BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 07-M-0906

Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.

January 2008

Exhibit____(Policy Panel - 15)

The McGraw-Hill Companies
STANDARD &POOR'S RatingsDirect®

RESEARCH

Iberdrola S.A.

Publication date: 18-Sep-2007
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(**Editor's Note:** In the original version of this report, published on July 4, 2007, Standard & Poor's operating-lease adjustment to Iberdrola's reported year-end 2006 debt was misstated in the Financial Risk Profile section, leading to an incorrect adjusted debt figure and incorrect debt ratios in the text and tables of this section. A corrected version follows.)

Major Rating Factors

Corporate Credit Rating
A/Watch Neg/A-1

Strengths:

- Vertically integrated electric utility,
- Strong position in Spanish electricity market,
- Increased earnings diversity, and
- Cost-competitive and diversified generation portfolio.

Weaknesses:

- Increasing competitive pressure in the domestic electricity market,
- Exposure to pool price volatility,
- Ambitious growth strategy (organic and inorganic),
- Weakened financial profile following acquisition of Scottish Power, and
- Exposure to volatile Latin American markets (Mexico and Brazil).

Rationale

The ratings on Spanish utility Iberdrola S.A. remain on CreditWatch with negative implications following the acquisition of Scottish Power PLC (A-/Watch Neg/A-2) on April 23, 2007, and the company's announcement on June 25, 2007, of its bid to acquire 100% of U.S. utility Energy East Corp. (BBB+/Negative/A-2).

For a summary of Iberdrola's CreditWatch history, see the section "CreditWatch History" toward the end of this article.

Iberdrola will pay €3.4 billion in cash and assume Energy East's debt of €3 billion. The transaction, subject to approval by Energy East's shareholders and to receipt of all the necessary authorizations, is expected to close in the second half of 2008. Notwithstanding this, Iberdrola has already raised close to €3.4 billion of new equity to fund this transaction.

Energy East is a holding company that owns six regulated utilities (mainly transmission and distribution) and several smaller, nonregulated companies in upstate New York, Connecticut, Maine, and Massachusetts.

The ratings will remain on CreditWatch pending Standard & Poor's meeting with Iberdrola in the second half of 2007 to discuss the group's revised business and financial strategy and analyze its financial forecasts and planned financial structure. We will also focus on the group's future risk tolerance and acquisition strategy. Standard & Poor's understands that Iberdrola aims to maintain an 'A' category rating.

Based on publicly available information, we expect any lowering of our long-term rating on Iberdrola upon resolution of the Credit Watch listing to be limited to one-to-two notches. This preliminary assessment does not, however, include the potential fiscal benefits from the amortization of the goodwill from the acquisition of Scottish Power PLC or from synergies

from Scottish Power's integration within Iberdrola.

Iberdrola's strong position as one of Spain's two largest vertically integrated electricity groups underpins the ratings. The recently acquired business will increase the group's earnings diversity, both geographic and operational, but will result in a weaker capital structure and will present integration challenges. At March 31, 2007, the group's debt and EBITDA pro-forma figures (including the Scottish Power acquisition) were €29.8 billion and €5.8 billion, respectively.

Short-term credit factors

Iberdrola's short-term rating is 'A-1', underpinned by an acceptable liquidity position prior to the acquisition of Scottish Power. At end-March 2007, available cash, short-term financial investments of €1.15 billion, and committed undrawn credit facilities of €2.2 billion, more than fully covered the €1.1 billion in debt maturing in 2007. In addition, the group announced on May 28, 2007, that it intends to carry out a partial IPO of the combined group's renewable business, which could generate €3.3 billion-€4.5 billion.

CreditWatch History

The ratings on Iberdrola were placed on CreditWatch with negative implications on Sept. 6, 2005, following Spanish utility Gas Natural SDG, S.A.'s (A+/Negative/A-1) €22.55 billion bid for a 100% stake in Endesa S.A. (A/Watch Neg/A-1) and its agreement to a subsequent sale of an estimated €7 billion-€9 billion in assets to Iberdrola. On Dec. 1, 2006, we lowered our long-term rating on Iberdrola to 'A' from 'A+', owing to the group's offer for Scottish Power made on Nov. 28, 2006. The ratings on Iberdrola have remained on CreditWatch with negative implications since then, despite the withdrawal of Gas Natural's bid on Feb. 1, 2007, owing to the expected negative financial impact of the acquisition of Scottish Power.

Business Description

Iberdrola is now Europe's fourth-largest electricity and gas utility (by market capitalization) with total assets worth €63.5 billion, and a generation capacity of 39,086MW, which produces 124,670 gigawatt-hours (GWh). It is one of the two largest vertically integrated electricity utilities in Spain, distributing power to some 9.7 million customers. It also has electricity and gas operations in Latin America, and in the U.K. and U.S. through recently acquired Scottish Power. Spain, however, will remain its core market generating about 50% of the group's EBITDA (see table 1).

In Latin America, Iberdrola operates in Mexico and Brazil. In Mexico it generates electricity mainly via combined cycle gas turbine (CCGT) plants and in Brazil it has equity stakes in several distribution companies and in a few generation plants.

Scottish Power is the U.K.'s sixth-largest electricity provider, with 13% market share, and the fifth-largest gas provider with 9% of the market. It has electricity transmission, distribution, generation, and supply operations. Scottish Power owns PPM Energy, a competitive energy business that operates generation assets, primarily wind farms, and gas storage facilities in North America.

Table 1

Iberdrola S.A. EBITDA Contribution

(%)	2006*	2009(e)
Total Spain	48	52
Spain, liberalized business	26	24
Spain, regulated business	13	14
Spain, renewables business	9	14
Total U.K.	29	26
U.K. liberalized business	19	11
U.K. regulated business	10	15
Latin America	11	11
U.S. liberalized business	3	7
Other	9	4
TOTAL	100	100

*Based on Iberdrola results at Dec. 31, 2006, and Scottish Power results at Sept. 30, 2006. e--Expected.

Business Risk Profile

Strategy

Over the last 5 years, Iberdrola has pursued a strategy of organic growth by investing about €15 billion predominantly in combined-cycle and renewable-energy generation and distribution. On October 3, 2006, Iberdrola approved the 2007-2009 Strategic Plan, continuing the strategy implemented during the previous five years. The new strategy contemplated a large investment cycle of €9 billion (+20% compared with the previous three-year period) to be focused in the energy sector both in Spain and overseas, particularly the U.S.

Iberdrola views its unexpected acquisition of Scottish Power as aligning with its strategy. The acquisition is expected to accelerate projected growth and offer new long-term business opportunities, while diversifying risk. The integration of the two companies certainly reinforces the group's global leadership in renewables (especially wind power): 6,562 MW of installed capacity and a project pipeline of 37,675 MW. Iberdrola's management, however, needs to redefine the business plan for the new and enlarged group. It is likely to reconsider some of the projects included in the 2007-2009 Strategic Plan to accommodate for the newly acquired operations. Publication of the plan is expected during Q4 2007.

That said, we expect the group to maintain its focus in the energy business, particularly in areas of renewable generation development where Iberdrola is global leader. Capital expenditure and, in particular, expansion in the U.S. is likely to remain a high priority as a result.

Vertical integration of domestic electricity generation and supply is a key strength

In Spain, Iberdrola's electricity generation and supply operations are vertically integrated. In total, these operations represent 70% of consolidated EBITDA and are the core contributors to the group's cash flow. Their integration is one of the group's strengths. In addition, Iberdrola now benefits from a more balanced generation portfolio with less exposure to hydro generation and a more cost-reflective tariff structure. At the same time, however, its exposure to competition--owing to recent regulatory changes and the potential market entrance of new and experienced players such as E.ON--and potential overcapacity is increasing. Additional constraints include mounting energy-management risks.

Electricity generation and supply are only theoretically liberalized: government intervention remains a feature of the system. Recent regulatory changes, however, aim to reduce this intervention. The government's final objective is for wholesale and retail prices to result from market negotiation and reflect both the true cost of the activity and the pricing policy/strategy of the players. The government has introduced some positive changes, which should result in a more liberalized market and increase competition:

- Companies can now negotiate long-term bilateral contracts, reducing exposure to the daily wholesale market.
- Regulated tariffs will disappear in January 2009, and the government will only publish a last-resource tariff to protect domestic customers.
- The cap of €42.35 per megawatt-hour (MWh) imposed by the government in February 2006, for the assimilated bilateral contracts between the generation and distribution arms of the same entity, has been eliminated.
- On January 1, 2007 (for the third consecutive time since January 2006) the government raised final-user tariffs in order to reduce the gap between regulated and cost-reflective prices.
- Quarterly tariff revisions will take place to reflect cost increases and other considerations such as the government's public promises to domestic consumers. The first such revision was done in July 1, 2007 and the government raised small business tariffs by 4.3% and large consumers and business tariffs by 1.9%. Domestic tariffs, however, remain unchanged to meet the government's promise for domestic tariffs not to increase more than CPI.

The last two measures will result in a reduction, if not elimination, of the tariff deficit. Furthermore the government has also recognized ex-ante a tariff deficit of up to €3.75 billion for 2007.

Renewable generation benefits from a premium-based incentives system where the producer can choose between a fixed-price regime (a percentage of the average electricity tariff) and a market regime based on the pool price plus a premium. The regulatory framework on renewables, published in May 2007, affirms support for renewable energies by setting a floor to the pool price option that protects them against the negative impact of pool price reduction (such as in the first quarter of 2007).

There is still some uncertainty, however, regarding certain pending issues, such as the treatment of the impact of emission rights in the electricity market, and the market price of electricity for assimilated bilateral contracts.

Iberdrola benefits from a strong market of operation. Electricity demand in Spain has been growing at rates higher than the E.U. average. In 2006 was up 2.5% compared with 2005, but has weakened somewhat in the first quarter of 2007 (1.8% year-on-year) because of milder winter temperatures. Electricity consumption in the summer months continues to climb due to the increased use of air conditioning, and winter and summer demand peaks are now at similar capacity levels. Reserve

margins are good, because of the construction of CCGT and wind plants. In fact, there is a potential risk of overcapacity, particularly in years with high rainfall and good wind conditions.

