowatt-hours	1,620,929	1,526,925	6
Revenue	\$ 52,786	\$ 37,804	40
Gas			
Therms	434,492	426,743	2
Revenue	\$ 181,046	\$ 140,527	29
Steam			
Pounds	2,413,879	2,792,170	(14)
Revenue	\$ 23,589	\$ 19,988	18
Total operating revenues	\$ 502,426	\$ 417,692	20
Total operating expenses	\$ 442,894	\$ 365,570	21
Operating income	\$ 59,532	\$ 52,122	14
Net income	\$ 43,652	\$ 39,565	10
Earnings applicable to common stock	\$ 34,725	\$ 32,920	5
Weighted average number of common stock shares outstanding	16,472	15,815	4
Earnings per common share	\$ 2.10	\$ 2.08	1
Cash dividends per common share, adjusted for stock dividends	\$ 1.48	\$ 1.41	5
Stock dividend paid (See Note)	3%	3%	

Utility Plant (Thousands)

Capital expenditures, less allowance for funds used during construction	\$ 87,742	\$ 111,427	(21)
Net utility plant at December 31	\$ 950,474	\$ 893,531	6

Number of Customers at December 31

Electric	285,470	282,099	1
Gas	213,157	209,642	2
Steam	271	318	(15)

Number of Common Stock

Shareholders at December 31	50,416	48,543	4
Number of Employees at December 31 .	2,691	2,661	1

Note: The 22nd annual stock dividend was paid February 25, 1981 at the rate of three percent.



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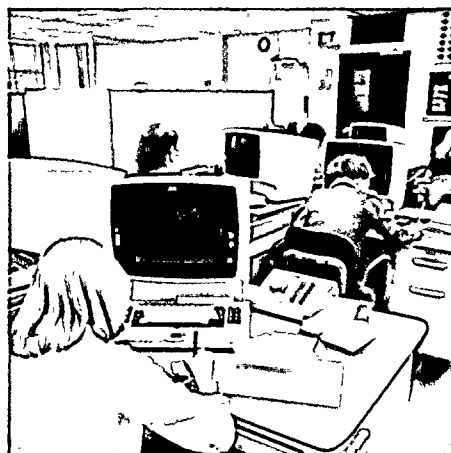
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**"I love people,
and I love helping them."**

Lucy White
Telephone Service Representative



RG&E's Telephone Service Center answers nearly a half-million calls a year. Lucy White gets all kinds of calls: service transfers, new customer connections, power outages, gas leaks, complaints and requests for information.

"Every time I say 'good morning' I have to be ready to help somebody with whatever's on their mind."

It's Lucy's job to help the customer personally where she can or to get the caller to the right party for assistance or an answer.

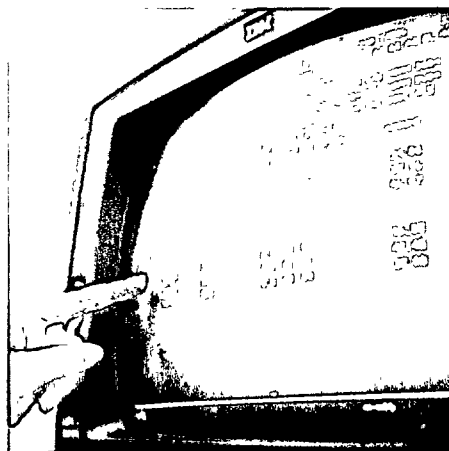
Lucy and other telephone service representatives are in direct contact with RG&E's computer system through display consoles. Account information on any of RG&E's half-million customers is available in seconds. Still, on busy days, calls

stack up as the 34 service representatives try to give the caller a complete answer.

"Every day we answer a lot of phone calls. We try to pick up each one within six rings, but sometimes we fall behind."

Lucy says that the hardest calls she gets are the high bill complaints. She tries to help the customer understand how the rising cost of energy forces the bills up even when people conserve.

"At the end of the day I'm tired. But I love people and I love helping them."



As part of the rate case, we are trying to recover expenses connected with the Sterling nuclear power plant proposal. We had to terminate that project in January 1980 after the State reversed its earlier certification for construction of the 1,150-megawatt facility. We are asking the PSC for permission to amortize the expenditures over a five-year period.

In January 1981 the PSC issued its order covering the first phase of the Sterling hearings. It ruled that costs incurred through January 1978 were prudent. Complete details of the case may be found in this report under Notes to Financial Statements.

One of our main concerns today is the delay in the construction of Niagara Mohawk Power Corporation's Nine Mile Point #2 nuclear power plant at Oswego, New York. Previously scheduled for operation in 1984, construction of the 1,084-megawatt plant has been set back due to a number of factors, including technical reassessments, regulatory matters and a decline in electric load growth. The estimated total cost of the plant has risen substantially as a result of the delays and the cumulative adverse

effects of inflation. Although our share of that plant is only 14 percent, the cost increases will continue to exert pressure on our capital requirements for several years. Now scheduled for late 1986 operation, the Nine Mile plant will add 152,000 kilowatts of base-load capacity on our system.

In April 1980 we asked the PSC for permission to acquire Pavilion Natural Gas Company. That approval was granted early in 1981 and the acquisition took effect February 28 this year. The purchase has added 10,000 gas customers in the southwest portion of our system and is expected to produce additional annual gas revenues of \$10 million.

In noting the complexities of the utility business, we commend Francis E. Drake, Jr. for his immense contributions to RG&E and the industry over his 43-year career with the Company.

Mr. Drake became chief executive officer in 1967. Inflation had not yet begun its upward spiral; we planned, licensed and built a nuclear power plant without harassment, delay or unnecessary high costs; the Oil Embargo was still six years

off; we had not had a gas rate increase since 1949 or an electric increase since 1958, and regulatory bodies were reasonable in their requirements and supportive in their rulings.

That was the year 1967. All too familiar are the burdensome problems of the following years: double-digit inflation, skyrocketing fuel costs, a succession of necessary rate increases, a virtual standstill in the crucial nuclear power option, public skepticism, mounting regulation and a crop of anti-utility pressure groups claiming to work in the public interest.

Frank Drake met the challenges and issues head-on and, in our judgment, brought RG&E through an extremely difficult period, maintaining our financial integrity and traditionally high levels of service to the customers and community. His responsibilities were heavy and demanded the superior leadership ability he possesses.

The turbulent period for RG&E and the utility industry is far from over. We have every confidence, though, that our team of RG&E people is up to the challenges and geared to meet the future. We expect to maintain a solid, progressive operation.

And, in regard to employees, the theme of this annual report focuses on the thoughts of a representative sample of our RG&E people. Six employees were featured in a television and print media advertising campaign to show our customers and the community the caliber of people we have and what those people think of their jobs. The words of these employees are their own. We hope you'll take the time to share their thoughts in the following pages.

Paul W. Briggs

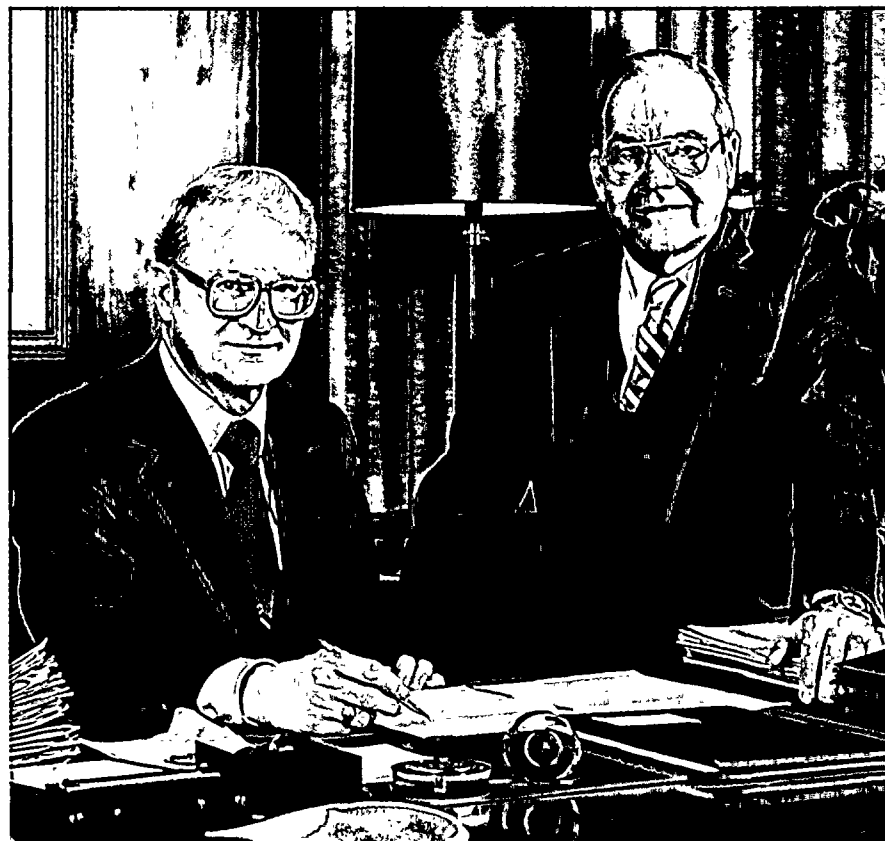
Paul W. Briggs
Chairman of the Board
and Chief Executive Officer

Keith W. Amish

Keith W. Amish
President and Chief Operating Officer

March 18, 1981

Paul W. Briggs, left, Keith W. Amish





**"It's nice to see them
go out—not happy all the time—
but understanding."**

Dennis Rose
Customer Service Representative

"When a customer comes in, I may not have all the answers all the time, but I always give him an honest answer."

Dennis Rose sees or talks to more than 20 customers a day. Some conversations take as little as 20 minutes, others may run several hours.



"Every person is a special individual with a special problem, and you treat them accordingly."

With inflation taking away from everyone's income, a lot of customers come to Dennis to work out special bill-paying arrangements. Others may want information on how to use energy more efficiently and cut down on their bills. Dennis and the other customer service representatives bend over backwards to help where they can. It's their job to listen and to help.

"I really feel good being able to say 'We'll be able to work something out.' When a customer is sincerely trying to pay the bill but is having a hard time, we knock ourselves out to make it easier for him or her to work out special plans, to provide whatever help is needed."

High energy bills don't make anyone happy, not even RG&E employees, like Dennis, who pay the full price on their own bills.



**"It's nice to see them go out—not
happy all the time—but under-
standing."**



**"My men and I will work all night
if we have to,
to get the job done right"**

Ed Flanigan
Gas Construction and Maintenance Foreman



"It's our responsibility to make sure the gas keeps flowing and that service for customers is not interrupted."

When Ed and his crew are working on a gas line the gas is still flowing. Maintaining a gas system is a tough, critical, often hazardous job. But that's what Ed Flanigan has been doing for 33 years.

"Every day RG&E makes routine surveys throughout our service area. We're able to detect even small amounts of gas escaping into the air."

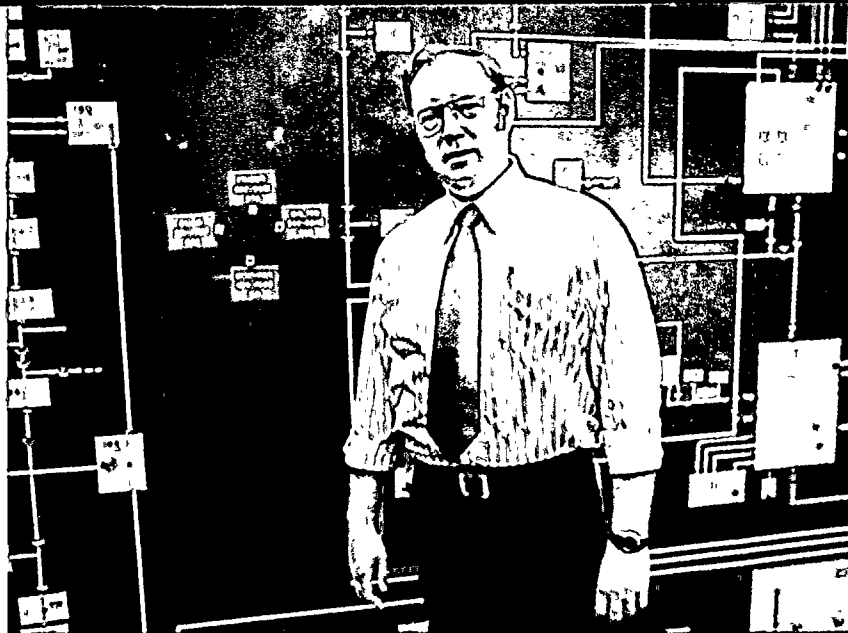
RG&E gas maintenance people monitor the gas distribution system on a continuous basis. Any problems that are found are taken care of immediately.

"If a customer smells gas we get there fast to make sure there's no physical danger. Safety is our number one concern."

RG&E tells its customers not to take any chances. They're told that if they think they smell gas they should get out of the house and call RG&E.

"Part of my job is to repair leaks or replace old pipe with plastic or wrapped steel. In the case of a Grade One [high priority] situation, my men and I will work all night if we have to, to get the job done right."





"Is the State taking too much of a risk?"

Jack Davis
Power Controller

"The Power Control Center is the heart of RG&E's electrical system. The map and computers help monitor the status of power plants, transmission lines, every major facility in the Rochester area.

"If something goes wrong—say a power plant goes out of service—our job is to prevent brownouts and service interruptions either by calling for more power from RG&E plants or bringing it in from elsewhere."



"We're linked with the New York Power Pool. Every five minutes we get a complete update on how much power is being produced, how much is available to us, and what it would cost. It's the power controller's job to decide when to bring in electricity from the Power Pool reserve.

"Right now the Power Pool has enough reserve electricity to protect our customers against brownouts and major service interruptions if we have a problem in our own system."

The question being debated is whether there will be enough electricity through the 1980's. The

reserve is shrinking and New York State officials have made the decision to build fewer new power plants than utilities throughout the State feel they need.

"I have to wonder about what's going to happen five or ten years from now. Is there going to be enough electricity for peak demand periods? Is the State taking too much of a risk? I'm concerned. I think it's something everyone should think about."



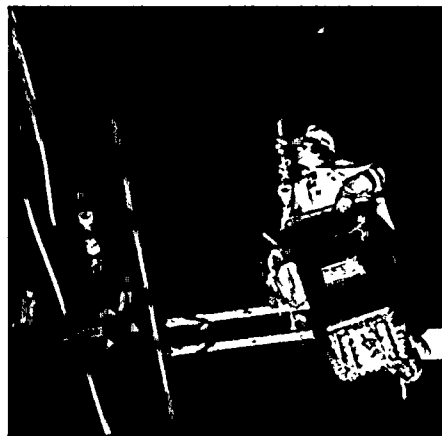
**"It makes me proud
to be part of a team like this."**

Walt Rogalski
Troubleman First Class

"It's my job to restore power as quickly, safely and dependably as I possibly can. I know how much depends on it."

Electricity is as vital to modern life as water. RG&E troublemen, the first-line emergency team, make sure that whatever happens to interrupt electrical service is dealt with immediately. They're specialists in solving the tough ones.

"I always take that extra few minutes to test, check, and recheck. I have too much respect for electricity to try to take shortcuts."



"I get a lot of satisfaction getting power restored as fast as possible. I think people know the job we do is critical. It's got its hazards, and they appreciate our efforts. That gives us a good feeling."

Working conditions for RG&E troublemen are generally harsh and often hazardous. They work in traffic, high on a pole or under the street, in subzero weather or sudden storms, and they work with high-voltage electric energy.

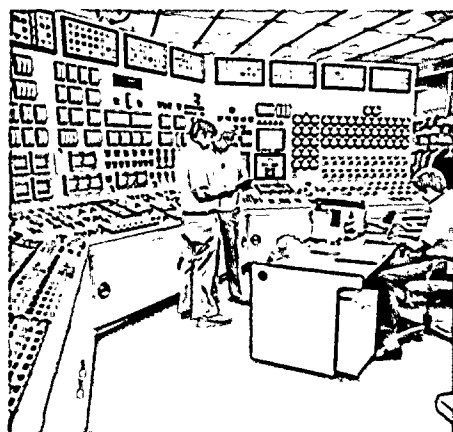
"We work under a buddy system. We all depend on each other and know how critical it is to do the job right. It makes me proud to be part of a team like this."





**"I don't like the idea of
us having to depend on foreign
countries for our energy."**

Wes Backus
Operations Supervisor, Ginna Nuclear Power Plant



"I think some people have wrong ideas about nuclear power. It's a tough subject to understand, but I really believe the more they know about it, the more comfortable they'd feel."

The nuclear industry has the best safety record of any industry. One of Wes Backus' jobs is to help make sure every single safety procedure is strictly followed at all times.

"In a very practical sense there just aren't a lot of alternatives to nuclear power available to us right now. I don't like the idea of us having to depend on foreign countries for our energy."

"Nuclear power plants such as Ginna contain many safeguards that make the possibility of radiation leakage extremely remote. At the slightest indication of danger, we have the ability to shut down the plant immediately.

"I understand nuclear power and I feel it's safe. In fact I moved my family from Bergen to about two miles from Ginna to be closer to my work, and I'm still glad I did."



1980 Operations

Electric Operations

Sales Total kilowatt-hour sales of electricity to customers were up only a fraction of a percent from 1979 due primarily to the recession and customer conservation measures. Industrial kilowatt-hour electric sales were off nine tenths of one percent reflecting the slow economy and reversing a trend seen over the last several years when industrial sales led all classes of electric customers in growth. Kilowatt-hour electric sales to residential customers were up 1.2 percent from 1979, and commercial kilowatt-hour electric sales rose 1.4 percent. Very moderate electric load growth is projected for 1981.

One notable bright area in electric sales for 1980 was the sharp 40 percent increase in revenues from electric sales to other utilities—the sale of excess power to other companies through the New York Power Pool. These sales are made possible mainly through the excellent availability of our Ginna nuclear power plant which can produce more than half of the total electric energy requirements of our system. We reserve the full economy of the relatively inexpensive nuclear-generated power for our own customers while making excess power from our coal- and oil-fired generating units available for sale to other utilities. Revenues from these outside sales benefit both shareholders and customers.

Oswego #6 Niagara Mohawk Power Corporation's Oswego #6 oil-fired power plant went into commercial operation in July 1980. Under a joint-ownership agreement RG&E owns 24 percent of the plant's capacity, or 204,000 kilowatts.

Construction began on the Oswego #6 plant prior to the 1973 Arab Oil Embargo that spurred the dramatic rise in oil prices. This plant is a highly efficient oil-fired unit and the availability of its power is important to RG&E, particularly as replacement power when the Ginna nuclear power plant is out of service for annual refueling, maintenance and inspection periods. At other times we sell our share of the energy to other utilities,

producing additional revenues for the Company and a saving for our own customers.

Ginna Nuclear Power The Ginna nuclear power plant continues to prove itself as one of the finest operating plants in the nation. During 1980, despite two planned outages, the 470,000-kilowatt plant achieved a notable 76 percent availability and did not experience a single forced outage. In 1980 the plant's efficient operation saved customers \$32.4 million in fuel costs when compared with an equivalent amount of coal-fired energy. When compared with what it would have cost to produce the energy with oil as a fuel, the plant saved \$84.4 million in 1980.

The Underground Connection Delivering 34,500 volts of electricity is not a particularly big job for a power company like RG&E; but when that power is needed 1000 feet below the earth's surface the project takes on a different complexion.

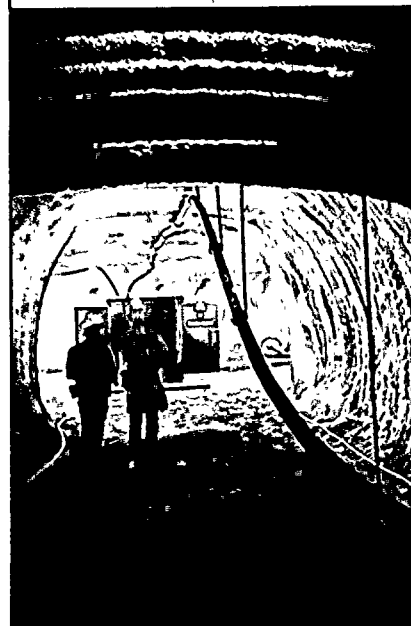
International Salt Company wanted to upgrade electric service in its salt mine near Retsof, New York, 30 miles southwest of Rochester. With almost 17 square miles of excavation 1000 feet below ground, the 85-year-old salt mine is the largest in the free world. Electricity provides power for the mining operations, and proper voltage was needed to work the rich salt vein that geologists say extends as far west as Michigan.

The complicated project took three years to complete, and RG&E's people played a big part. A borehole was sunk 1000 feet down. Following elaborate preparations below ground, a six-ton, 34,500 volt power cable was fed down the hole to connect the surface switchgear with the mine substation.

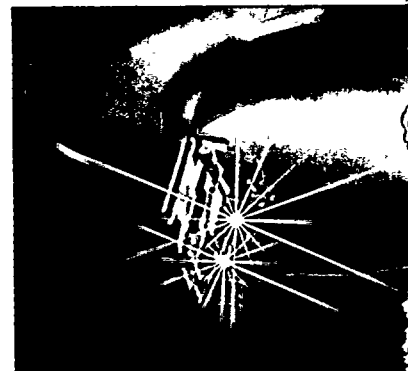
It's rare that you hear of a company drilling for electricity, but, with RG&E's assistance, this first underground connection of its kind in America was made, and RG&E is providing the power.

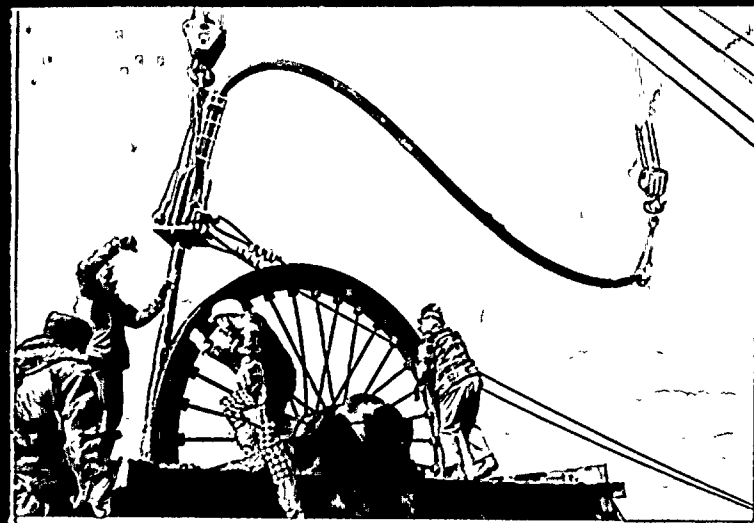
Gas Operations

Sales Sales of natural gas in therms increased only 1.8 percent in 1980. Although there was an addition of 6,427 residential gas space heating customers during the year, residential gas sales in



The six-ton power cable as it enters the mine.

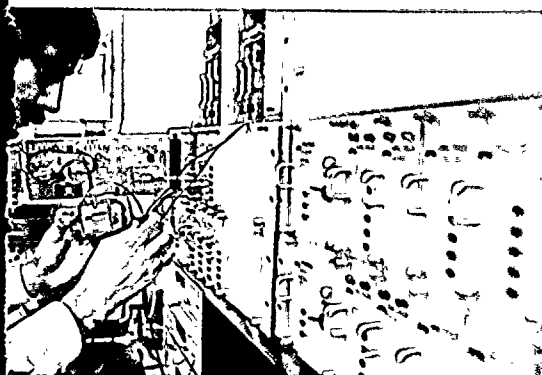




This gigantic wheel was part of a lift on an early shaft at an International Salt Company mine that was worked from 1906 until the 30's. The relic was brought back into service to help thread a 34,500-volt electric cable down to a mine substation 1,000 feet below the ground.



Electricians install an electrical grounding grid surrounding the mine-level portion of the underground substation.



Left: This burst of light from a time-exposed photo of a fiberoptic cable shows light as the transmission medium.