Iberdrola's generation mix is probably the most cost competitive among Spanish utilities, given the size of its hydro and nuclear portfolio (together, 47% of total installed capacity). In addition, it is the leading developer of new flexible CCGT plants (4,800 MW) and renewable generation projects (4,434 MW). The extraordinary investment made by the company since 2001 has improved its generation mix and supply/demand balance. During 2006, Iberdrola installed 1,464 MW of new capacity, bringing its total capacity at the end of the year to 25,966 MW, an increase of 6% on 2005. The improved efficiency provided by the new assets has led to improved financial performance, with the Spanish generation and renewables businesses contributing 66% of total EBITDA. Over the next few years Iberdrola will continue its role as the champion of renewable energies and we expect substantial investments in this area given the large project pipeline of the enlarged group.

Table 2

Iberdrola S.A. Generation Capacity And Production Mix

	Generation capacity, year-end 2006 (%)	Generation production, 2006 (%)	Generation production, Q1-2007 (%)
Hydro	34	17	25
Nuclear	13	37	36
Coal	5	7	7
Fuel oil	11	3	0
CCGT	18	22	15
Ordinary regime	81	86	83
Cogeneration	2	2	2
Renewables	17	12	15

CCGT--Combined cycle gas turbine. Q1--First quarter.

In 2006, electricity production increased by 7% to 68,348 GWh, driven by the large increase in hydro generation (55%), improved availability of nuclear plants, higher CCGT production following the opening of a new 800MW plant, Escombreras, and growth in renewable energies. Iberdrola's share in the Spanish generation market was 26%. In the first quarter of 2007 the increase in production was more moderate (2.5% year-on-year), because mild temperatures slowed demand growth. Hydro and wind generation increased considerably, because of favorable weather conditions, at the expense of more costly gas and coal production. Compared with the Spanish average, Iberdrola's production mix has a greater proportion of nuclear and hydro generation and lower of coal generation. This increases its exposure to weather conditions but results in lower CO2 emissions and exposure to environmental costs. The responsibility for nuclear-waste disposal and nuclear-plant dismantling costs attributable to plant closure is borne by the owners of each nuclear plant, but the state will be responsible for the nuclear waste once in storage.

Despite the large investment in new generating capacity, Iberdrola still holds an overall short position in generation. In 2006, Iberdrola sold 88.3 terawatt-hours (TWh), of which only 7% were in the liberalized market. This represents a substantial reduction from the previous year (77%) and reflects the selective commercial policy applied by the company and the attraction of the cheap regulated tariffs. This, however, will disappear with the final elimination of these tariffs.

The impact of the implementation of emission trading rules on Iberdrola has not been significant, in light of its low share of coal-fired generation assets--in contrast to Endesa S.A. and Union Fenosa S.A. (BBB+/Stable/A-2)--and its increasing production from CCGTs and renewables. In the first quarter of 2007, the net cost of Iberdrola's emission rights was €5.3 million.

The risk of system overcapacity in Spain cannot be fully excluded in light of the large number of new CCGT plants that are being installed. CCGT generation was 15.5 GW in 2006 and is forecast to increase by 80% to about 28GW by 2011. The government also expects a substantial increase in wind generation, from 11.1 GW in 2006 to 20.0 GW. Risk mitigants exist, however, such as the solid forecast for increase in electricity demand of 2.8% per year until 2011, the oligopolistic nature of the market (Iberdrola, Endesa, and Union Fenosa have a combined market share in the Spanish wholesale market of about 85%), and incentives for all players to ensure the profitability of their CCGT projects.

Regulatory framework for electricity distribution still pending

Electricity distribution is a regulated activity, and the government's publication of clearer regulation is still pending. However, the government awarded a one-off remuneration increase of €500 million in 2007, to cover distribution costs, of

which 31.75% is for Iberdrola. Spain's distribution companies had been requesting a remuneration boost for some time, to compensate for the lack of remuneration increases since 1997. This is a positive development, as it increases the sector's remuneration base for this activity. In 2006, Iberdrola distributed 99.5 TWh, a 3.3% increase from 2005. The group plans, however, to continue investing in these operations in order to maintain and improve its quality of service and meet the growth in demand.

Non-energy business

These activities relate mainly to real estate, engineering, and construction. They contributed 11% of the group EBITDA in 2006. They have been highly profitable but they are volatile and high risk.

International operations: increased weight and diversification

Historically, international operations have provided Iberdrola with diversification, but represented high risk because they were located in Latin America. Following the acquisition of Scottish Power, the geographical diversification of the group has increased with nearly 50% of its future EBITDA expected to come from outside Spain compared with 15%-20% previously. U.K. operations will contribute about 25%, Latin America 10%, and the U.S., 7%. If the recently announced bid for Energy East is successful the contribution from the U.S. operations will increase.

U.K.: Scottish Power. Scottish Power benefits from solid cash flows from the group's regulated U.K. transmission and distribution business and from a strong record of reducing costs and improving infrastructure operational performance. These strengths are offset by an aggressive (albeit mostly discretionary) capital-expenditure program, exposure to price volatility in the U.K. power market, and the competitive operations of its U.S. subsidiary, PPM Energy. Slightly more than one half of Scottish Power's cash flows are sourced from its low-risk U.K. network unit, with the higher risk, competitive, U.K. generation and supply operations representing most of the balance, and the North American business the remainder.

The U.K. transmission and distribution operations benefit from a well-established regulatory regime, which supports relatively predictable revenue flows and underpins the group's credit quality. The U.K. electricity generation and supply market is fully liberalized, meaning that customers are able to choose their supplier. In the U.K. the group has a generation capacity of more than 6,300 MW and supplies electricity to 5.2 million customers.

PPM Energy's operations include significant wind generation, power trading and marketing, a growing gas-storage business (91.3 billion cubic feet (bcf) operating and 26 bcf under development), and 806 MW of gas-fired generation capacity. Most of PPM's current and planned projects relate to wind generation, which typically secure long-term contracts for the bulk of their output. However, PPM also offers products with firm wind-power output, which increases merchant exposure (due to the inherent volatility of wind generation).

Latin America: Brazil and Mexico. While Iberdrola's exposure to Latin American markets will diminish over the next few years, the operations are subject to substantial volatility and foreign-exchange and political risk. Business and geographical diversification, however, are risk mitigants. These operations represented 18% of the group's EBITDA in 2006.

Iberdrola's distribution operations in Brazil (Federative Republic of Brazil; foreign currency BB+/Positive/B; local currency BBB/Positive/A-3) have benefited from improvements in the regulatory framework, substantial increases in regulated tariffs, and demand recovery. The CCGT investments in Mexico (United Mexican States; foreign currency BBB/Positive/A-3; local currency A/Positive/A-1) bear considerably less risk because they benefit from 25-year dollar-indexed power offtake agreements with the federal energy agency, Comisión Federal de Electricidad, with a full pass-through of the cost of gas, sourced locally from state-owned Pemex. Iberdrola has 3,815 MW installed capacity in the country, which will increase to 5,000 MW in 2007 when the Tamazunchale plant is completed. It is the largest private electricity producer in Mexico. During 2007, electricity output increased by 22%, from 2006, following the completion of the 1,121 MW CCGT plant Altamira V and the increase in efficiency and availability at the other plants. Electricity distribution increased by 4%.

Table 3

Iberdrola S.A. Capacity, Production, And Generation (2006)

	Generation capacity (MW)	Generation production (GWh)	Distribution (GWh)	Clients (mil.)
Iberdrola	30,384	92,010	127,182	18.4
Spain	25,966	68,348	99,520	9.9
Latin America	4,418	23,662	27,662	8.5
Scottish Power	8,702	32,660	39,100	5.3
Total	39,086	124,670	166,282	23.7

GWh--Gigawatt-hours.

Financial Risk Profile: Expected To Weaken In The Short Term, Due To Acquisitions

Accounting

Iberdrola has been reporting under IFRS since 2005, and previously it reported under Spanish GAAP. Ernst & Young has audited Iberdrola's accounts in 2006 and Deloitte audited the accounts in 2005. The group publishes timely quarterly accounts and annual reports that include reasonably detailed accompanying notes. Standard & Poor's adjusts the group's reported financial obligations mainly for operating lease obligations (€294.5 million adjustment), employee postretirement benefits (PRBs: €620 million), and asset retirement obligations (AROs: €383 million). The effects of these adjustments on Iberdrola's 2006 reported figures are shown in the table below.

Table 4 | View Expanded Table

Reconciliation Of Iberdrola S.A. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. €)*

	--Fiscal year ended Dec. 31, 2006--						
Iberdrola S.A. reported amounts							
	Debt	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**
Reported	14,240.6	3,889.7	3,889.7	2,654.5	764.0	3,135.2	3,135.2
Standard & Poor's adjustments							
Operating leases	294.5	30.4	4.2	4.2	4.2	26.1	26.1
Postretirement benefit obligations	620.8	--	--	--	31.4	70.2	70.2
Surplus cash and near cash investments	(704.6)	--	--	--	--	--	--
Capitalized interest	--	--	--	--	86.2	--	--
Asset retirement obligations	383.4	--	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	349.4	--	--	--
Reclassification of interest, dividend, and tax cash flows	--	--	--	--	--	(751.8)	(751.8)
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	270.8
Minority interests	--	--	--	--	--	--	--
Other	--	(201.6)	(201.6)	--	--	--	--
Total adjustments	594.1	(171.2)	(197.3)	353.6	121.9	(655.4)	(384.6)
Standard & Poor's adjusted amounts							
	Debt	**Operating income (before D&A)**	**EBITDA**	**EBIT**	**Interest expense**	**Cash flow from operations**	**Funds from operations**
Adjusted	14,834.6	3,718.4	3,692.3	3,008.1	885.9	2,479.8	2,750.6

*Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Corporate governance/Risk tolerance/Financial policies

Iberdrola has a good record of implementing its business plan, but it has pursued credit-dilutive opportunities outside that plan (if considered attractive). This was the case with Scottish Power. Financial policies are defined in the context of its business plan, with clear indications in relation to net-profit growth. In the 2001-2006 business plan the company aimed to double its net profits to €1.6 billion, from €852 million. Prior to the acquisition of Scottish Power the target for 2009 was to increase net profit to €2.3 billion, 45% greater than that achieved in 2006.

In the fourth quarter of 2007 the company will announce its strategic plan and financial policies. We expect that these policies will take into consideration the new dimension of the group, its business and geographical diversification, and also the company's objective to maintain an 'A' category rating.

The recently announced sale of up to 20% of its renewable business should help to finance the expected large expansion in this area and mitigate weakening the group's capital structure. Market estimates indicate that Iberdrola could raise €3 billion-€4 billion.

Table 5

Iberdrola S.A. Pro Forma Key Financials

	--Year ended Dec. 31, 2006--				
(Mil. €)	**Revenues**	**EBITDA**	**Total assets**	**Debt, unadjusted**	**Capital expenditures**
Iberdrola	11,019	3,890	33,061	14,240	2,699
Scottish Power	8,980	1,952	14,434	6,449	1,436
Adjustments	N/A	N/A	16,052	9,049	N/A
Enlarged Iberdrola	19,999	5,842	63,547	29,738	4,135

N/A--Not applicable.

Cash flow adequacy

Iberdrola's cash-flow generation over the last year has increased in line with its organic expansion (new capacity generation). The company has also benefited from stable macro-economic conditions and growth in Latin America. In 2006 it generated €2.7 billion of FFO, up 17% from the previous year. The key cash-flow contributors are the domestic generation operations and the group is, therefore, exposed to reduction in pool prices and electricity demand. Given the continuing large capital expenditure investments (2006: €2.3 billion) and increasing dividend payments (2006: €873 million), the group, however, remains discretionary cash flow negative. In addition, large financial investments of about €700 million and working capital requirements, because of the tariff deficit, contributed to the overall increase in debt. FFO-to-interest and FFO-to-debt ratios were 4x and 18%. These ratios are expected to weaken in the short term as a result of the partly debt-funded acquisition of Scottish Power.

Capital structure/Asset protection

At Dec. 31, 2006, debt was €14.8 billion, up by 7% in relation to the previous year, but gearing remained unchanged at 58%. The capital structure of the enlarged group will be weaker as a result of the 50% debt funding of the Scottish Power acquisition. Iberdrola has drawn GBP6.2 billion from the GBP7.9 billion bank acquisition facility. In addition, it has issued 258 million new shares (the share exchange consideration) worth €8 billion, and consequently Scottish Power shareholders own approximately 22% of the enlarged Iberdrola. Pro forma for the acquisition, consolidated unadjusted net debt at the combined entity is €27.7 billion. Furthermore, in relation to the bid for Energy East, Iberdrola has issued 85 million shares through an accelerated book-built offer (private placement), raising about €3.4 billion (by the time we publish the report this would have happened). The final structure of the new group will depend on the company's financial, investment, and dividend policies, which will be defined in the last quarter of 2007. Management has indicated that the combined entity's strong cash-flow generation will enable rapid de-leveraging down to the current levels within two years. In addition, proceeds from asset disposals and from the recently announced partial IPO of the renewable business could help to strengthen the capital structure. The company has a 9.5% stake in the Portuguese energy company, EDP - Energias de Portugal, S.A. (A/Watch Neg/A-1), a 4% in Portuguese gas company, Galp and a 17% stake in Gamesa, a manufacturer of wind power turbines.

The company applies a policy of funding its international investments, to the extent possible, in the local or functional currency in order to mitigate foreign-currency risk. As a result, 86% of its debt is in euros, and the rest in US$ and Brazilian real. Exposure to interest-rate volatility has gone up slightly (33% of total debt), when compared with previous years, but is manageable. The increase is related to financing the 2006 tariff deficit.

The acquisition facility has a one-year maturity but can be extended for a further year at the option of Iberdrola, which mitigates refinancing risk.

Table 6

Iberdrola S.A. Peer Comparison*

	--Fiscal year ended Dec. 31, 2006--		--Fiscal year ended Sep. 30, 2006--
(Mil. €)	**Iberdrola S.A.**	Enel SpA	EVN AG
Corporate credit rating¶	A/Watch Neg/A-1	A/Watch Neg/A-1	A/Stable/--
Country	Spain	Italy	Austria
Revenues	11,017.4	38,513.0	2,112.3

Net income from continuing operations	1,660.3	3,036.0	221.9
Funds from operations (FFO)	2,750.6	6,190.0	422.7
Capital expenditures (capex)	2,281.5	3,149.7	241.4
Cash and investments	0.0	282.0	0.0
Debt	14,834.6	19,002.9	1,276.8
Preferred stock	0.0	0.0	0.0
Common equity	10,414.7	18,477.4	2,515.4
Total capital	25,192.2	38,045.4	4,024.9
EBIT interest coverage (x)	3.4	6.2	4.3
FFO interest coverage (x)	3.9	7.3	6.0
FFO/debt (%)	18.5	32.6	33.1
Discretionary cash flow/debt (%)	(4.6)	(1.6)	6.0
Net cash flow/capex (%)	81.3	70.8	144.7
Debt/total capital (%)	58.4	49.9	31.7
Return on common equity (%)	16.9	16.2	9.2
Common dividend payout ratio (unadj.) (%)	66.1	99.7	25.8

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt. ¶At July 4, 2007.

Table 7

Iberdrola S.A. Financial Summary*

	--Fiscal year ended Dec. 31--		
(Mil. €)	**2006**	**2005**	**2004**
Rating history	A/Watch Neg/A-1	A+/Watch Neg/A-1	A+/Stable/A-1
Revenues	11,017.4	11,738.2	10,314.4
Net income from continuing operations	1,660.3	1,382.0	1,151.9
Funds from operations (FFO)	2,750.6	2,340.9	1,979.0
Capital expenditures (capex)	2,281.5	1,902.0	2,420.1
Cash and investments	0.0	0.0	314.3
Debt	14,834.6	13,822.0	11,066.2
Preferred stock	0.0	0.0	0.0
Common equity	10,414.7	9,267.7	8,710.6
Total capital	25,192.2	23,058.2	19,675.5
EBIT interest coverage (x)	3.4	3.3	4.2
FFO interest coverage (x)	3.9	4.0	3.6
FFO/debt (%)	18.5	16.9	17.8
Discretionary cash flow/debt (%)	(4.6)	(9.9)	(0.5)
Net cash flow/capex (%)	81.3	84.7	56.7
Debt/total capital (%)	58.4	59.5	55.7
Return on common equity (%)	16.9	15.4	13.6
Common dividend payout ratio (unadj.) (%)	66.1	57.7	55.8

*Fully adjusted (including postretirement obligations). Excess cash and investments netted against debt.

Ratings Detail (As Of 18-Sep-2007)*

Iberdrola S.A.	
Corporate Credit Rating	A/Watch Neg/A-1
Commercial Paper	
Local Currency	A-1/Watch Neg
Senior Unsecured	A/Watch Neg
Corporate Credit Ratings History	
01-Dec-2006	A/Watch Neg/A-1

06-Sep-2005	A+/Watch Neg/A-1
06-May-2003	A+/Stable/A-1
10-Mar-2003	A+/Watch Neg/A-1
Business Risk Profile	**1 2 3 4 [5] 6 7 8 9 10**
Financial Risk Profile	Aggressive

Debt Maturities

2007: €1,665 mil.
2008: €1,251 mil.
2009: €1,827 mil.
2010: €3,048 mil.
2011 and beyond: €6,449 mil.

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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InfrastructureEurope@standardandpoors.com

STANDARD &POOR'S

RATINGSDIRECT®

November 26, 2007

Research Update:

Spain's Iberdrola Downgraded To 'A-/A-2'; L-T Rating Still On Watch Neg Pending IPO Completion

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Research Update:

Spain's Iberdrola Downgraded To 'A-/A-2'; L-T Rating Still On Watch Neg Pending IPO Completion

Rationale

On Nov. 26, 2007, Standard & Poor's Ratings Services lowered its long-term corporate credit rating on Spanish utility Iberdrola S.A. to 'A-' from 'A' following a review of the group's recently announced strategic plan; the long-term rating remains on CreditWatch with negative implications. At the same time, the short-term corporate credit rating was lowered to 'A-2' from 'A-1' and removed from CreditWatch. The initial CreditWatch listing took place on Sept. 6, 2005.

The downgrade reflects our view that Iberdrola's financial profile and credit protection measures are no longer compatible with an 'A' rating, owing to the impact of the acquisition of Scottish Power PLC (A-/Watch Neg/A-2) and the group's organic growth plan. The long-term rating remains on CreditWatch pending the completion of the IPO of Iberdrola Renovables.

Iberdrola is the world leader in renewable energy and, on Nov. 23, 2007, launched an IPO of 20% of subsidiary Iberdrola Renovables, which holds all of the group's renewable investments. The final price will be established on Dec. 11, 2007. Iberdrola's initial estimates of this subsidiary's capitalization range between €22 billion and €29 billion.

On Oct. 24, 2007, Iberdrola announced its 2008-2010 strategic plan, which involves a large investment program of €24.2 billion, including the €6.4 billion offer for U.S. utility Energy East Corp. (BBB+/Negative/A-2) announced in June. Renewable energy will represent the core of the group's future growth, and accounts for about 50% of expected organic investments. The IPO proceeds will finance this growth and are key to maintaining credit metrics that are consistent with an 'A-' rating.

We expect Iberdrola to fund 72% of its cash outflows for the 2008-2010 period with operating cash flows, asset disposals of more than €3 billion, and IPO proceeds. Furthermore, we expect the group to maintain gearing below 50%, funds from operations (FFO) to debt of about 17%--but with an improving trend--and FFO interest coverage of about 4x.

If the IPO is completed on schedule and the proceeds are sufficient to deliver a capital structure and credit metrics that are in line with the levels indicated above, we expect to revise the outlook to stable (and affirm the ratings). Conversely, if this is not achieved, the long-term rating could be lowered one notch.