Right: The fiberoptic telemetering console is adjusted by an RG&E technician.

therms declined by 2.7 percent from the previous year. It is apparent that the cost effectiveness of energy-efficient measures that RG&E has traditionally promoted continues to hit home to the consumer. Efficiency and conservation measures undertaken by customers have been offsetting any significant growth in gas sales that might otherwise be anticipated. In fact, since 1972, the average gas consumption by residential space heating customers has dropped by 24 percent. However, gas sales in therms to industrial customers rose 14.9 percent over 1979 and are expected to continue to rise at a healthy pace as companies shift oil loads to natural gas. Commercial customer gas sales went up 2.5 percent, mainly due to the addition of commercial space heating loads. In 1981 it is estimated that 5,500 residential gas space heating customers will be added to the system, with gas maintaining its decisive cost advantages over heating oil. Ten thousand gas customers have been added to the RG&E system through the acquisition of Pavilion Natural Gas Company in February 1981. RG&E's gas supply is adequate to meet all projected requirements.

A Light Approach Fiber optics—the method for transmitting signals and data without the use of metal cables—is coming into its own as an advanced technology; and RG&E is already involved.

The initial application will involve light-wave communication for the telemetering of natural gas deliveries from RG&E's supplier where volumes run more than 40 billion cubic feet a year. The fiberoptic telemetering unit is virtually immune from interference common in existing metallic cables.

Gas telemetering is only the first of several applications for fiber optics envisioned by RG&E. Future possible applications for fiberoptic technology include power transmission telemetry, power system control and audio tone communications that presently rely on conventional wire-cable transmission.

Research and Development

In 1980, RG&E spent \$5.6 million on research and development. Of that amount, \$1.8 million went into RG&E's own research and development programs where two in particular paid handsome dividends in 1980 at the Ginna nuclear power plant.

One of the early nuclear power plants in this country, completed in 1969, Ginna Station continues to perform remarkably well. There has, however, been some concern with indications of corrosion in the steam generators of such plants—the two units that transfer the heat from the primary nuclear fission loop and produce the steam to drive the 470-megawatt turbine generator. Continuing unabated, corrosive action could ultimately result in a costly shutdown and equipment replacement.

RG&E had been studying the problem for years, and in the regular spring shutdown for refueling in 1980 an RG&E-developed process for flushing the steam generators of corrosive materials was used.

Encouraging results were noted when the plant was inspected in November. It appears that the degree of corrosion has been significantly reduced. Only three generator tubes showed damage, whereas 31 had to be plugged in early 1980. This RG&E process will be used during each refueling shutdown, possibly eliminating an expensive repair project in the years to come.

Complementing the breakthrough in steam generator cleaning, RG&E is experimenting with a process that is expected to allow repair of damaged tubes in the steam generator without the permanent loss of the tube's function that now results from plugging. The new sleeving process inserts a bimetallic tube sleeve up into and above the damaged portion of a tube. This is expected to maintain steam generator integrity and result in years of continued service.

Thus RG&E's own research and development program will be paying big dividends for shareholders and customers, just as it did a few years ago when RG&E developed the multi-frequency eddy current testing system that streamlined steam generator tube testing.



An RG&E employee trains in the Company's steam generator mock-up for the job of placing metal sleeves on worn generator tubes.

Statement of Income

RGE Rochester Gas
and Electric Corporation

(Thousands of Dollars)	Year Ended December 31	1980	1979	1978
Operating Revenues (Note 1)				
Electric		\$245,005	\$219,373	\$202,631
Gas		181,046	140,527	118,531
Steam		23,589	19,988	19,110
		449,640	379,888	340,272
Electric sales to other utilities		52,786	37,804	28,676
Total Operating Revenues		502,426	417,692	368,948
Operating Expenses (Note 1)				
Operation				
Electric and steam fuels		86,622	62,109	56,426
Purchased electricity		23,796	31,937	19,337
Deferred fuel-electric and steam		(6,911)	(1,038)	1,714
Purchased natural gas		127,759	89,804	71,109
Other		81,960	72,264	65,685
Maintenance		32,048	30,129	26,246
Depreciation		27,800	23,703	22,206
Taxes-local, state and other		56,984	49,916	45,935
Federal income tax-current (Note 2)		393	(36)	5,166
-deferred (Note 2)		12,443	6,782	5,875
Total Operating Expenses		442,894	365,570	319,699
Operating Income		59,532	52,122	49,249
Other Income and Deductions				
Allowance for other funds used during construction (Note 1)		11,710	11,439	8,705
Other, net		4,772	3,774	4,418
Total Other Income and Deductions		16,482	15,213	13,123
Income before Interest Charges		76,014	67,335	62,372
Interest Charges				
Long term debt		34,129	29,084	25,594
Short term debt		4,298	4,016	1,588
Other, net		755	441	416
Allowance for borrowed funds used during construction (Note 1)		(6,820)	(5,771)	(4,812)
Total Interest Charges		32,362	27,770	22,786
Net Income		43,652	39,565	39,586
Dividends on Preferred and Preference Stock, at required rates		8,927	6,645	5,678
Earnings Applicable to Common Stock		\$ 34,725	\$ 32,920	\$ 33,908
Weighted average number of shares outstanding in each period, adjusted for stock dividends (000's)		16,472	15,815	14,613
Earnings per Common Share (Note 1)		\$2.10	\$2.08	\$2.32
Cash Dividends per Common Share, adjusted for stock dividends (Note 1)		\$1.48	\$1.41	\$1.33

Statement of Retained Earnings

(Thousands of Dollars)	Year Ended December 31	1980	1979	1978
Balance at beginning of period		\$ 80,155	\$ 77,338	\$ 70,819
Add:				
Net income		43,652	39,565	39,586
Total		123,807	116,903	110,405
Deduct:				
Dividends on capital stock				
Cumulative preferred stock, at required rates (Notes 5 and 6)		6,799	4,517	3,550
Preference stock (Notes 5 and 6)		2,128	2,128	2,128
Common stock				
Cash (Note 1)		23,910	22,148	19,269
Stock (Note 5)		7,000	7,955	8,120
Total		39,837	36,748	33,067
Balance at end of period		\$ 83,970	\$ 80,155	\$ 77,338



Harry G. Saddock David C. Heiligman Robert C. Henderson



David K. Laniak Leon D. White, Jr. John E. Arthur



Mario Silvestrone

John E. Maier

Management Changes

(Effective October 1, 1980)

Leon D. White, Jr., formerly vice-president, electric and steam production, was elected executive vice-president of the Company, with responsibility for operations. Mr. White joined RG&E in 1937 and has served in a number of electric and steam management positions over his 43-year career.

Harry G. Saddock was elected to the position of senior vice-president, finance and rates. Previously he was vice-president, electric system planning and operation. Mr. Saddock, a licensed professional engineer, joined the Company in 1950 and progressed through a number of management positions in the electric and electric system planning departments.

Mario Silvestrone was elected senior vice-president, general services. In addition to his previous responsibilities as vice-president, consumer services, public affairs and purchasing, he is administering employee relations and information systems. Mr. Silvestrone had served in various management positions in the marketing and sales departments since joining the Company in 1950. He is a licensed professional engineer and holds an M.B.A. from the University of Rochester.

John E. Arthur was named vice-president, engineering and chief engineer. Mr. Arthur, whose former position was chief engineer, has been with RG&E since 1955 and is a licensed professional engineer.

David K. Laniak became vice-president, electric system planning and operation, where he was previously superintendent. Mr. Laniak came to the Company in 1954 and held a number of positions in the electric meter department before moving to system planning.

John E. Maier, former vice-president, employee relations, was elected vice-president, electric and steam production. Mr. Maier joined RG&E in 1947 and has an M.B.A. from the University of Rochester.

David C. Heiligman was elected treasurer while retaining his former position of assistant secretary. He joined the Company as an accountant in 1963 and has an M.B.A. from the University of Rochester.

Robert C. Henderson, former assistant controller, was elected vice-president, rates, effective December 1, 1980, replacing John L. Kennedy who retired after 40 years of service. Mr. Henderson joined the Company in 1963 as an accountant. He has an M.B.A. from the University of Rochester.

Director Changes

In January 1981, the board of directors elected Constance M. Mitchell, Cornelius J. Murphy and Leon D. White, Jr. as directors of the Company.

Mrs. Mitchell has been active in the Rochester social, civic and political community for more than 25 years. She is community relations coordinator for the Program to Interest Students in Science and Math sponsored by the Industrial Management Council of Rochester, New York, Inc.

Mr. Murphy is a group vice-president of Eastman Kodak Company and general manager of the International Photographic Division.

Mr. White is RG&E's executive vice-president.

Mrs. Mitchell, Messrs. Murphy and White replaced retiring board members Ernest J. Howe and Edward J. Nelson, former presidents of Rochester Gas and Electric Corporation, and William S. Vaughn, former chairman of the board of Eastman Kodak Company.



Constance M. Mitchell



Cornelius J. Murphy



Leon D. White, Jr.

Statement of Changes in Financial Position

RGE Rochester Gas and Electric Corporation

(Thousands of Dollars)	Year Ended December 31	1980	1979	1978
Sources of Funds				
Operations				
Net Income		\$ 43,652	\$ 39,565	\$ 39,586
Principal non-cash charges (credits) to income				
Depreciation		27,800	23,703	22,206
Amortization of nuclear fuel		20,789	17,126	15,746
Deferred fuel cost		(4,813)	(4,755)	976
Deferred income taxes, net		6,927	2,596	3,161
Allowance for funds used during construction		(18,530)	(17,210)	(13,517)
Other, net		2,452	1,963	1,204
Total from Operations		78,277	62,988	69,362
Financing				
Sale of long term debt		55,000	10,000	40,000
Sale of common stock		25,257	6,083	27,186
Sale of preferred stock		25,000	25,000	
Proceeds from short term debt, net			50,000	
Total from Financing		105,257	91,083	67,186
Total Sources of Funds		\$ 183,534	\$ 154,071	\$ 136,548
Uses of Funds				
Utility plant				
Plant additions		\$ 97,600	\$ 109,656	\$ 105,191
Nuclear fuel additions		8,672	18,981	20,878
Less: Allowance for funds used during construction		18,530	17,210	13,517
Net Additions to Utility Plant		87,742	111,427	112,552
Dividends on preferred stock		6,799	4,517	3,550
Dividends on preference stock		2,128	2,128	2,128
Dividends on common stock		23,910	22,148	19,269
Reduction of short term debt, net		24,700		9,000
Retirement of long term debt			12,000	16,677
Capital stock expense		1,343	544	902
Discount and expense of issuing long term debt		858	635	490
Other, net		3,896	(683)	(2,037)
Increase (decrease) in working capital (excluding short term debt)		32,158	1,355	(25,983)
Total Uses of Funds		\$ 183,534	\$ 154,071	\$ 136,548
Changes in Components of Working Capital				
Increase (decrease) in current assets				
Cash		\$ 1,300	\$ (8,852)	\$ 5,160
Accounts receivable, net		17,974	5,985	1,368
Materials and supplies				
Fossil fuel		6,274	(56)	1,886
Construction and other supplies		1,470	1,117	(81)
Prepayments		59	90	233
Total		27,077	(1,716)	8,566
Increase (decrease) in current liabilities (excluding short term debt)				
Accounts payable		749	3,207	10,386
Taxes		1,745	(2,881)	6,725
Accrued interest and payroll		1,574	1,113	520
Long term debt due within one year		(12,000)	(4,677)	16,677
Other, net		2,851	167	241
Total		(5,081)	(3,071)	34,549
Increase (decrease) in working capital (excluding short term debt)		\$ 32,158	\$ 1,355	\$ (25,983)

Balance Sheet

RGE Rochester Gas
and Electric Corporation

(Thousands of Dollars)	At December 31	1980	1979
ASSETS			
Utility Plant, at original cost (Note 1)			
Electric	\$ 849,946	\$728,686	
Gas	193,863	182,046	
Steam	18,190	18,064	
	1,061,999	928,796	
Less: Accumulated depreciation and amortization	337,215	295,328	
	724,784	633,468	
Construction work in progress	225,690	260,063	
Net Utility Plant	950,474	893,531	
Investment in Subsidiary, at equity	1,968	2,062	
Current Assets			
Cash	4,225	2,925	
Accounts receivable, net of allowance for doubtful accounts: 1980-\$1,387; 1979-\$1,247	55,659	37,685	
Materials and supplies, at average cost			
Fossil fuel	18,891	12,617	
Construction and other supplies	12,230	10,760	
Prepayments	1,309	1,250	
Total Current Assets	92,314	65,237	
Deferred Debits			
Unamortized debt expense	4,511	3,917	
Deferred fuel cost (Note 1)	14,697	10,092	
Other	11,416	8,011	
Total Deferred Debits	30,624	22,020	
Total Assets	\$1,075,380	\$982,850	
CAPITALIZATION AND LIABILITIES			
Capitalization			
Long term debt (Note 4)	\$ 437,124	\$382,162	
Preferred stock redeemable at option of Company (Note 5)	67,000	67,000	
Preferred stock subject to mandatory redemption (Note 6)	50,000	25,000	
Preference stock subject to mandatory redemption (Note 6)	28,000	28,000	
Common shareholders' equity			
Common stock (Note 5)	291,346	260,432	
Retained earnings	83,970	80,155	
Total Common Shareholders' Equity	375,316	340,587	
Total Capitalization	957,440	842,749	
Current Liabilities			
Short term debt (Note 7)	25,300	50,000	
Long term debt due within one year		12,000	
Accounts payable	32,977	32,228	
Taxes accrued, including income taxes	10,199	8,454	
Interest accrued	9,959	8,427	
Payroll accrued	2,991	2,949	
Other	4,084	1,233	
Total Current Liabilities	85,510	115,291	
Deferred Credits and Other Liabilities			
Accumulated deferred income taxes (Notes 1 and 2)	28,070	20,502	
Other	4,360	4,308	
Total Deferred Credits and Other Liabilities	32,430	24,810	
Commitments and Other Matters (Note 9)			
Total Capitalization and Liabilities	\$1,075,380	\$982,850	

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) under New York statutes and by the Federal Energy Regulatory Commission (FERC) as a licensee and public utility under the Federal Power Act. 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 3.1% per annum of average depreciable property in 1980, 1979 and 1978.