Short-term credit factors

The short-term rating is 'A-2', underpinned by Iberdrola's strong cash flow generation and the excellent liquidity position resulting from the recent

equity issue to prefund the acquisition of Energy East. This position will improve further with the IPO of Iberdrola Renovables in December 2007. Available cash, short-term financial investments of €1,852 million, and committed undrawn credit facilities of €2.7 billion at end-September 2007 more than fully covered the €2.4 billion in debt maturing over the next 15 months. In addition, Iberdrola signed a €3 billion credit facility in October 2007.

Ratings List

	To	From
Iberdrola S.A.		
Long-term corporate credit rating		
	A-/Watch Neg	A/Watch Neg
Short-term corporate credit rating		
	A-2	A-1/Watch Neg
Iberdrola International B.V.		
CP*	A-2	A-1/Watch Neg

*Guaranteed by Iberdrola S.A.

Additional Contact:
Infrastructure Finance Ratings Europe;InfrastructureEurope@standardandpoors.com

Ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. It can also be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search. Alternatively, call one of the following Standard & Poor's numbers: Client Support Europe (44) 20-7176-7176; London Press Office Hotline (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow (7) 495-783-4017. Members of the media may also contact the European Press Office via e-mail on: media_europe@standardandpoors.com.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 07-M-0906

Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.

January 2008

Exhibit____(Policy Panel - 16)

The McGraw-Hill Companies
STANDARD &POOR'S RatingsDirect®

RESEARCH

New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised

Publication date: 02-Jun-2004
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Standard & Poor's Ratings Services has assigned new business profile scores to U.S. utility and power companies to better reflect the relative business risk among companies in the sector. Standard & Poor's also has revised its published risk-adjusted financial guidelines. The new business scores and financial guidelines do not represent a change to Standard & Poor's ratings criteria or methodology, and no ratings changes are anticipated from the new business profile scores or revised financial guidelines.

New Business Profile Scores and Revised Financial Guidelines

Standard & Poor's has always monitored changes in the industry and altered its business risk assessments accordingly. This is the first time since the 10-point business profile scale for U.S. investor-owned utilities was implemented that a comprehensive assessment of the benefits and the application of the methodology has been made. The principal purpose was to determine if the methodology continues to provide meaningful differentiation of business risk. The review indicated that while business profile scoring continues to provide analytical benefits, the complete range of the 10-point scale was not being utilized to the fullest extent.

Standard & Poor's has also revised the key financial guidelines that it uses as an integral part of evaluating the credit quality of U.S. utility and power companies. These guidelines were last updated in June 1999. The financial guidelines for three principal ratios (funds from operations (FFO) interest coverage, FFO to total debt, and total debt to total capital) have been broadened so as to be more flexible. Pretax interest coverage as a key credit ratio was eliminated.

Finally, Standard & Poor's has segmented the utility and power industry into sub-sectors based on the dominant corporate strategy that a company is pursuing. Standard & Poor's has published a new U.S. utility and power company ranking list that reflects these sub-sectors.

There are numerous benefits to the reassessment. Fuller utilization of the entire 10-point scale provides a superior relative ranking of qualitative business risk. A simultaneous revision of the financial guidelines supports the goal of not causing rating changes from the recalibration of the business profiles. Classification of companies by sub-sectors will ensure greater comparability and consistency in ratings. The use of industry segmentation will also allow more in-depth statistical analysis of ratings distributions and rating changes.

The reassessment does not represent a change to Standard & Poor's criteria or methodology for determining ratings for utility and power companies. Each business profile score should be considered as the assignment of a new score; these scores do not represent improvement or deterioration in our assessment of an individual company's business risk relative to the previously assigned score. The financial guidelines continue to be risk-adjusted based on historical utility and industrial medians. Segmentation into industry sub-sectors does not imply that specific company characteristics will not weigh heavily into the assignment of a company's business profile score.

Results

Previously, 83% of U.S. utility and power business profile scores fell between '3' and '6', which clearly does not reflect the risk differentiation that exists in the utility and power industry today. Since the 10-point scale was introduced, the industry has transformed into a much less homogenous industry, where the divergence of business risk--particularly regarding management, strategy, and degree of competitive market exposure--has created a much wider spectrum of risk profiles. Yet over the same period, business profile scores actually converged more tightly around a median score of '4'. The new

business profile scores, as of the date of this publication, are shown in Chart 1. The overall median business profile score is now '5'.

Chart 1

Chart 1

Distribution of Business Profile Scores

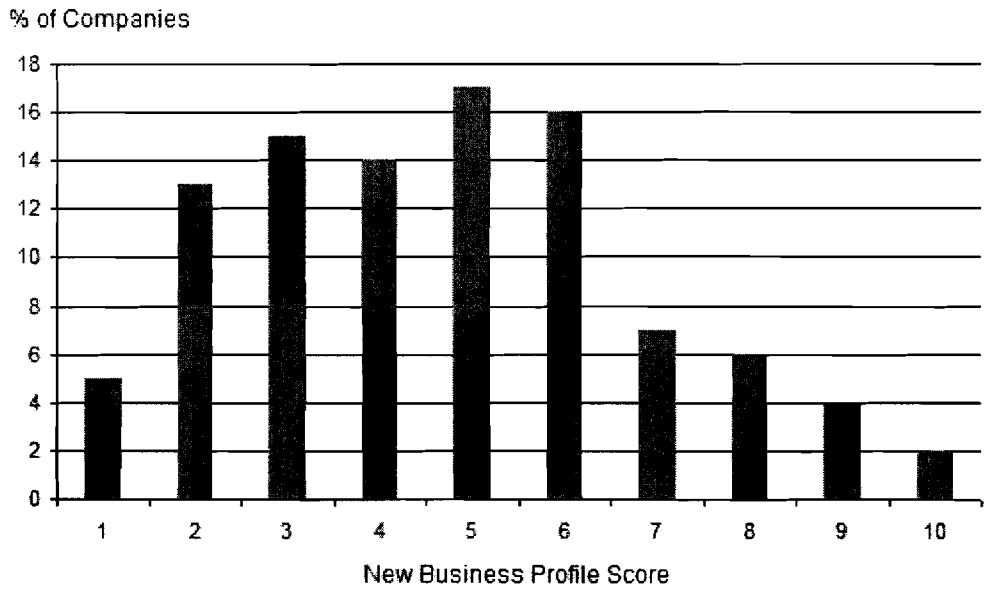


Table 1 contains the revised financial guidelines. It is important to emphasize that these metrics are only guidelines associated with expectations for various rating levels. Although credit ratio analysis is an important part of the ratings process, these three statistics are by no means the only critical financial measures that Standard & Poor's uses in its analytical process. We also analyze a wide array of financial ratios that do not have published guidelines for each rating category.

Table 1

Revised Financial Guidelines

Funds from operations/interest coverage (x)

Business Profile	AA		A		BBB		BB	
1	3	2.5	2.5	1.5	1.5	1		
2	4	3	3	2	2	1		
3	4.5	3.5	3.5	2.5	2.5	1.5	1.5	1
4	5	4.2	4.2	3.5	3.5	2.5	2.5	1.5
5	5.5	4.5	4.5	3.8	3.8	2.8	2.8	1.8
6	6	5.2	5.2	4.2	4.2	3	3	2
7	8	6.5	6.5	4.5	4.5	3.2	3.2	2.2
8	10	7.5	7.5	5.5	5.5	3.5	3.5	2.5
9			10	7	7	4	4	2.8
10			11	8	8	5	5	3

Funds from operation/total debt (%)

Business Profile	AA		A		BBB		BB	
1	20	15	15	10	10	5		

2	25	20	20	12	12	8		
3	30	25	25	15	15	10	10	5
4	35	28	28	20	20	12	12	8
5	40	30	30	22	22	15	15	10
6	45	35	35	28	28	18	18	12
7	55	45	45	30	30	20	20	15
8	70	55	55	40	40	25	25	15
9			65	45	45	30	30	20
10			70	55	55	40	40	25

Total debt/total capital (%)

Business Profile	AA		A		BBB		BB	
1	48	55	55	60	60	70		
2	45	52	52	58	58	68		
3	42	50	50	55	55	65	65	70
4	38	45	45	52	52	62	62	68
5	35	42	42	50	50	60	60	65
6	32	40	40	48	48	58	58	62
7	30	38	38	45	45	55	55	60
8	25	35	35	42	42	52	52	58
9			32	40	40	50	50	55
10			25	35	35	48	48	52

Again, ratings analysis is not driven solely by these financial ratios, nor has it ever been. In fact, the new financial guidelines that Standard & Poor's is incorporating for the specified rating categories reinforce the analytical framework whereby other factors can outweigh the achievement of otherwise acceptable financial ratios. These factors include:

- Effectiveness of liability and liquidity management;
- Analysis of internal funding sources;
- Return on invested capital;
- The record of execution of stated business strategies;
- Accuracy of projected performance versus actual results, as well as the trend;
- Assessment of management's financial policies and attitude toward credit; and
- Corporate governance practices.

Charts 2 through 6 show business profile scores broken out by industry sub-sector. The five industry sub-sectors are:

- Transmission and distribution--Water, gas, and electric;
- Transmission only--Electric, gas, and other;
- Integrated electric, gas, and combination utilities;
- Diversified energy and diversified nonenergy; and
- Energy merchant/power developer/trading and marketing companies.