Nuclear Fuel and Decommissioning Costs. The cost of nuclear fuel and estimated permanent storage costs of spent nuclear fuel 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 the fuel cost adjustment clause.

Due to a Federal government policy adopted in 1977, the Company changed its nuclear fuel cost computation to reflect the costs of permanent storage of spent nuclear fuel. Prior years' nuclear fuel cost computations had anticipated that spent nuclear fuel would be reprocessed. Cumulative prior years' fuel expenses would have been increased by approximately \$15.9 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. In the Company's most recently concluded electric rate filing, the PSC permitted the amortization and recovery of approximately \$12 million of such additional costs through rates over a 10 year period, commencing in August 1980.

Decommissioning costs (costs to take the plant out of service in the future) for the Company's Ginna nuclear power plant are estimated by the Company to be \$37 million in 1979 dollars with decommissioning expected to commence in the year 2006. In August 1980, the Company began accruing these costs over the remaining life of the facility at an initial rate of \$3.1 million per year. These accruals are included in base rates pursuant to the PSC order referred to previously.

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 rates used for this purpose were 10.5%, 9.5% and 8.75% in 1980, 1979 and 1978, respectively. As of January 1981, the rate is 11.3%. In accordance with an order issued by the FERC, AFDC is segregated into two components and classified in the Statement of Income as Allowance for Borrowed Funds Used During Construction, an offset to Interest Charges, and Allowance for Other Funds Used During Construction, a part of Other Income.

Since December 1977, the Company has computed AFDC on its share of the Niagara Mohawk Power Corporation Nine Mile Point Nuclear Unit #2 and Oswego Fossil Unit #6, until its July 1980 in-service date, at an average reduced rate which is net of the income tax effect of the interest portion of AFDC. Since May 1979, this treatment has also been applied to the Company's investment in its Sterling nuclear unit. The rates for 1980, 1979 and 1978 were 8.0%, 7.51% and 6.85%, respectively.

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 monthly to reflect changes in the average cost 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. Expenditures made by the Company to the retirement plan for the years 1980, 1979 and 1978 were \$11.4 million, \$10.6 million and \$9.9 million, respectively, which includes amortization for: past service costs over 40 years, changes in the plan over 30 years, and experience gains or losses over 15 years. The actuarial methods and the accounting policy

used to determine Company expenditures were the same each year. A comparison of accumulated plan benefits and plan net assets is presented below.

	(Thousands)	
	January 1	
	1980 (a)	1979
Actuarial present value of accumulated plan benefits:		
Vested	\$107,486	\$ 99,220
Nonvested	8,885	1,677
	\$116,371	\$100,897
Market value of assets available for benefits ..	\$ 94,499	\$ 80,082

(a) Most recent available data

The actuarially assumed rate of return on the plan investments, used in determining the actuarial present value of accumulated plan benefits, was 6% for all years shown. The increase in 1980 of

the present value of plan benefits reflects an increase in benefits to retired participants and a change in actuarial assumptions regarding the provision for ancillary benefits and the application of the ERISA maximum to all benefits.

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 1,500,000 shares of common stock issued on November 19, 1980 were outstanding at the beginning of 1980 and the proceeds were applied to reduce the short term debt, the earnings per share for 1980 would have been \$2.02, compared with the reported amount of \$2.10. Cash dividends per share, as shown on page 14, 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 were \$1.49 for 1980, \$1.46 for 1979 and \$1.42 for 1978.

Note 2. Federal Income Taxes (Thousands of Dollars)

The provision for Federal income taxes is distributed between operating expense and other income based upon the treatment of the various components of the provision in the rate-making process. At right is a summary of income tax expense for the three most recent years.

The following is a reconciliation 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.

	1980	1979	1978
Charged to operating expense:			
Current	\$ 393	\$ (36)	\$ 5,166
Deferred	12,443	6,782	5,875
Total	12,836	6,746	11,041
Credited to other income:			
Current	(393)	(321)	(2,501)
Deferred	(5,516)	(4,186)	(2,714)
Total	(5,909)	(4,507)	(5,215)
Total Federal income tax expense ..	\$ 6,927	\$ 2,239	\$ 5,826

	1980		1979		1978	
	Amount	% of Pretax Income	Amount	% of Pretax Income	Amount	% of Pretax Income
Net income	\$43,652		\$39,565		\$39,586	
Add: Federal income tax expense	6,927		2,239		5,826	
Income before Federal income tax	\$50,579		\$41,804		\$45,412	
Computed tax expense	\$23,266	46.0	\$19,230	46.0	\$21,797	48.0
Increases (decreases) in tax resulting from:						
Excess of tax depreciation less amount deferred	(4,501)	(8.9)	(4,145)	(9.9)	(3,525)	(7.8)
Expenses capitalized for financial reporting purposes, including interest, payroll and use tax, etc.	(11,232)	(22.2)	(10,763)	(25.7)	(9,361)	(20.6)
Investment tax credit	(458)	(.9)	(579)	(1.4)	(4,955)	(10.9)
Property taxes on basis of date of taxable status	(1,310)	(2.6)	(698)	(1.7)	224	.5
Revenue taxes (deducted when paid)	866	1.7	381	.9	2,133	4.7
Miscellaneous items, net	296	.6	(1,187)	(2.8)	(487)	(1.1)
Total Federal income tax expense	\$ 6,927	13.7	\$ 2,239	5.4	\$ 5,826	12.8

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

	1980	1979	1978
Investment tax credit	\$ (458)	\$ (222)	\$ 6,629
Class life depreciation	2,446	2,076	1,763
Fuel costs	2,195	2,108	(469)
Nuclear fuel storage costs	(2,808)	(2,672)	(4,989)
Sterling abandonment	4,656		
Other	896	1,306	227
Total	\$ 6,927	\$ 2,596	\$ 3,161

At December 31, 1980, the Company had approximately \$21.6 million of investment tax credits for both financial reporting and tax purposes that are available to be carried forward. Such credits, if not utilized beforehand, will expire as follows: 1985-\$938,000;

1986-\$12,490,000; and 1987-\$8,142,000. For tax purposes, the Company has a net operating loss carryforward of \$11,966,000 available through 1987, arising primarily from the abandonment of the Sterling nuclear plant.

Note 3. 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 - 1980				
Operating revenues	\$297,791	\$181,046	\$23,589	\$ 502,426
Operating expenses, excluding provision for income taxes	237,142	170,546	22,370	430,058
Pretax operating income	60,649	10,500	1,219	72,368
Provision for income taxes	11,169	1,310	357	12,836
Net operating income	\$ 49,480	\$ 9,190	\$ 862	59,532
Other income, net				16,482
Interest charges				32,362
Net income per statement of income				\$ 43,652
Other information				
Depreciation	\$ 21,859	\$ 5,337	\$ 604	\$ 27,800
Nuclear fuel amortization	\$ 20,789			\$ 20,789
Capital expenditures	\$ 75,080	\$ 11,966	\$ 696	\$ 87,742
Investment information - December 31, 1980				
Identifiable assets	\$870,603	\$176,335	\$16,439	\$1,063,377
Assets utilized for overall Company operations (a)				12,003
Total assets per balance sheet				\$1,075,380
Operating Information - 1979				
Operating revenues	\$257,177	\$140,527	\$19,988	\$417,692
Operating expenses, excluding provision for income taxes	209,283	129,645	19,896	358,824
Pretax operating income	47,894	10,882	92	58,868
Provision for income taxes	5,600	1,314	(168)	6,746
Net operating income	\$ 42,294	\$ 9,568	\$ 260	52,122
Other income, net				15,213
Interest charges				27,770
Net income per statement of income				\$ 39,565
Other information				
Depreciation	\$ 18,224	\$ 4,888	\$ 591	\$ 23,703
Nuclear fuel amortization	\$ 17,126			\$ 17,126
Capital expenditures	\$ 97,577	\$ 13,434	\$ 416	\$ 111,427
Investment information - December 31, 1979				
Identifiable assets	\$789,832	\$166,274	\$16,415	\$ 972,521
Assets utilized for overall Company operations (a)				10,329
Total assets per balance sheet				\$ 982,850
Operating Information - 1978				
Operating revenues	\$231,307	\$118,531	\$19,110	\$368,948
Operating expenses, excluding provision for income taxes	181,428	107,873	19,357	308,658
Pretax operating income	49,879	10,658	(247)	60,290
Provision for income taxes	9,244	1,966	(169)	11,041
Net operating income	\$ 40,635	\$ 8,692	\$ (78)	49,249
Other income, net				13,123
Interest charges				22,786
Net income per statement of income				\$ 39,586
Other information				
Depreciation	\$ 16,984	\$ 4,641	\$ 581	\$ 22,206
Nuclear fuel amortization	\$ 15,746			\$ 15,746
Capital expenditures	\$100,194	\$ 11,903	\$ 455	\$112,552
Investment information - December 31, 1978				
Identifiable assets	\$711,917	\$146,299	\$15,716	\$873,932
Assets utilized for overall Company operations (a)				19,454
Total assets per balance sheet				\$893,386

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

Note 4. Long Term Debt

			(Thousands) Principal Amount	
			December 31	
First Mortgage Bonds	% Series Due		1980	1979
2½	M	Aug. 15, 1980		\$ 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
9¼	BB	June 15, 2006	50,000	50,000
8½	CC	Sept. 15, 2007	50,000	50,000
9½	DD	Dec. 1, 2003	40,000	40,000
6½	EE	Aug. 1, 2009	10,000	10,000
10.95	FF	Feb. 15, 2005	55,000	
			436,667	393,667
Add: Bond premium, net of discount			457	495
Less: Due within one year				12,000
Total Long Term Debt			\$437,124	\$382,162

The Mortgage provides security for the bonds through a first lien on substantially all the property owned by the Company (except cash and accounts receivable).

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 1980 and 1979 requirements were met by certification of additional property.

The Series EE First Mortgage Bonds equal the principal amount of and provide for all payments of principal, premium and interest corresponding to the Pollution Control Revenue Bonds, Series A (Rochester Gas and Electric Corporation Projects) issued by the New York State Energy Research and Development Authority through a participation agreement with the Company. The Series EE bonds are subject to a mandatory sinking fund beginning August 1, 2000 and each August 1 thereafter. Nine annual deposits aggregating \$3.2 million will be made to the sinking fund, with the balance of \$6.8 million principal amount of the bonds becoming due August 1, 2009.

The Series FF bonds are subject to a mandatory sinking fund of \$2.8 million annually beginning February 15, 1986 and each February 15 thereafter, with the noncumulative option to double the payment in any year up to a maximum of 5 years.

The Company's maturities for the next five years are \$6 million in 1982 for Series N, \$29.7 million in 1983 for Series AA and \$10 million in 1985 for Series O.

Note 5. Capital Stock

Type, by Order of Seniority	Par Value	Shares Authorized	Shares Outstanding
Preferred Stock (cumulative)	\$100	2,000,000	1,170,000 (a)
Preferred Stock (cumulative)	25	4,000,000	
Preference Stock	1	5,000,000	280,000 (a)
Common Stock	5	25,000,000	17,909,545

(a) See Note 6 for mandatory redemption.

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

Preferred Stock, not subject to mandatory redemption:

		(Thousands)			
		December 31			
% Series	Shares Outstanding	1980	1979	Redemption (per share) (b)	
4½ 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	102.5	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	101	At any time
7.50 N	200,000	20,000	20,000	106	Before 6/1/82
		670,000	\$67,000	\$67,000	

Common Stock:

	Per Share	Shares	(Thousands) Amount
Outstanding, January 1, 1978		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 Reinvestment Plan	17.19—19.25	206,427	3,749
Capital Stock Expense			(902)
Outstanding, December 31, 1978		14,732,747	246,938
3% Stock Dividend	18.00	441,983	7,955
Automatic Dividend Reinvestment Plan	14.81—17.25	309,747	4,967
TRASOP*	15.86	70,384	1,116
Capital Stock Expense			(544)
Outstanding, December 31, 1979		15,554,861	260,432
3% Stock Dividend	15.00	466,646	7,000
Sale of Stock	13.25	1,500,000	19,875
Automatic Dividend Reinvestment Plan	13.50—14.25	388,038	5,382
Capital Stock Expense			(1,343)
Outstanding, December 31, 1980		17,909,545	\$291,346

*Tax Reduction Act Stock Ownership Plan

At December 31, 1980 there were 318,012 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 or employees, or for options, warrants, conversions, or other rights.

Note 6. Preferred and Preference Stock Subject to Mandatory Redemption

The Company is obligated to redeem shares of preferred stock as follows:

as follows:		(Thousands)			
% Series	Shares Outstanding	December 31		Redemption (per share)	
		1980	1979		
Preferred Stock					
8.60 P	250,000	\$25,000	\$25,000	108.60 Before 9/1/84 (a)	
10.84 Q	250,000	25,000		110.84 Before 9/1/85 (a)	
	500,000	\$50,000	\$25,000		
Preference Stock					
7.6 A	280,000	\$28,000	\$28,000	(b)	

(a) Commencing on September 1, 1984 for Series P and on September 1, 1985 for Series Q and on each September 1, thereafter, the Company must redeem 8,125 shares at \$100 per share by means of a sinking fund provision with the noncumulative option to redeem not more than 8,125 additional shares on the same terms. In the event the Company should be

The Company's maximum redemption requirements through 1985 are as follows:

Series	Redemption Value	(Thousands)	
		1985	1984
Preferred P	\$100	\$ 8,125	\$8,125
Preferred Q	100	8,125	
Preference A	100	28,000	
		\$44,250	\$8,125

in arrears in the sinking fund requirement, the Company may not redeem or pay dividends on any stock subordinate to the preferred stock.

(b) 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.

Note 7. Short Term Debt

At December 31, 1980 and 1979, the Company had short term notes outstanding of \$10 million and \$25 million, respectively, and commercial paper outstanding of \$15.3 million and \$25 million, respectively. The weighted average interest rates for 1980 were 14.53% for short term notes and 12.24% for commercial paper, and for 1979 were 13.75% for short term notes and 11.50% for commercial paper.

The Company had established bank lines of credit totaling \$80 million at the end of the year. Since January 1, 1979, the Company has maintained its lines of credit by payment of commitment fees based on a percentage of floating prime rates. Prior to that date, the lines of credit were maintained through the use of compensating balance arrangements. Commitment fees paid in 1980 and 1979 were \$552,296 and \$280,178, respectively.

Note 8. Jointly-Owned Facilities

The following table sets forth the jointly-owned electric generating projects in which the Company is participating. Each participant must provide its own financing for the Nine Mile Point unit in the process of construction and for any additions to the Oswego unit.

	Oswego Fossil Unit #6 (1) (2) (3)	Nine Mile Point Nuclear Unit #2 (1) (2)
Net megawatt capacity	850	1,084
RG&E's share - megawatts	204	152
- percent	24	14
Year of completion	1980	1986
	(Millions of Dollars)	
Total estimated project costs		\$2,516.2 (5)
RG&E's share		352.3
RG&E's actual construction costs - 1979	\$ 10.0	\$ 23.7
- 1980	6.0	18.8
Expended by RG&E in prior years	45.5	70.5
	\$ 61.5 (4)	\$113.0
Accumulated depreciation (Commenced in 1980)	\$ (1.2)	

The Company's share of direct expenses associated with the Oswego unit is included in the appropriate operating expenses in the Statement of Income.

(1) Constructed and operated by Niagara Mohawk Power Corporation.

(2) In accordance with an order issued by the PSC, the Company deferred all income and expenses associated with this unit until the plant was added to rate base in July 1980 for rate-making purposes.

(3) Construction costs exclude allowance for funds used during construction and certain overhead costs to be capitalized.

(4) It is anticipated that modifications will be made to the existing plant to increase operating efficiency or reliability. Costs associated with these modifications are not included.

(5) The present cost estimate excludes common facilities, but includes \$116.2 million for initial nuclear fuel loading.

Note 9. Commitments and Other Matters

The Company's capital expenditures program involves an estimated expenditure of \$131.1 million in 1981, not including allowance for funds used during construction, 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 has obtained permits to discharge pollutants into the water bodies adjoining its facilities. 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 "NYSDEC" (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 continuing in effect, pending final action by NYSDEC on applications to renew these permits. Construction of treatment facilities required for Company compliance with permit limitations at two of the Company's generating stations was completed in 1980. Construction costs of these two facilities totaled \$11.9 million.

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 \$67 million plus significant operating and maintenance expenses.

The National Pollutant Discharge Elimination System permits issued in 1978 expired on March 30, 1980. The Company applied to NYSDEC for renewal of these permits. NYSDEC has extended the Company's existing permits until final action is taken on the pending renewal applications.

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

In the mid-1970's, the Company and three other New York State utilities agreed to share in the cost of a proposed nuclear-powered electric generating plant which the Company would license, build, and operate for the group at Sterling, Cayuga County, New York. Output of the plant was to have been shared in the same proportions; the Company's share was 28%. Although state and federal authorizations for construction were obtained, the State siting agency ultimately revoked its authorization and the federal construction permit was also withdrawn. The participating utilities elected not to appeal those decisions, but to terminate the project. At December 31, 1980, the Company's net investment in the plant is summarized as follows (in thousands of dollars):

Construction costs	\$37,300
Less: Estimated tax effect of abandonment	11,800
	<u>\$25,500</u>

The Company's share of the estimated contract termination costs would be \$7 million, prior to tax savings.

The Company and the three other utilities participating in the Sterling project have petitioned the PSC for permission to amortize their investment in the plant as a cost of service over a period of time to be determined in each participant's currently pending rate case. Proceedings were commenced by the PSC in 1980 to examine the costs incurred by the petitioners, to determine their prudence and to decide the request for amortization of the extraordinary property loss in rates. The proceeding was initially divided into two phases: Phase I to resolve certain general principles and Phase II to conduct a more detailed examination of individual cost items. A Phase I-A was later added by the Commission to consider a proposal that the participants not recover through rates the carrying charges on the unamortized investment and to consider "any other issue of ultimate responsibility for Sterling costs". Phase I was concluded with an Opinion and Order dated January 6, 1981, which provided, in part, that the categories of expenditures incurred for the project up to January 11, 1978 were prudent in principle. As a result, Phase II of the proceedings has been expanded to conduct an examination of the prudence of categories of expenditure after January 11, 1978, along with a more detailed examination of individual cost items. The Opinion, however, did state that with regard to the prudence of categories of expenditures between January 11 and May 4, 1978, the PSC Staff and intervenors will have the burden of going forward in showing any category to be imprudent. The Company believes that all of the expenditures incurred on the Sterling project have been reasonable and prudent, and therefore will ultimately be recovered through rates. The Company also believes that decisions of the PSC support the Company's request for an appropriate carrying charge on the unamortized investment.

The utilities participating in the Sterling project received an order dated February 19, 1980 from the PSC, in which it was ordered "(T)hat the petitioners be allowed to continue, until such time as amortization commences to be recovered in rates, to accrue and accumulate an allowance for funds used during construction with respect to project costs." The investment of \$37.3 million

mentioned above includes \$2.5 million in AFDC accrued during 1980 pursuant to this order. With respect to a similar continuation of AFDC under the accounting procedures prescribed by the FERC, authorization by the FERC is necessary. Such action was requested on March 7, 1980. The FERC has not acted on the matter. If the FERC does not authorize continuation of accrual and accumulation of AFDC on the Sterling project and if alternative regulatory relief equivalent thereto is not granted by the FERC, then the participants will not be permitted to include in financial reports, based on the FERC System of Accounts, the AFDC accrued on their investment subsequent to the effective date of the discontinuance of the project. However, on the basis of the PSC order of February 19, 1980, the participants would continue to accrue and accumulate such AFDC for PSC regulatory purposes and for purposes of financial reports based on PSC accounting.

Legal actions have been instituted against the Company seeking \$34.5 million in compensatory and \$64 million in punitive damages for alleged personal injuries as a result of exposure to radiation at the Company's Ginna nuclear power plant in 1974. The Company has not completed its investigation of the plaintiffs' allegations and it cannot now predict the outcome of these actions, nor can it predict whether any additional similar actions might be commenced. Based, however, on its investigation to date, the Company does not believe the plaintiffs will prevail on the merits, and it intends to contest these claims vigorously.

The Company is fully insured for the total compensatory damages that are sought in these actions, and its insurer has advised the Company that it will fully defend all claims. However, the insurer has

disclaimed any obligation for the payment of any punitive damages which may be assessed against the Company. There is precedent in New York State that it is contrary to public policy for an insurance carrier to pay punitive damages assessed against its insured, but it is unclear whether that precedent would apply to the nuclear liability insurance involved in these actions. The Company intends to contest the disclaimer of coverage for punitive damages.

An additional legal action has been brought by the plaintiffs in those actions. This action seeks to recover \$10 million in compensatory damages and \$13 million in punitive damages for various alleged wrongs arising out of a Company interoffice memorandum advising its facility supervisors that none of the plaintiffs should be permitted on the Company's property. These claims are not covered by insurance, and the Company will defend them vigorously.

On January 19, 1981, the PSC approved the merger of the Company and Pavilion Natural Gas Company (Pavilion). It is expected that the merger will take place on February 28, 1981, at which time the Company will issue up to 98,006 additional shares of common stock in exchange for the common stock of Pavilion. The merger will be accounted for as a pooling of interests. Had the merger occurred in 1980, the effects on reported operating revenues, net income and earnings per share would have been immaterial.

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, 1980 and 1979, and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1980, 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.

Pricewaterhouse Co

1900 Lincoln First Tower
Rochester, New York 14604
January 30, 1981

Supplemental Information Concerning the Effects of Inflation

The estimates of the effect of inflation on the operations of the Company, as set forth below, were prepared on bases prescribed by the Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices." This statement requires adjustments to historical costs to estimate the effects that general inflation (Constant Dollar) and changes in specific prices (Current Cost) have had on the Company's results of operations. These data are not intended as substitutes for earnings reported on a historical cost basis. They offer some perspective of the approximate effects of inflation rather than a precise measurement of these effects.

Utility Plant. Estimated utility plant, primarily consisting of plant in service and construction work in progress, was determined for constant dollars by applying the Consumer Price Index for All Urban Consumers (CPI-U) to the historical cost of utility plant. The current cost estimates were measured by applying the Handy-Whitman Index of Public Utility Construction Costs to the historical cost of utility plant. Current cost is an estimate of the cost of currently replacing existing plant. The resulting adjusted data for plant under either of the above methods is not necessarily indicative of the Company's future capital requirements because the actual replacement of existing plant will take place over many years and is not likely to be a reproduction of presently existing plant.

The difference between current cost and the constant dollar data results from specific prices of plant increasing at a rate different from the rate of general inflation.

Accumulated Depreciation. The accumulated provision for depreciation for constant dollars and current cost was developed by applying, for each class of plant, the same percentage relationship that existed between gross plant and accumulated provision for depreciation on a historical basis to the respective adjusted plant data.