Chart 2

Chart 2

Transmission and Distribution--Water, Gas, and Electric

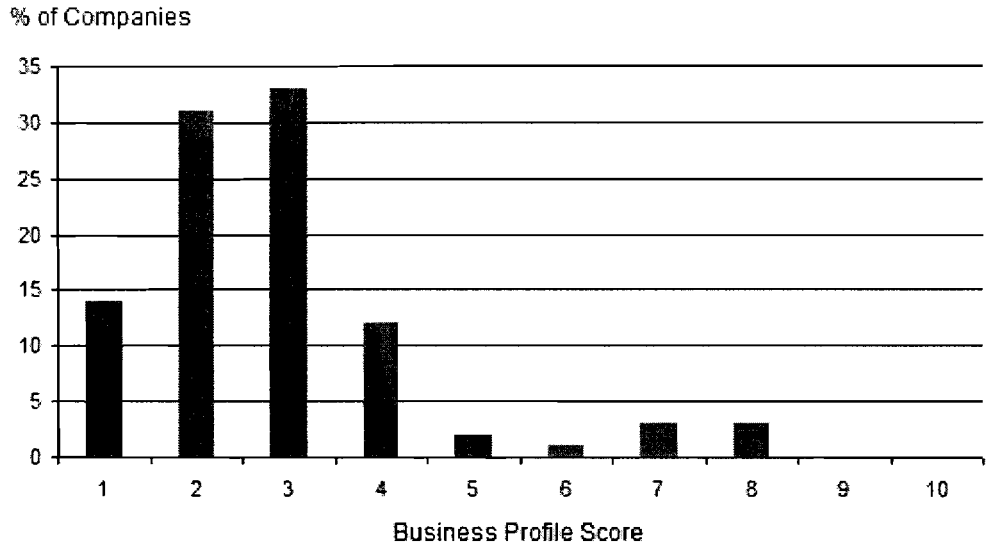


Chart 3

Chart 3

Transmission Only--Electric, Gas, and Other

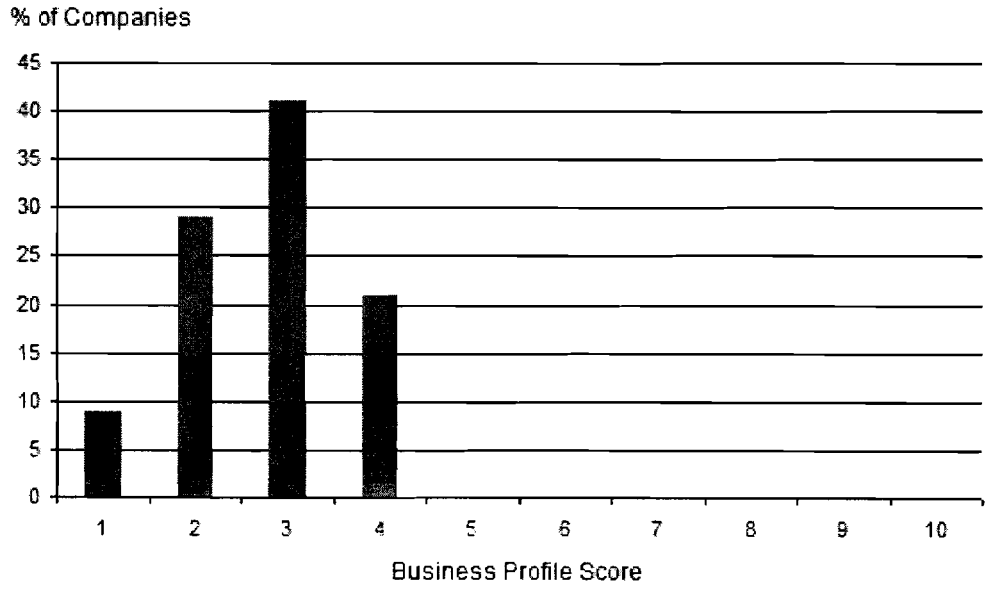


Chart 4

Chart 4

Integrated Electric, Gas, and Combination Utilities

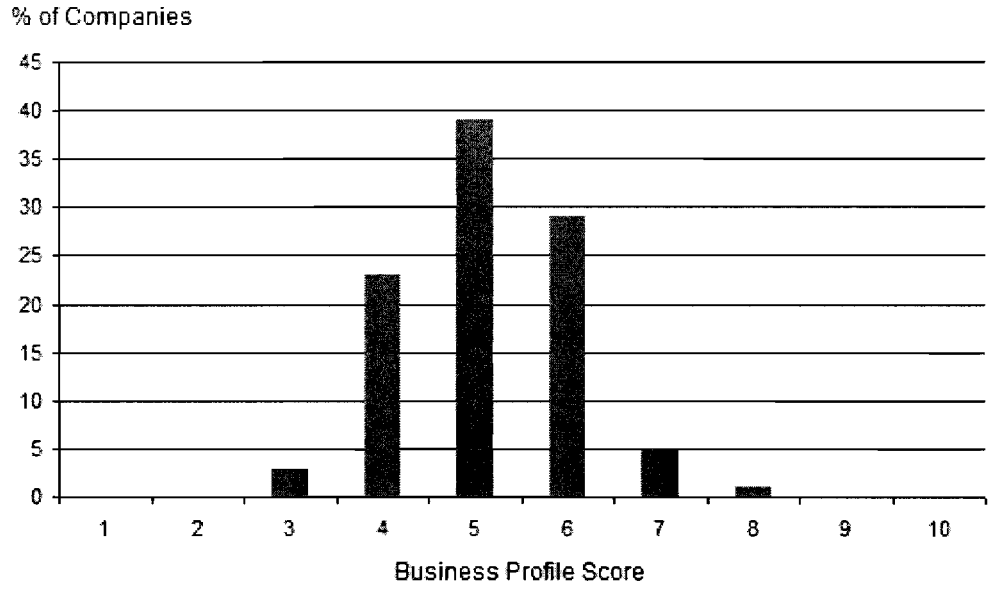


Chart 5

Chart 5

Diversified Energy and Diversified Non-Energy

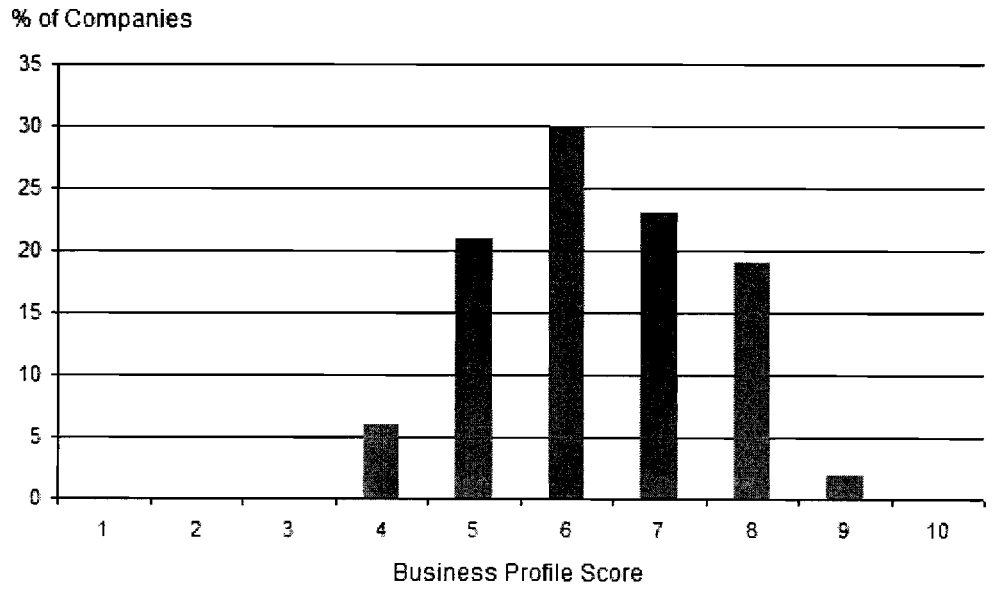
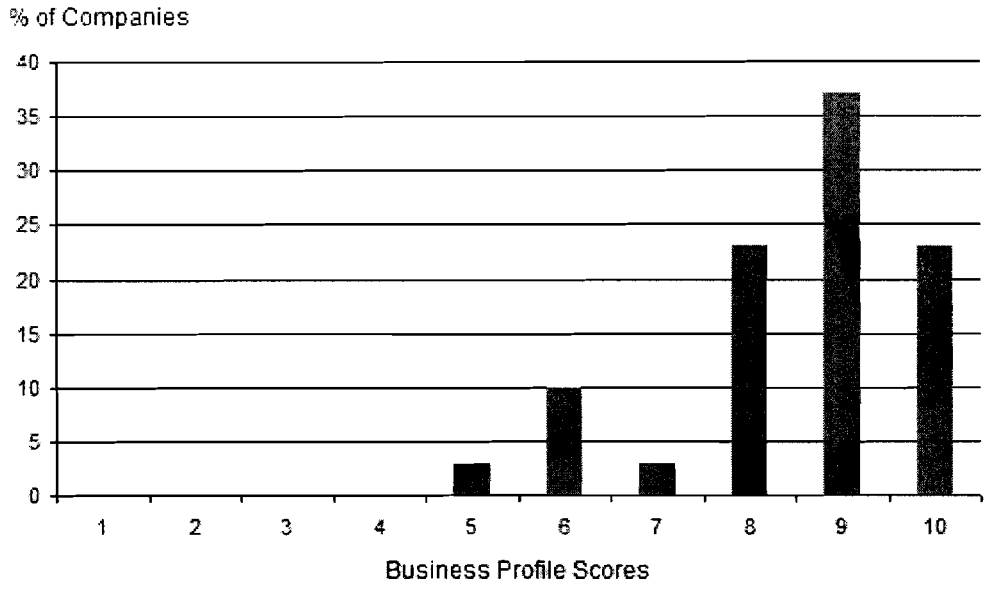


Chart 6

Chart 6

Energy Merchant/Developers/Trading and Marketing



The average business profile scores for transmission and distribution companies and transmission-only companies are lower on the scale than the previous averages, while the average business profile scores for integrated utilities, diversified energy, and energy merchants and developers are higher.

The Appendix provides the company list of business profile scores segmented by industry sub-sector and ranked in order of credit rating, outlook, business profile score, and relative strength.

Business Profile Score Methodology

Standard & Poor's methodology of determining corporate utility business risk is anchored in the assessment of certain specific characteristics that define the sector. We assign business profile scores to each of the rated companies in the utility and power sector on a 10-point scale, where '1' represents the lowest risk and '10' the highest risk. Business profile scores are assigned to all rated utility and power companies, whether they are holding companies, subsidiaries or stand-alone corporations. For operating subsidiaries and stand-alone companies, the score is a bottom-up assessment. Scores for families of companies are a composite of the operating subsidiaries' scores. The actual credit rating of a company is analyzed, in part, by comparing the business profile score with the risk-adjusted financial guidelines.

For most companies, business profile scores are assessed using five categories; specifically, regulation, markets, operations, competitiveness, and management. The emphasis placed on each category may be influenced by the dominant strategy of the company or other factors. For example, for a regulated transmission and distribution company, regulation may account for 30% to 40% of the business profile score because regulation can be the single-most important credit driver for this type of company. Conversely, competition, which may not exist for a transmission and distribution company, would provide a much lower proportion (e.g., 5% to 15%) of the business profile score.

For certain types of companies, such as power generators, power developers, oil and gas exploration and production companies, or nonenergy-related holdings, where these five components may not be appropriate, Standard & Poor's will use other, more appropriate methodologies. Some of these companies are assigned business profile scores that are useful only for relative ranking purposes.

As noted above, the business profile score for a parent or holding company is a composite of the business profile scores of its individual subsidiary companies. Again, Standard & Poor's does not apply rigid guidelines for determining the proportion or weighting that each subsidiary represents in the overall business profile score. Instead, it is determined based on a number of factors. Standard & Poor's will analyze each subsidiary's contribution to FFO, forecast capital expenditures, liquidity requirements, and other parameters, including the extent to which one subsidiary has higher growth. The weighting

is determined case-by-case.

Appendix: U.S. Utility and Power Company Ranking List

U.S. Utility and Power Company Ranking List

Company	Corporate Credit Rating	Business Profile
1. Regulated Transmission and Distribution - Electric, Gas, and Water		
Baton Rouge Water Works Co. (The)	AA/Stable/--	1
Nicor Gas Co.	AA/Stable/A-1+	2
Nicor Inc.	AA/Stable/A-1+	3
Washington Gas Light Co.	AA-/Stable/A-1+	2
WGL Holdings Inc.	AA-/Stable/A-1+	3
New Jersey Natural Gas Co.	A+/Stable/A-1	1
Aqua Pennsylvania	A+/Stable/--	2
KeySpan Energy Delivery Long Island	A+/Negative/--	1
KeySpan Energy Delivery New York	A+/Negative/--	1
Elizabethtown Water Co.	A+/Negative/--	2
California Water Service Co.	A+/Negative/--	3
Questar Gas Co.	A+/Negative/--	3
Southern California Gas Co.	A/Stable/A-1	1
Boston Edison Co.	A/Stable/A-1	1
Commonwealth Electric Co.	A/Stable/--	1
Cambridge Electric Light Co.	A/Stable/--	1
NSTAR	A/Stable/A-1	1
Massachusetts Electric Co.	A/Stable/A-1	1
Narragansett Electric Co.	A/Stable/A-1	1
Northwest Natural Gas Co.	A/Stable/A-1	1
Connecticut Water Service Inc.	A/Stable/ --	2
Connecticut Water Co. (The)	A/Stable/ --	2
Aquarion Co.	A/Stable/--	2
Aquarion Water Co. of Connecticut	A/Stable/--	2
NSTAR Gas Co.	A/Stable/--	2
Piedmont Natural Gas Co. Inc.	A/Stable/A-1	2
National Grid USA	A/Stable/A-1	2
Consolidated Edison Co. of New York Inc.	A/Stable/A-1	2
Orange and Rockland Utilities Inc.	A/Stable/A-1	2
Rockland Electric Co.	A/Stable/--	2
Consolidated Edison Inc.	A/Stable/A-1	2
Laclede Gas Co.	A/Stable/A-1	3
Laclede Group Inc.	A/Stable/--	3
Atlantic City Sewerage Co.	A/Stable/--	3
Niagara Mohawk Power Corp.	A/Stable/--	3
Central Hudson Gas & Electric Co.	A/Stable/--	3
American Water Capital Corp.	A/Negative/	2
Boston Gas Co.	A/Negative/--	2
Colonial Gas Co.	A/Negative/--	2
Middlesex Water Co.	A/Negative/--	3
York Water Co. (The)	A-/Stable/--	2
Alabama Gas Corp.	A-/Stable/--	2
Atlanta Gas Light Co.	A-/Stable/--	2
Public Service Co. of North Carolina Inc.	A-/Stable/A-2	2

Wisconsin Gas Co.	A-/Stable/A-2	2
North Shore Gas Co.	A-/Stable/A-2	2
Peoples Gas Light & Coke Co.	A-/Stable/A-2	2
ONEOK Inc.	A-/Stable/A-2	6
Indiana Gas Co. Inc.	A-/Negative/--	1
Southern California Water Co.	A-/Negative/--	3
American States Water Co.	A-/Negative/--	3
United Water New Jersey	A-/Negative/--	4
United Waterworks	A-/Negative/--	4
PPL Electric Utilities Corp.	A-/Negative/--	4
Commonwealth Edison Co.	A-/Negative/A-2	4
PECO Energy Co.	A-/Negative/A-2	4
Central Illinois Public Service Co.	A-/CW-Neg/--	3
Western Massachusetts Electric Co.	BBB+/Stable/--	1
Cascade Natural Gas Corp.	BBB+/Stable/--	2
South Jersey Gas Co.	BBB+/Stable/--	2
Baltimore Gas & Electric Co.	BBB+/Stable/A-2	3
Connecticut Natural Gas Corp.	BBB+/Negative/--	3
Southern Connecticut Gas Co.	BBB+/Negative/--	3
Central Maine Power Co.	BBB+/Negative/--	3
Atlantic City Electric Co.	BBB+/Negative/A-2	3
Potomac Electric Power Co.	BBB+/Negative/A-2	3
Delmarva Power & Light Co.	BBB+/Negative/A-2	3
Yankee Gas Services Co.	BBB+/Negative/--	3
Connecticut Light & Power Co.	BBB+/Negative/--	3
UGI Utilities Inc.	BBB+/Negative/--	4
Bay State Gas Co.	BBB/Stable/--	2
AEP Texas Central Co.	BBB/Stable/--	2
AEP Texas North Co.	BBB/Stable/--	2
Southwest Gas Corp.	BBB-/Stable/--	3
Columbus Southern Power Co.	BBB/Stable/--	3
Ohio Power Co.	BBB/Stable/--	3
Public Service Electric & Gas Co.	BBB/Stable/A-2	3
Oncor Electric Delivery Co.	BBB/Negative/--	2
Southern Union Co.	BBB/Negative/--	3
Centerpoint Energy Houston Electric LLC	BBB/Negative/--	3
CenterPoint Energy Resources Corp.	BBB/Negative/--	3
Duquesne Light Co.	BBB/Negative/	4
Duquesne Light Holdings Inc.	BBB/Negative/ --	5
TXU Gas Co.	BBB/CW-Dev/--	3
Jersey Central Power & Light Co.	BBB-/Stable/--	4
Metropolitan Edison Co.	BBB-/Stable/--	4
Pennsylvania Electric Co.	BBB-/Stable/--	4
Texas-New Mexico Power Co.	BB+/Stable/--	4
AmeriGas Partners L.P.	BB+/Stable/--	7
NUI Utilities Inc.	BB/CW-Dev/--	4
Suburban Propane Partners L.P.	BB-/Stable/--	8
Star Gas Partners L.P.	BB-/Stable/--	8
SEMCO Energy Inc.	BB-/Negative/--	5
Ferrellgas Partners L.P.	BB-/Negative/--	8

Potomac Edison Co.	B/Stable/--	3
West Penn Power Co.	B/Stable/--	3
Illinova Corp.	B/Negative/--	7
NorthWestern Corp.	D/NM/--	7
2. Transmission Only - Electric, Gas, and Other		
Questar Pipeline Co.	A+/Negative/--	3
Mid-West Independent Transmission System Operator Inc.	A/Stable/--	1
American Transmission Co.	A/Stable/A-1	1
New England Power Co.	A/Stable/A-1	1
Colonial Pipeline Co.	A/Stable/A-1	3
Dixie Pipeline Co.	--/--/A-1	3
Plantation Pipeline Co.	--/--/A-1	3
Explorer Pipeline Co.	A/Stable/A-1	4
Northern Natural Gas Co.	A-/Positive/--	2
Buckeye Partners L.P.	A-/Stable/--	4
Kern River Gas Transmission Co.	A-/Negative/--	3
Northern Border Pipeline Co.	A-/CW-Neg/--	2
Texas Gas Transmission LLC	BBB+/Stable/--	3
Iroquois Gas Transmission System L.P.	BBB+/Stable/--	3
Florida Gas Transmission Co.	BBB/Stable/--	2
International Transmission Co.	BBB/Stable	2
ITC Holding Corp.	BBB/Stable	2
Texas Eastern Transmission L.P.	BBB/Stable/--	3
PanEnergy Corp.	BBB/Stable/--	3
TE Products Pipeline Co. L.P.	BBB/Stable/--	4
TEPPCO Partners L.P.	BBB/Stable/--	4
Panhandle Eastern Pipeline LLC	BBB/Negative/--	3
Noark Pipeline Finance LLC	BBB/Negative/--	4
Southern Star Central Gas Pipeline Inc.	BB/Stable/--	3
Transwestern Pipeline Co.	BB/CW-Dev/--	4
Transcontinental Gas Pipe Line Corp.	B+/Negative/--	2
Northwest Pipeline Corp.	B+/Negative/--	2
Colorado Interstate Gas Co.	B-/Negative/--	2
Southern Natural Gas Co.	B-/Negative/--	2
ANR Pipeline Co.	B-/Negative/--	3
Tennessee Gas Pipeline Co.	B-/Negative/--	3
El Paso Tennessee Pipeline Co.	B-/Negative/--	3
El Paso Natural Gas Co.	B-/Negative/--	4
Gas Transmission-Northwest Corp.	CC/CW-Pos/--	2
3. Integrated Electric, Gas, and Combination Utilities		
Wisconsin Public Service Corp.	AA-/Stable/A-1+	4
Madison Gas & Electric Co.	AA/Negative/A-1+	4
Southern Co.	A/Stable/A-1	4
Georgia Power Co.	A/Stable/A-1	4
Alabama Power Co.	A/Stable/A-1	4
Mississippi Power Co.	A/Stable/A-1	4
Gulf Power Co.	A/Stable/--	4
Savannah Electric & Power Co.	A/Stable/--	4
San Diego Gas & Electric Co.	A/Stable/A-1	5
MidAmerican Energy Co.	A/Stable/A-1	5