Depreciation Expense. Depreciation expense for both methods was determined by applying the Company's depreciation rates to the respective indexed plant amounts.

Reduction of Utility Plant to Net Recoverable Cost.

The regulatory process limits the Company to the recovery of the historical cost of service in its rates. Therefore, any excess of the value of utility plant under constant dollars or current cost must be reduced to the net recoverable cost, which is historical cost. The amount of this excess that accrued as a result of inflation in the current year must be reduced to net recoverable cost.

Gain From the Decline of Purchasing Power of Net Amounts Owed.

The Company, by holding assets such as receivables, prepayments, and inventory, suffers a loss of purchasing power during periods of inflation because the amount of cash received in the future for these items will purchase less. Conversely, by holding monetary liabilities, primarily long term debt, the Company benefits because the payment in the future will be made with nominal dollars having less purchasing power. The Company has significant amounts of long term debt outstanding which will be paid back in dollars having less purchasing power and, therefore, for purposes of these calculations, has a net gain from holding monetary liabilities in excess of monetary assets.

Other Items. As allowed by FASB Statement No. 33, items in the income statement, other than depreciation expense, were not adjusted. The cost of fuel used in electric production and the cost of gas sold were not adjusted because the effect on earnings was not material due to the relatively short turnover period between the incurrence of these costs and their recovery through the fuel adjustment clause.

The regulatory process limits the amount of depreciation expense included in the Company's revenue allowance and limits utility plant in rate base to original cost. Such amounts produce cash flows which are inadequate to replace such property in the future or preserve the purchasing power of common equity capital previously invested. While this effect is partially mitigated by the benefit derived from having long term debt, the Company has a net purchasing power loss which is experienced by the common stock shareholder and can only be overcome as a result of adequate rate relief. However, the Company expects that it will be able to establish rates which will cover the increased costs of new plant when such costs are incurred.

Federal income tax policy ignores the effects of inflation in measuring taxable income. Higher depreciation expense under constant dollar and current cost accounting is not tax deductible. Therefore, the Company's effective Federal income tax rate, when adjusted for inflation, is 48.8 percent under constant dollar and 86.4 percent under current cost for 1980, each of which exceeds its reported effective tax rate of 22.7 percent.

The erosion of shareholders' equity due to changing prices is summarized in terms of general inflation and in terms of changes in specific prices, as follows:

In Thousands of Average 1980 Dollars	In Terms of General Inflation	In Terms of Changes in Specific Prices
Increase in provision for depreciation	\$30,192	\$41,635
Increase in general price level less increase in specific prices		39,624
Reduction of utility plant to net recoverable cost	78,181	27,114
Gain from the decline in purchasing power of net amounts owed	(66,725)	(66,725)
Total erosion of shareholders' equity due to inflation	\$41,648	\$41,648

**Statement of Income from Continuing Operations
Adjusted for Changing Prices**

(Thousands of Dollars)	For the Year Ended December 31, 1980	Historical Cost	Constant Dollar Average 1980 Dollars	Current Cost Average 1980 Dollars
Operating revenues		\$502,426	\$502,426	\$502,426
Operating expense		313,226	313,226	313,226
Maintenance expense		32,048	32,048	32,048
Depreciation expense		27,800	57,992	69,435
Tax expense—local, state and other		56,984	56,984	56,984
Income tax expense		12,836	12,836	12,836
Interest expense		39,182	39,182	39,182
Other income and deductions—net		(23,302)	(23,302)	(23,302)
		458,774	488,966	500,409
Net income		43,652	13,460	2,017
Dividends on preferred and preference stock		8,927	8,927	8,927
Earnings (loss) applicable to common stock		\$ 34,725	\$ 4,533*	\$ (6,910)
Change in net assets during 1980 due to increase in specific prices				\$193,984**
Less: Increase in general price level				233,608
Net change during 1980				(39,624)
Reduction of utility plant to net recoverable cost			\$(78,181)	(27,114)
Gain from decline in purchasing power of net amounts owed			\$ 66,725	\$ 66,725

*Earnings applicable to common stock on a constant dollar basis would have been a loss of \$73,648 if the reduction of utility plant to net recoverable cost had been included.

**At December 31, 1980, current cost of utility property net of accumulated depreciation was \$2,102,868, while related historical cost or net recoverable cost was \$950,474.

**Five-Year Comparison of Selected Financial Data
Adjusted for Changing Prices**

(In Thousands of Average 1980 Dollars)	Year Ended December 31	1980	1979	1978	1977	1976
Operating revenues						
As reported		\$502,426	\$417,692	\$368,948	\$331,144	\$308,227
In average 1980 dollars		502,426	474,371	466,189	450,465	446,342
Historical cost information adjusted for general inflation						
Earnings applicable to common stock*		4,533	10,279			
Earnings per common share, adjusted for stock dividends*		\$.28	\$.65			
Net assets at year-end at net recoverable cost		358,613	365,772			
Current cost information						
Loss applicable to common stock*		(6,910)	(3,080)			
Loss per common share, adjusted for stock dividends*		\$(.42)	\$(.19)			
Excess of increase in general price level over increase in specific prices after reduction to net recoverable cost		66,738	80,450			
Net assets at year-end at net recoverable cost		358,613	365,772			
General information						
Gain from decline in purchasing power of net amounts owed		66,725	73,855			
Cash dividends per common share, adjusted for stock dividends						
As reported		\$ 1.48	\$ 1.41	\$ 1.33	\$ 1.22	\$ 1.13
In average 1980 dollars		1.48	1.60	1.68	1.66	1.64
Market price per common share at year-end						
As reported		\$12.25	\$14.88	\$18.00	\$21.13	\$19.88
In December 1980 dollars		12.25	16.72	22.92	29.33	29.46
Average consumer price index		246.9	217.4	195.4	181.5	170.5
December consumer price index		258.4	229.9	202.9	186.1	174.3

*Excludes the reduction of utility plant to net recoverable cost.

Interim Financial Data

RGE Rochester Gas
and Electric Corporation

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)				Earnings Per Common Share (in dollars)
	Operating Revenues	Operating Income	Net Income	Earnings On Common Stock	
December 31, 1980	\$141,344	\$12,774	\$ 8,159	\$ 5,525	\$.32
September 30, 1980	102,130	14,268	9,335	6,956	.42
June 30, 1980	105,395	12,233	9,141	7,184	.44
March 31, 1980	153,557	20,257	17,017	15,060	.93
December 31, 1979	108,243	11,279	7,194	5,237	.32
September 30, 1979	83,010	8,244	5,211	3,362	.21
June 30, 1979	105,766	14,265	10,939	9,520	.60
March 31, 1979	120,673	18,334	16,220	14,801	.94
December 31, 1978	92,312	8,466	7,088	5,669	.36
September 30, 1978	73,665	9,527	6,596	5,175	.35
June 30, 1978	86,942	12,009	9,909	8,490	.59
March 31, 1978	116,029	19,247	15,993	14,574	1.03

Common Stock and Dividends

	1980		1979		1978	
Earnings per weighted average share	\$ 2.10		\$2.08		\$2.32	
Number of shares (000's)						
Weighted average	16,472		15,815		14,613	
Pro forma weighted average after stock dividend paid in following year (See below)	16,966		16,289		15,051	
Actual number at December 31	17,910		15,555		14,733	
Number of shareholders	50,416		48,543		48,148	
Price range (Sales on New York Stock Exchange) ...	High	Low	High	Low	High	Low
1st quarter	15¾	11¼	18¾	16¾	21½	17¾
2nd quarter	15¼	11¾	17¾	15¾	18¾	17¾
3rd quarter	14¾	13¾	17	16	19¾	18
4th quarter	13¾	11½	16	14½	18¾	16½
Cash dividends paid						
1st quarter	\$.37		\$.36		\$.35	
2nd quarter .....	.37		.36		.35	
3rd quarter .....	.37		.37		.36	
4th quarter .....	.38		.37		.36	
Stock dividend paid (See below)	3%		3%		3%	

The 22nd annual stock dividend was paid by the Company on February 25, 1981 at the rate of 3%. The foregoing Common Stock prices have not been adjusted for subsequent 3% stock dividends paid in February 1978, 1979, 1980 and 1981.

The Company has paid cash dividends quarterly on its Common Stock without interruption since it became publicly held in 1949. The Company intends to continue the practice of paying cash dividends quarterly and will consider the payment of a stock dividend annually, although there can be no assurance as to the declaration of future dividends since they necessarily will be

dependent upon the Company's future earnings, its financial requirements and other factors.

In the event the Company should be in arrears in the redemption of its Series P or Series Q Preferred Stock pursuant to the sinking fund provision of such series, the Company may not purchase or otherwise acquire for value, or pay dividends on, any shares of its Common Stock.

For the years 1978 and 1979 cash dividends paid were 100% taxable for Federal income tax purposes. The Company estimates that cash dividends paid during 1980 will be 100% nontaxable.

Management's Discussion and Analysis of Financial Condition and Results of Operations

During the three years 1978 through 1980, the Company has experienced the effects of high inflation, record setting interest rates, and imperfections inherent in the regulatory rate-making process. Their impact is evident throughout the statements of income and balance sheets shown on pages 14 and 15. The effects of inflation are further set forth in the supplemental information on pages 24 and 25. Although the Company is not convinced these trends are permanent, there has been a gradual erosion of the long term fundamental financial strength of the Company which historically has provided a certain degree of flexibility in long term planning. This loss of flexibility becomes apparent through the reduction in cash flow as a result of the increases in such working capital items as accounts receivable and fuel inventories.

The Company's financial flexibility has also been constrained by the necessity to commit to major construction projects to meet the anticipated energy needs of our customers. Planned increases in electric generating capacity require long term capital commitments, such as Nine Mile Point Unit 2, a nuclear unit being built by Niagara Mohawk Power Corporation in which the Company has a 14% interest, now scheduled for commercial operation in late 1986. Also, a significant portion of the Company's capital expenditure program is comprised of government-mandated modifications and additions to existing plant and equipment.

At present, the Company anticipates that 30% to 40% of the additional funds it requires will be generated internally. The balance will have to be obtained through the sale of securities and short term borrowing. The Company's ability to obtain financing depends on receiving regulatory approvals for rate increases adequate to maintain the Company's financial soundness.

Regulatory policies regarding both cash flow items and rates of earnings have restricted the Company's ability to internally

generate appropriate amounts of cash to finance its growing construction program and have restricted its ability to secure financing at advantageous rates. These policies, together with the effects of inflation and the high costs of borrowing, have required the Company to become more aggressive in seeking approvals for rate increases. This is evidenced by the short period of time between the July 18, 1980 PSC decision in the last proceeding and the August 27, 1980 filing of the Company's current proceeding.

In January 1981 it became clear that the Company had underestimated the duration and magnitude of the current downturn in the business cycle as reflected in its projection of rate year financing costs in the current rate proceeding. Thus, the Company amended its initial permanent request to reflect an increase in the requested rate of return on rate base from 10.95% to 11.35%. Also, the Company applied for temporary electric and gas rate increases, to be effective on or about March 1, 1981, of approximately \$30 million and \$5 million, respectively, based on forecasted sales volumes for the twelve months ended July 31, 1982. The Company has presented evidence in the proceeding that, if the temporary rate increases are not permitted, the Company will face a serious risk of having the rating of its first mortgage bonds lowered when it next sells such bonds. The Company's request for an 18% increase in steam rates (\$3.6 million per year) was approved by the PSC and the rates became effective February 18, 1981. The Company is unable to predict the amount of the pending increases, if any, that will be allowed by the PSC.

The following financial review identifies the causes of significant changes in the amounts of revenues and expenses, comparing 1980 to 1979 and 1979 to 1978. The Notes to Financial Statements on pages 17 to 23 of this report contain additional related information.