Questar Corp.	--/--/A-1	6
Equitable Resources Inc.	A/Stable/A-1	6
Florida Power & Light Co.	A/Negative/A-1	4
South Carolina Electric & Gas Co.	A-/Stable/A-2	4
SCANA Corp.	A-/Stable/--	4
Wisconsin Electric Power Co.	A-/Stable/A-2	4
AGL Resources Inc.	A-/Stable/A-2	4
Virginia Electric & Power Co. (Dominion Virginia)	A-/Stable/A-2	5
Idaho Power Co.	A-/Stable/A-2	5
IDACORP Inc.	A-/Stable/A-2	5
Energen Corp.	A-/Stable/--	6
Vectren Utility Holdings Inc.	A-/Negative/A-2	3
Wisconsin Power & Light Co.	A-/Negative/A-2	4
Atmos Energy Corp.	A-/Negative/A-2	4
Southern Indiana Gas & Electric Co.	A-/Negative/--	5
Montana-Dakota Utilities Co.	A-/Negative/--	5
PacifiCorp	A-/Negative/A-2	5
Northern Border Partners L.P.	A-/CW-Neg/--	4
Central Illinois Light Co.	A-/CW-Neg/--	5
CILCORP	A-/CW-Neg/--	5
Union Electric Co.	A-/CW-Neg/A-2	5
Ameren Corp.	A-/CW-Neg/A-2	5
Cincinnati Gas & Electric Co.	BBB+/Stable/A2-	4
Oklahoma Gas & Electric Co.	BBB+/Stable/A-2	4
Northern States Power Wisconsin	BBB+/Stable /A-2	5
Kentucky Utilities Co.	BBB+/Stable/A-2	5
Louisville Gas & Electric Co.	BBB+/Stable/A-2	5
Allete Inc.	BBB+/Stable/A-2	5
Wisconsin Energy Corp.	BBB+/Stable/A-2	5
PSI Energy Inc.	BBB+/Stable/A-2	5
Union Light Heat & Power Co.	BBB+/Stable/--	5
Hawaiian Electric Co. Inc.	BBB+/Stable/A-2	6
Enogex Inc.	BBB+/Stable/--	6
National Fuel Gas Co.	BBB+/Stable/A-2	7
Energy East Corp.	BBB+/Negative/--A2	3
RGS Energy Group Inc.	BBB+/Negative/--	4
Rochester Gas & Electric Corp.	BBB+/Negative/--	4
Michigan Consolidated Gas Co.	BBB+/Negative/A-2	4
Interstate Power & Light Co.	BBB+/Negative/A-2	5
Public Service Co. of New Hampshire	BBB+/Negative/--	5
Kaneb Pipe Line Operating Partnership L.P.	BBB+/Negative/--	5
Consolidated Natural Gas Co.	BBB+/Negative/A-2	6
Detroit Edison Co.	BBB+/Negative/A-2	6
Questar Market Resources Inc.	BBB+/Negative/--	8
Portland General Electric Co.	BBB+/CW-Neg./A-2	5
Columbia Energy Group	BBB/Stable/--	3
NiSource Inc.	BBB/Stable/--	4
Xcel Energy Inc.	BBB/Stable/A-2	5
Public Service Co. of Colorado	BBB/Stable /A-2	5
Northern States Power Co.	BBB/Stable /A-2	5

Southwestern Public Service Co.	BBB/Stable /A-2	5
Appalachian Power Co.	BBB/Stable/--	5
Kentucky Power Co.	BBB/Stable/--	5
Public Service Co. of Oklahoma	BBB/Stable/--	5
Southwestern Electric Power Co.	BBB/Stable/--	5
Northern Indiana Public Service Co.	BBB/Stable/--	5
Entergy Arkansas Inc.	BBB/Stable/--	5
Entergy Louisiana Inc.	BBB/Stable/--	5
Progress Energy Florida	BBB/Stable/--	5
Progress Energy Carolinas Inc.	BBB/Stable/A-2	5
Kansas City Power & Light Co.	BBB/Stable/A-2	6
PNM Resources Inc.	BBB/Stable/--	6
Southern California Edison Co.	BBB/Stable/A-2	6
Empire District Electric Co.	BBB/Stable/A-2	6
Entergy Mississippi Inc.	BBB/Stable/--	6
Entergy New Orleans Inc.	BBB/Stable/--	6
Duke Energy Field Services LLC	BBB/Stable/A-2	6
Arizona Public Service Co.	BBB/Negative/A-2	5
TXU U.S. Holdings Co.	BBB/Negative/--	5
Pinnacle West Capital Corp.	BBB/Negative/A-2	6
Cleco Power LLC	BBB/Negative/A-3	6
Puget Sound Energy Inc.	BBB-/Positive/A-3	5
Puget Energy Inc.	BBB-/Positive/--	5
Green Mountain Power Corp.	BBB-/Stable/--	5
Public Service Co. of New Mexico	BBB-/Stable/A-2	6
Pacific Gas & Electric Co.	BBB-/Stable/ --	6
Cleveland Electric Illuminating Co.	BBB-/Stable/--	6
Ohio Edison Co.	BBB-/Stable/--	6
Toledo Edison Co.	BBB-/Stable/--	6
Pennsylvania Power Co.	BBB-/Stable/--	6
El Paso Electric Co.	BBB-/Stable/--	6
Central Vermont Public Service Corp.	BBB-/Stable/--	6
Entergy Gulf States Inc.	BBB-/Stable/--	6
System Energy Resources Inc.	BBB-/Stable/--	7
Tampa Electric Co.	BBB-/Negative/A-3	4
Black Hills Power Inc.	BBB-/Negative/--	6
Westar Energy Inc.	BB+/Positive/--	5
Kansas Gas & Electric Co.	BB+/Positive/--	6
Indianapolis Power & Light Co.	BB+/Stable/--	4
IPALCO Enterprises Inc.	BB+/Stable/--	4
Enterprise Products Operating L.P.	BB+/Stable/--	6
Enterprise Products Partners L.P.	BB+/Stable/--	6
GulfTerra Energy Partners L.P.	BB+/CW-Neg/--	6
Consumers Energy Co.	BB/Negative/--	6
Tucson Electric Power Co.	BB/CW-Neg/--	6
Dayton Power & Light Co.	BB-/CW-Neg/ -	7
Monongahela Power Co.	B/Stable/--	5
Nevada Power Co.	B+/Negative/--	7
Sierra Pacific Power Co.	B+/Negative/--	7
Sierra Pacific Resources	B+/Negative/--	7

4. Diversified Energy and Diversified Non-Energy

WPS Resources Corp.	A/Stable/A-1	5
KeySpan Corp.	A/Negative/A-1	4
FPL Group Inc.	A/Negative/--	6
Peoples Energy Corp.	A-/Stable/A-2	5
Vectren Corp.	A-/Negative/--	4
PacifiCorp Holdings Inc.	A-/Negative/--	5
Exelon Corp.	A-/Negative/A-2	7
MDU Resources Group Inc.	A-/Negative/A-2	7
Centennial Energy Holdings Inc.	A-/Negative/A-2	8
Otter Tail Corp.	A-/Negative/--	8
Kinder Morgan Energy Partners L.P.	BBB+/Stable/A-2	4
Northeast Utilities	BBB+/Stable/--	5
OGE Energy Corp.	BBB+/Stable/A-2	6
LG&E Energy Corp.	BBB+/Stable/--	6
Cinergy Corp.	BBB+/Stable/A-2	6
Constellation Energy Group Inc.	BBB+/Stable/A-2	7
Sempra Energy	BBB+/Stable/A-2	7
Pepco Holdings Inc.	BBB+/Negative/A-2	5
Conectiv	BBB+/Negative/--	5
Alliant Energy Corp.	BBB+/Negative/A-2	6
DTE Energy Co.	BBB+/Negative/A-2	6
Dominion Resources Inc.	BBB+/Negative/A-2	7
Kinder Morgan Inc.	BBB/Stable/A-2	5
American Electric Power Co. Inc.	BBB/Stable/A-2	6
Entergy Corp.	BBB/Stable/--	6
Hawaiian Electric Industries Inc.	BBB/Stable/A-2	6
Progress Energy Inc.	BBB/Stable/A-2	6
PPL Corp.	BBB/Stable/--	7
Public Service Enterprise Group Inc.	BBB/Stable/A-2	7
Great Plains Energy Inc.	BBB/Stable/--	7
Duke Energy Corp.	BBB/Stable/A-2	7
Duke Capital Corp.	BBB/Stable/A-2	8
TXU Corp.	BBB/Negative/--	5
Centerpoint Energy Inc.	BBB/Negative/--	5
Cleco Corp.	BBB/Negative/A-3	6
Potomac Capital Investment Corp.	BBB/Negative/--	8
MidAmerican Energy Holdings Co.	BBB-/Positive/--	5
FirstEnergy Corp.	BBB-/Stable/--	6
TECO Energy Inc.	BBB-/Negative/A-3	5
Black Hills Corp.	BBB-/Negative/--	8
Avista Corp.	BB+/Stable/--	6
Edison International	BB+/Stable/--	6
TNP Enterprises	BB+/Stable/--	6
New York Water Service Corp.	BB/Stable	7
CMS Energy Corp.	BB/Negative/--	7
DPL Inc.	BB- /CW-Neg/--	8
Williams Companies Inc. (The)	B+/Negative/--	8
Allegheny Energy Inc.	B/Stable/--	7
Dynegy Inc.	B/Negative/--	8

Dynegy Holdings Inc.	B/Negative/--	9
El Paso CGP Corp.	B-/Negative/--	6
Aquila Inc.	B-/Negative/--	8
El Paso Corp.	B-/Negative/--	8
5. Energy Merchants/Power Developers/Trading and Marketing		
Entergy-Koch L.P.	A/Stable/--	9
KeySpan Generation LLC	A/Negative/--	5
FPL Group Capital	A/Negative/A-1	8
Exelon Generation Co.	A-/Negative/A-2	8
AmerenEnergy Generating Co.	A-/CW-Neg/--	8
Southern Power Co.	BBB+/Stable/--	6
LG&E Capital Corp.	BBB+/Stable/A-2	9
Alliant Energy Resources Inc.	BBB+/Negative/--	9
American Ref-Fuel Co. LLC	BBB/Stable/--	6
PSEG Power LLC	BBB/Stable/--	8
PPL Energy Supply LLC	BBB/Stable/--	8
TXU Energy Co. LLC	BBB/Negative/--	7
Duke Energy Trading and Marketing LLC	BBB-/Negative/--	10
Northeast Generation Company	BB+/Negative/--	9
Cogentrix Energy	BB-/Stable/--	6
PSEG Energy Holdings Inc.	BB-/Stable/--	9
AES Corp.	B+/Stable/--	9
NRG Energy Inc.	B+/Stable	9
Allegheny Energy Supply Co. LLC	B/Stable/--	8
Reliant Resources Inc.	B/Negative/--	8
Calpine Corp	B/Negative/--	9
Edison Mission Energy	B/Negative/--	9
Orion Power Holdings Inc	B/Negative/--	9
Reliant Energy Mid-Atlantic Power Holdings LLC	B/Negative/--	9
Mirant Americas Generation Inc.	D/--/--	10
Mirant Americas Energy Marketing L.P.	D/--/--	10
Mirant Corp.	D/--/--	10
NEGT Energy Trading Holdings Corp	D/--/--	10
PG&E National Energy Group	D/--/--	10
USGen New England Inc.	D/--/--	10

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 07-M-0906

Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.