Changes in Operating Revenues Increase or (Decrease) from Prior Year (Thousands of Dollars)	Electric Department		Gas Department		Steam Department	
	1980	1979	1980	1979	1980	1979
Customer Revenues (Estimated) from:						
Rate Increases	\$21,878	\$10,464	\$ 8,232	\$ 1,946	\$ 2,316	\$ —
Fuel Cost Adjustment	2,317	2,764	30,436	20,986	3,441	1,757
Weather Effects	(27)	(61)	(1,452)	(735)	(279)	(24)
Customer Consumption	607	2,842	2,671	(526)	(2,042)	(1,013)
Other	857	733	632	325	165	158
Total Change in Customer Revenues	25,632	16,742	40,519	21,996	3,601	878
Electric Sales to Other Utilities	14,982	9,128	—	—	—	—
Total Change in Operating Revenues	\$40,614	\$25,870	\$40,519	\$21,996	\$ 3,601	\$ 878

Revenues from electric sales to other utilities increased in both 1980 and 1979. Fluctuations in electric sales to other utilities, and in purchased electricity discussed below, generally are related to the availability of electric generation from the Ginna nuclear plant.

Changes in Operation and Maintenance Expenses Increase or (Decrease) from Prior Year (Thousands of Dollars)	1980	1979
Electric and Steam Fuels	\$ 18,640	\$ 2,931
Purchased Electricity	(8,141)	12,600
Purchased Natural Gas	37,955	18,695
Other Operation	9,696	6,579
Maintenance	1,919	3,883
Total Change in Operation and Maintenance Expense	\$60,069	\$44,688

The 1980 increase in electric and steam fuels expense was mainly due to an increase in electricity generated in 1980 and an increased fuel cost per kilowatt-hour generated.

Purchased electricity expense decreased in 1980 due mainly to the high 76% availability of the Ginna nuclear power plant and an increase in system net generating capacity occasioned by the start-up of Oswego Unit 6. Purchased electricity increased in 1979 due to both higher costs and higher kilowatt-hour purchases.

Purchased natural gas expense increased in 1980 and 1979 as a result of higher pipeline rates and in 1980 also increased due to a modest increase in consumption in the nonresidential sector.

Other operation expense increased in 1980 and in 1979 largely as a result of higher wages and employee benefit costs.

Taxes—local, state and other increased in 1980 and in 1979 principally due to the increased gross income tax rate and increased revenues. The 1980 increase also reflects taxes on Oswego Unit 6 which were capitalized during its construction and are now being expensed. Changes in Federal income taxes are explained in Note 2 to the Notes to Financial Statements.

The 1980 increase in allowance for funds used during construction of \$1.3 million was due to the increased rates applied during the period, the effect of which was reduced by lower utility plant expenditures and by the transfer of the Company's share of the Oswego Unit 6 oil-fired generating plant from construction work in progress to utility plant. The 1979 increase of \$3.7 million in allowance for funds used during construction was due to increased rates applied during the period and to increased utility plant expenditures.

Interest on long term debt increased in 1980 and in 1979 as a result of additional bonds issued in February and May 1980, August 1979 and December 1978. Short term interest rates and borrowing levels for 1980 and 1979 were approximately equal. The \$2.4 million increase in the 1979 interest on short term debt resulted from higher interest rates and an increase of \$14.6 million in the average amount of short term debt outstanding.

Dividends on preferred and preference stock increased \$2.3 million in 1980 and \$1.0 million in 1979 because of additional preferred stock issued in August 1980 and July 1979.

Selected Financial Data

Summary of Operations (Thousands of Dollars) Year Ended December 31

	1980	1979	1978	1977	1976	1975
Operating Revenues						
Electric	\$245,005	\$219,373	\$202,631	\$179,940	\$170,558	\$146,629
Gas	181,046	140,527	118,531	105,797	101,027	82,478
Steam	23,589	19,988	19,110	19,004	18,383	17,337
	449,640	379,888	340,272	304,741	289,968	246,444
Electric sales to other utilities	52,786	37,804	28,676	26,403	18,259	25,496
Total Operating Revenues	502,426	417,692	368,948	331,144	308,227	271,940
Operating Expenses						
Operation						
Electric and steam fuels	79,711	61,071	58,140	56,993	46,361	46,268
Purchased electricity	23,796	31,937	19,337	13,635	18,195	12,212
Purchased natural gas	127,759	89,804	71,109	62,086	56,192	42,247
Other	81,960	72,264	65,685	62,494	57,677	50,629
Maintenance	32,048	30,129	26,246	22,372	20,206	19,700
Depreciation	27,800	23,703	22,206	21,053	18,621	17,414
Taxes—local, state and other	56,984	49,916	45,935	43,876	40,502	36,157
Federal income tax—current	393	(36)	5,166	961	(291)	4,162
—deferred	12,443	6,782	5,875	2,897	5,656	1,133
Total Operating Expenses	442,894	365,570	319,699	286,367	263,119	229,922
Operating Income	59,532	52,122	49,249	44,777	45,108	42,018
Other Income and Deductions						
Allowance for other funds used during construction	11,710	11,439	8,705	6,473	4,678	2,310
Other, net	4,772	3,774	4,418	1,310	1,128	537
Total Other Income and Deductions	16,482	15,213	13,123	7,783	5,806	2,847
Income before Interest Charges	76,014	67,335	62,372	52,560	50,914	44,865
Interest Charges						
Long term debt	34,129	29,084	25,594	22,542	19,378	16,963
Short term debt	4,298	4,016	1,588	1,319	1,054	1,568
Other, net	755	441	416	494	246	1,227
Allowance for borrowed funds used during construction	(6,820)	(5,771)	(4,812)	(4,844)	(2,853)	(1,264)
Total Interest Charges	32,362	27,770	22,786	19,511	17,825	18,494
Net Income	43,652	39,565	39,586	33,049	33,089	26,371
Dividends on Preferred and Preference Stock, at required rates	8,927	6,645	5,678	6,512	6,245	4,054
Earnings Applicable to Common Stock	\$ 34,725	\$ 32,920	\$ 33,908	\$ 26,537	\$ 26,844	\$ 22,317
Weighted average number of shares outstanding in each period, adjusted for stock dividends (000's)	16,472	15,815	14,613	13,234	12,713	11,656
Earnings per Common Share	\$2.10	\$2.08	\$2.32	\$2.00	\$2.11	\$1.91
Cash Dividends per Common Share, adjusted for stock dividends	\$1.48	\$1.41	\$1.33	\$1.22	\$1.13	\$1.08

Selected Financial Data (Continued)

Condensed Balance Sheet (Thousands of Dollars)

At December 31	1980	1979	1978	1977	1976	1975
ASSETS						
Utility Plant, at original cost	\$1,061,999	\$928,796	\$857,959	\$789,775	\$727,687	\$693,404
Less—Accumulated depreciation and amortization	337,215	295,328	261,477	229,122	198,778	185,455
	724,784	633,468	596,482	560,653	528,909	507,949
Construction work in progress	225,690	260,063	213,534	162,127	120,702	79,381
Net utility plant	950,474	893,531	810,016	722,780	649,611	587,330
Investment in Subsidiary, at equity	1,968	2,062	1,996	1,947	1,911	1,871
Current Assets	92,314	65,237	66,953	58,387	61,090	53,796
Deferred Debits	30,624	22,020	14,421	15,260	8,151	7,450
Total Assets	\$1,075,380	\$982,850	\$893,386	\$798,374	\$720,763	\$650,447
CAPITALIZATION AND LIABILITIES						
Capitalization						
Long term debt	\$ 437,124	\$382,162	\$384,303	\$361,022	\$311,395	\$267,314
Preferred stock subject to mandatory redemption	50,000	25,000				
Preferred stock redeemable at option of Company	67,000	67,000	67,000	67,000	92,000	89,000
Preference stock subject to mandatory redemption	28,000	28,000	28,000	28,000		
Common shareholders' equity						
Common stock	291,346	260,432	246,938	212,533	181,301	173,586
Retained earnings	83,970	80,155	77,338	70,819	67,812	60,502
Total common shareholders' equity	375,316	340,587	324,276	283,352	249,113	234,088
Total Capitalization	957,440	842,749	803,579	739,374	652,508	590,402
Current Liabilities	85,510	115,291	68,362	42,813	54,652	51,712
Deferred Credits and Other Liabilities	32,430	24,810	21,445	16,187	13,603	8,333
Total Capitalization and Liabilities	\$1,075,380	\$982,850	\$893,386	\$798,374	\$720,763	\$650,447

Financial Data

At December 31	1980	1979	1978	1977	1976	1975
Capitalization Ratios (percent)						
Long term debt	45.7	45.4	47.8	48.8	47.7	45.3
Preferred and preference stock	15.1	14.2	11.8	12.9	14.1	15.1
Common shareholders' equity	39.2	40.4	40.4	38.3	38.2	39.6
Total	100.0	100.0	100.0	100.0	100.0	100.0
Book Value per Common Share Adjusted for Stock Dividends—Year End	\$20.96	\$21.26	\$20.75	\$20.12	\$19.47	\$18.56
Rate of Return On Average Common Equity—Year End (percent)	9.86	9.85	11.22	10.02	11.16	10.18
Effective Federal Income Tax Rate (percent) ...	13.7	5.4	12.8	6.2	10.6	14.4
Depreciation Rate—Electric	3.09	3.10	3.09	3.00	2.90	2.79
—Gas	2.86	2.79	2.79	2.67	2.63	2.60
Interest Coverages						
Before federal income taxes (incl. AFDC) ...	2.33	2.25	2.65	2.45	2.79	2.56
(excl. AFDC) ...	1.86	1.73	2.16	1.98	2.43	2.38
After federal income taxes (incl. AFDC)	2.11	2.18	2.43	2.36	2.60	2.33
(excl. AFDC)	1.64	1.67	1.94	1.89	2.24	2.15

Electric Department

RGE Rochester Gas
and Electric Corporation

Year Ended December 31	1980	1979	1978	1977	1976	1975
Electric Revenue (000's)						
Residential	\$ 88,083	\$ 78,140	\$72,854	\$ 64,986	\$ 61,498	\$ 53,904
Commercial	70,407	63,104	58,985	53,520	50,791	43,884
Industrial	60,373	54,404	48,792	41,783	39,402	33,244
Other	26,142	23,725	22,000	19,651	18,867	15,597
Electric revenue from our customers	245,005	219,373	202,631	179,940	170,558	146,629
Other electric utilities	52,786	37,804	28,676	26,403	18,259	25,496
Total electric revenue	297,791	257,177	231,307	206,343	188,817	172,125
Electric Expense (000's)						
Fuel used in electric generation	63,430	46,999	45,093	44,010	34,247	33,442
Purchased electricity	23,796	31,937	19,337	13,635	18,195	12,212
Other operation	64,139	54,277	47,602	45,011	40,930	35,662
Maintenance	24,404	22,675	19,305	16,339	14,796	14,282
Depreciation	21,859	18,223	16,983	15,333	13,865	12,731
Taxes—local, state and other	39,514	35,172	33,108	31,530	28,543	25,369
Electric revenue deductions	237,142	209,283	181,428	165,858	150,576	133,698
Operating Income before Federal Income Tax	60,649	47,894	49,879	40,485	38,241	38,427
Federal income tax including regulatory allowance	11,169	5,600	9,244	4,041	3,102	5,069
Operating Income from Electric Operations (000's) \$	\$ 49,480	\$ 42,294	\$ 40,635	\$ 36,444	\$ 35,139	\$ 33,358
Electric Operating Ratio %	59.0	60.6	56.8	57.7	57.3	55.5
Electric Sales—KWH (000's)						
Residential	1,730,213	1,710,090	1,701,938	1,660,425	1,618,314	1,530,421
Commercial	1,424,283	1,404,931	1,417,624	1,392,023	1,366,094	1,294,816
Industrial	1,564,952	1,579,364	1,517,988	1,431,855	1,384,235	1,284,940
Other	466,975	469,135	465,373	454,059	437,097	411,122
Electric sales to our customers	5,186,423	5,163,520	5,102,923	4,938,362	4,805,740	4,521,299
Other electric utilities	1,620,929	1,526,925	1,445,391	1,453,590	1,187,942	1,864,050
Total electric sales	6,807,352	6,690,445	6,548,314	6,391,952	5,993,682	6,385,349
Electric Customers at December 31						
Residential	257,227	254,097	251,645	250,121	249,177	246,613
Commercial	24,524	24,234	24,137	24,023	23,983	23,874
Industrial	1,388	1,394	1,348	1,353	1,371	1,380
Other	2,331	2,374	2,423	2,328	2,271	2,305
Total electric customers	285,470	282,099	279,553	277,825	276,802	274,172
Electricity Generated and Purchased—KWH (000's)						
Fossil	2,301,288*	1,956,599	2,025,645	2,272,182	2,060,186	1,731,723
Nuclear	3,081,572	2,945,721	3,206,313	3,018,305	2,040,746	3,026,894
Hydro	179,335	210,353	192,278	222,391	277,010	265,401
Pumped storage	122,809	151,911	133,287	193,340	118,716	98,743
Less energy for pumping	(191,044)	(217,758)	(189,453)	(283,573)	(180,317)	(148,180)
Other	9,389	17,257	1,086	850	2,797	2,198
Total generated—Net	5,503,349	5,064,083	5,369,156	5,423,495	4,319,138	4,976,779
Purchased	1,758,608	2,051,568	1,579,863	1,400,505	2,106,904	1,888,091
Total electric energy	7,261,957	7,115,651	6,949,019	6,824,000	6,426,042	6,864,870
Electric Generation Costs (000's)						
Fossil	\$62,554	\$42,116	\$38,995	\$40,557	\$36,901	\$33,120
Nuclear	39,713	29,943	25,561	22,330	13,485	14,191
Hydro	1,355	1,233	1,229	1,132	973	1,030
Other	518	813	57	44	118	63
Electric Department Fuel						
Fossil - Total BTU (million)	24,610,400	20,874,198	21,139,146	23,862,599	21,822,976	18,388,874
- Cents per million BTU	205.31	152.18	144.27	136.92	137.42	142.18
Nuclear - Total BTU (million)	33,878,804	31,897,513	35,812,171	37,822,209	23,837,620	33,128,471
- Cents per million BTU	61.36	53.81	43.97	38.04	25.69	22.91
System Net Capability—KW at December 31						
Fossil	637,000	443,000	443,000	443,000	452,000	452,000
Nuclear	470,000	470,000	470,000	470,000	470,000	470,000
Hydro	47,000	47,000	47,000	47,000	47,000	47,000
Other	29,000	29,000	29,000	29,000	29,000	29,000
Purchased	357,000	359,000	339,000	338,000	342,000	356,000
Total system net capability	1,540,000	1,348,000	1,328,000	1,327,000	1,340,000	1,354,000
Net Peak Load—KW	1,003,000	950,000	983,000	987,000	934,000	925,000
Annual Load Factor—Net %	64.0	67.1	63.9	62.0	63.8	61.7

*Excludes 79,274,000 KWH of test period generation at Oswego Unit 6.

Gas Department

RGE Rochester Gas
and Electric Corporation

Year Ended December 31	1980	1979	1978	1977	1976	1975
Gas Revenue (000's)						
Residential	\$ 6,444	\$ 5,553	\$ 5,096	\$ 4,828	\$ 4,426	\$ 3,964
Residential spaceheating	105,371	85,269	74,425	66,900	63,974	52,584
Commercial	33,879	25,653	20,535	18,057	16,848	13,593
Industrial	27,379	18,657	13,891	12,014	11,900	9,167
Municipal and other	7,973	5,395	4,584	3,998	3,879	3,170
Total gas revenue	181,046	140,527	118,531	105,797	101,027	82,478
Gas Expense (000's)						
Purchased natural gas	127,759	89,804	71,109	62,086	56,192	42,247
Other operation	16,546	16,519	15,810	15,072	14,921	13,310
Maintenance	6,309	6,246	5,768	5,078	4,510	4,500
Depreciation	5,338	4,889	4,641	5,140	4,194	4,137
Taxes—local, state and other	14,594	12,187	10,545	10,089	9,729	8,715
Gas revenue deductions	170,546	129,645	107,873	97,465	89,546	72,909
Operating Income before Federal Income Tax	10,500	10,882	10,658	8,332	11,481	9,569
Federal income tax	1,310	1,314	1,966	147	2,212	914
Operating Income from Gas Operations (000's) \$	\$ 9,190	\$ 9,568	\$ 8,692	\$ 8,185	\$ 9,269	\$ 8,655
Gas Operating Ratio %	83.2	80.1	78.2	77.7	74.9	72.8
Gas Sales—Therms (000's)						
Residential	13,257	13,149	13,465	13,833	14,404	14,328
Residential spaceheating	240,273	247,389	255,951	252,923	275,582	249,224
Commercial	85,291	83,248	82,451	77,751	86,400	78,217
Industrial	75,829	65,995	63,709	59,956	72,847	65,760
Municipal	19,842	16,962	17,748	15,975	18,598	16,705
Total gas sales	434,492	426,743	433,324	420,438	467,831	424,234
Gas Customers at December 31						
Residential	32,479	35,258	38,013	39,977	40,892	41,437
Residential spaceheating	165,556	159,916	154,366	152,856	153,583	153,848
Commercial	13,281	12,600	12,092	11,268	11,475	11,390
Industrial	846	821	759	746	757	756
Municipal	995	1,047	1,084	989	936	957
Total gas customers	213,157	209,642	206,314	205,836	207,643	208,388
Gas—Therms (000's)						
Purchased for reforming and mixing					9,830	23,160
Purchased for resale	458,697	436,956	449,904	428,811	478,935	421,252
Other	18,392	16,388	13,178	10,123	7,911	7,019
Total gas available	477,089	453,344	463,082	438,934	496,676	451,431
Cost of gas per therm	26.34¢	20.63¢	15.26¢	14.43¢	11.37¢	10.19¢
Total Daily Capacity—Therms at December 31						
Mixed gas						269,000
Straight natural gas	3,660,000	4,164,000	4,164,000	4,164,000	4,164,000	3,895,000
Total daily capacity	3,660,000*	4,164,000	4,164,000	4,164,000	4,164,000	4,164,000
Maximum daily sendout—Therms	3,274,740	3,380,670	3,183,678	3,578,468	3,497,861	3,041,070
Degree Days (Customer Billing)						
For the period	6,833	6,981	7,021	6,726	6,905	6,211
Percent (warmer) colder than normal	1.4	4.3	4.5	(0.1)	1.6	(7.2)

*New method for determining daily capacity, based on current network analysis, reflects the maximum demand which the transmission system can accept without a deficiency.

Steam Department

RGE Rochester Gas
and Electric Corporation

Year Ended December 31	1980	1979	1978	1977	1976	1975
Steam Revenue (000's)						
Commercial	\$ 6,915	\$ 5,873	\$ 6,087	\$ 6,352	\$ 6,401	\$ 5,668
Industrial	14,222	11,833	10,732	10,455	9,799	9,862
Municipal and other	2,452	2,282	2,291	2,197	2,183	1,807
Total steam revenue	23,589	19,988	19,110	19,004	18,383	17,337
Steam Expense (000's)						
Fuel used in steam generation	16,281	14,072	13,047	12,983	12,114	12,826
Other operation	1,275	1,468	2,273	2,411	1,826	1,657
Maintenance	1,335	1,208	1,173	955	900	918
Depreciation	603	591	581	580	562	546
Taxes—local, state and other	2,876	2,557	2,282	2,257	2,230	2,073
Steam revenue deductions	22,370	19,896	19,356	19,186	17,632	18,020
Operating Income before Federal Income Tax	1,219	92	(246)	(182)	751	(683)
Federal income tax	357	(168)	(168)	(330)	51	(688)
Operating Income from Steam Operations (000's) ..	\$ 862	\$ 260	\$ (78)	\$ 148	\$ 700	\$ 5
Steam Operating Ratio %	80.1	83.8	86.3	86.0	80.7	88.8
Steam Sales—Lbs. (000's)						
Commercial	678,225	789,364	898,904	933,609	1,041,415	980,324
Industrial	1,487,176	1,682,780	1,718,565	1,682,033	1,738,391	1,839,402
Municipal	248,478	320,026	346,031	334,645	367,553	325,727
Total steam sales	2,413,879	2,792,170	2,963,500	2,950,287	3,147,359	3,145,453
Steam Customers at December 31						
Commercial	186	221	238	254	271	281
Industrial	61	70	70	74	77	77
Municipal	24	27	31	32	32	31
Total steam customers	271	318	339	360	380	389
Steam Produced - Lbs. (000's)						
Produced by steam department	1,376,153	1,391,245	1,353,053	1,194,132	1,408,029	1,387,363
By-product steam from electric department	1,395,995	1,736,744	1,987,638	2,133,853	2,193,283	2,344,693
Total steam produced	2,772,148	3,127,989	3,340,691	3,327,985	3,601,312	3,732,056
Steam Department Fuel						
Total BTU (million)	4,658,641	5,378,454	5,705,943	5,548,290	6,022,360	6,230,767
Cents per million BTU	357.43	271.28	226.21	232.60	203.35	203.08

Rate Increases

Granted					Pending Requests			
Class of Service	Effective Date of Increase	Amount of Increase (Annual Basis) (000's)	Percent Increase	Authorized Rate of Return on Rate Base Equity	Class of Service	Date of Filing	Amount (000's)	Percent
Electric	April 20, 1976	\$11,002	7.9%	9.35% 13.50%	Electric*	August 27, 1980	\$61,900	19.1%
	November 11, 1977	10,186	5.8	9.31 12.80	Gas*	August 27, 1980	7,800	3.0
	February 18, 1978	3,000	1.6	9.31 12.80	*On January 16, 1981, the Company filed a request for permission to adopt temporary rate increases for electric and gas service. This request would increase 1981 electric revenues by approximately \$12 million and 1981 gas revenues by approximately \$1.7 million.			
	May 2, 1979	17,699	8.2	9.89 13.40				
	July 26, 1980	38,400	15.9	10.32 13.80				
Gas	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				
	May 2, 1979	8,109	6.6	9.89 13.40				
	July 26, 1980	9,640	5.1	10.32 13.80				
Steam	April 15, 1975	2,475	12.0					
	December 15, 1979	2,895	15.0					
	February 18, 1981	3,550	18.2					

Directors

Theodore J. Altier✓
Chairman of the Board and Treasurer,
Altier & Sons Shoes, Inc.

Keith W. Amish*
President and Chief Operating Officer,
Rochester Gas and Electric Corporation

Paul W. Briggs*✓
Chairman of the Board and
Chief Executive Officer,
Rochester Gas and Electric Corporation

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 Executive
and Finance Committee,
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

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

Theodore L. Levinson†
President and Chief Executive Officer,
Star Supermarkets, Inc.

Paul A. Miller
Professor,
Rochester Institute of Technology

Constance M. Mitchell
Community Relations Coordinator,
Industrial Management Council
of Rochester, New York, Inc.

Cornelius J. Murphy
Group Vice-President and General Manager,
Eastman Kodak Company

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

Leon D. White, Jr.
Executive Vice-President,
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
††Member of the Salary Review Committee of
the Board of Directors
✓Member of the Nominating Committee of the
Board of Directors

Officers

Paul W. Briggs
Chairman of the Board and
Chief Executive Officer
Age 58, Years of Service, 35

Keith W. Amish
President and Chief Operating Officer
Age 57, Years of Service, 33

Leon D. White, Jr.
Executive Vice-President
Age 61, Years of Service, 23

Harry G. Saddock
Senior Vice-President, Finance and Rates
Age 51, Years of Service, 30

Mario Silvestrone
Senior Vice-President, General Services
Age 57, Years of Service, 30

John E. Arthur
Vice-President and Chief Engineer
Age 51, Years of Service, 25

Joseph J. Hartman
Vice-President, Gas and Transportation
Age 56, Years of Service, 34

Robert C. Henderson
Vice-President, Rates
Age 40, Years of Service, 17

David K. Laniak
Vice-President, Electric System Planning and
Operation
Age 45, Years of Service, 26

John E. Maier
Vice-President, Electric and Steam Production
Age 53, Years of Service, 33

Richard J. Rudman
Vice-President, Electric Transmission and
Distribution
Age 53, Years of Service, 35

Dean W. Caple
Secretary
Age 57, Years of Service, 32

David C. Heiligman
Treasurer and Assistant Secretary
Age 40, Years of Service, 17

Francis A. Sullivan, Jr.
Controller
Age 57, Years of Service, 30

Robert W. Ball
Assistant Treasurer
Age 64, Years of Service, 42

Stephen Kowba
Assistant Controller
Age 61, Years of Service, 30

John M. Kuebel
Auditor
Age 45, Years of Service, 16

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 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
1980, upon written request of any
shareholder addressed to the Secretary.

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

Financial Contact
Harry G. Saddock
Senior Vice-President, Finance and Rates

Annual Meeting
May 20, 1981
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



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

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OFFICE OF NUCLEAR REACTOR REG.
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