January 2008

Exhibit____(Policy Panel - 17)

Power Companies

Rating methodology for global power companies

Standard & Poor's rating methodology for global power companies incorporates two basic components: business profile (qualitative analysis) and financial profile (quantitative analysis). The two components are inextricable. A utility with a strong business profile, for example, could have less financial protection than one with a weaker business profile and still achieve the same rating. Conversely, a utility with a weak business profile would require a more robust financial profile than one with a stronger business profile in order to get the same rating. This basic concept is illustrated by the matrix in table 1.

Table 1
Global Utility Rating Matrix

Financial Profile	Business Profile		
	Strong	Average	Weak
Strong	AAA	AA	A
Average	AA	A	BBB
Weak	A	BBB	BB

Business profile

Standard & Poor's utilizes business profile assessments to measure a power company's qualitative credit fundamentals. Business profiles are expressed numerically on a scale of 1 (strong) to 10 (weak). To determine a business profile, Standard & Poor's analyzes the key qualitative business or operating characteristics:

- Regulation,
- Markets,
- Operations,
- Competitiveness, and
- Management.

Identifying utility types

The weighting or analytical emphasis that each business profile factor receives is strongly influenced by the type of utility. Standard & Poor's has identified four types of utilities *(see table 2)*. The type is determined through analysis of the influence of government ownership (if any), the degree of financial stability derived from the structure of the industry, and the relative competitiveness of the system. There are both investor-owned and government-owned utilities found in all four types, and more than one type may exist within the same country.

Type I utilities (supported) operate within systems where the utility receives overwhelming government and regulatory support. This support can be explicit, as in cases where a government guarantees a utility's obligations, such as in Canada. Or it can take the form of strong and obvious implicit support, such as in Greece. The government may facilitate the utility's access to external sources of capital, especially where the utility is a direct instrument of government policy. Type I utilities need not be completely owned by government, but government ownership is usually present. Before attributing support from government, Standard & Poor's reviews the track record of assistance, the procedures and timeliness of support mechanisms, the government's policy objectives for utility ownership, and financial policies. Standard & Poor's looks for evidence that the government would stand behind a debtor in time of financial need. Written and oral statements consistently made and significant supportive actions taken over time build credibility. In addition, Standard & Poor's considers the incentives for the government to provide tangible support. Questions asked include: What would be lost if a payment were missed? Would the borrower be able to continue to operate if it defaulted on a debt? Is the name of the borrower closely tied to the government in the market's perception, so that a default by the borrower would cause the government difficulties in the capital markets? What are the political realities?

Type II utilities (sheltered) conduct business where the utility is sheltered from competition and financial variability by the government or regulator. Sheltered utilities are not necessarily owned by government. Japanese investor-owned utilities offer an example. These vertically integrated utilities have historically been insulated from competition and protected by a very cooperative, coordinated rate-setting process. While generally highly leveraged, these utilities' financial results are quite stable. Another example is in the U.S.: municipally owned utilities have traditionally been sheltered from competitive forces and have enjoyed significant rate-setting flexibility. (While categorized as Type II utilities, Standard & Poor's analysis of municipal utilities is evolving, as deregulation measures aimed at investor-owned utilities are pressuring municipal utilities to create competitive markets. Moreover, an increasing number of city councils or other ratemaking bodies are reluctant to make either upward or downward rate adjustments. For example, it may be politically unpalatable to end the subsidization of residential rates by commercial and industrial customers, even if necessary to achieve cost of service rates that are more competitive for the commercial and industrial classes. Similarly, the ability to effect rate reductions necessitated by a more competitive environment may be frustrated by a city's general fund's dependence upon transfers from the electric system.)

Type III utilities (exposed), such as vertically integrated utilities in the U.S. or distribution companies in the U.K. or Victoria, Australia, evidence some regulatory insulation from the forces of competition, mixed with exposure to business risk. Although Type III utilities have certain franchise monopoly characteristics, their financial success may hinge more on their ability to control costs and provide high-quality service.

Finally, Type IV utilities (commodity) are essentially unregulated as to revenue or return. Unregulated generators, such as in Argentina and Chile, owe their success or failure to their ability to operate well at low cost, as they are subject to the sometimes harsh realities of supply and demand.

For Type I utilities, ratings will reflect the credit quality of the entity providing explicit or strong implicit support. For Type II utilities, the business profile factors of regulation and markets are weighted more heavily than competitiveness or management, because of the supportive regulatory umbrella. Conversely, for Type IV utilities, operations, competitiveness, and management are the most heavily weighted factors. Business profile factor weightings for Type III utilities are more evenly distributed.

An important point is that many utilities are gradually transitioning from Type II to Type III and perhaps to Type IV. As many countries' electricity sectors undergo structural reform and introduce competition, Standard & Poor's will weigh more heavily the business profile factors of operations, competitiveness, and management. Business profile assessments will fall and rating downgrades could result, absent offsetting improvement in financial profiles.

Typical business profiles

Large transmission systems and regulated distribution systems (the "wires" business) business profile assessments tend to fall within the 1-4 range. Generators generally receive business profile assessments in the 7-10 range.

The business profile assessment of electric systems with elements of integration—either fully vertically integrated from generation through transmission to distribution or partially integrated—is based on a weighted approach, reflecting the relative importance of each business segment to the overall credit.

Table 2
Utility Types

	Type 1	Type II	Type III	Type IV
	Supported	Sheltered	Exposed	Commodity
Example	France, Ontario	Japan, Denmark	U.S., U.K.	Genco
Primary credit determinants	Owner or guarantor	Structural protection, Rate flexibility	Cost control, Service quality	Performance and cost
Debt-servicing capacity	Not limited by stand-alone risks	Usually highly leveraged	Moderate	Limited

Financial Ratio Guidelines

	Funds from operations interest coverage (x)		Funds from operations to total debt (%)		Total debt to total capital (%)	
	A	BBB	A	BBB	A	BBB
Transmission and distribution	3.25	2.0	15	10	55	65
Generators	6.75	4.25	42	27	35	45
Vertically integrated cos.	4.25	2.75	27	18	45	56

Note: Financial ratio medians are derived from Standard & Poor's financial projections for companies rated both publicly and confidentially.

The relative importance of each reflects their contributions of cash flow and operating income and the amount of capital invested. In addition, credit is given for the benefits of integration. For example, a company owning integrated generation and distribution operations benefits from the natural hedge that integration creates for both businesses. Integrated utilities tend to have business profiles in the 3-7 range.

Because of the importance of the different analytical emphasis accorded to the five business profile factors as influenced by the type of utility, the overall business profile assessment can diverge from the general expectations stated above. For example, certain generators can have strong regulatory support, and would therefore be characterized as Type II utilities. Consequently, their business profile assessment could be 3-4, reflecting heavy weighting of the supportive regulatory structure.

Financial profiles

Standard & Poor's measures financial strength by a utility's ability to generate consistent cash flow to service its debt, finance its operations, and fund its investment. Standard & Poor's focuses on a utility's financial results for the last five years and on pro forma, five-year projections.

Because of distortions caused by vastly differing asset valuation practices and depreciation policies around the world, certain leverage and earnings ratios are not particularly useful when conducting comparative analysis. As a consequence, the proper analytical focus should be on "real" stocks and flows, namely, levels of debt, cash, and cash flow. Financial parameters that are increasingly viewed as relevant and reliable are coverage of fixed financial charges by cash flow and cash flow from operations to total debt. Less comparable measures, such as shareholders' equity, leverage, and reported earnings, are also reviewed, but deemphasized.

Tightly regulated transmission and distribution utilities generally face limited business risk and can operate with relatively low operating margins and high leverage. Conversely, generating companies operating in a very competitive environment face much higher business risk and attendant cash flow volatility, and therefore generally can sustain only modest levels of debt. The table above displays guidelines for certain key financial ratios for rated transmission and distribution companies, generators, and vertically integrated utilities. Because of the different types of utilities—supported, sheltered, exposed, commodity—financial ratios for any particular entity may differ significantly from the guidelines. However, the ratios in the table are useful in demonstrating the typical differences in financial standards appropriate due to broad differences in business risk.

Profitability. Profit potential is a critical determinant of credit protection for investor-owned utilities. A company that generates higher profits has a greater ability to generate equity capital internally, attract capital externally, and withstand business adversity. Earnings power ultimately attests to the value of the firm's assets. Profit is less significant for non-U.S. government-owned utilities, but still relevant because higher operating margins provide additional bondholder protection on a stand-alone basis. For U.S. municipal utilities, Standard & Poor's does not measure "profit" per se, but rather looks at financial health as measured by excess margins on a cash flow basis and their ability to provide coverage of revenue bonds and off-balance-sheet obligations, as measured through fixed-charge coverage.

The more important measures of profitability are:

- Return on average equity,
- Pretax return on capital, and
- Operating margins.

Earnings are also viewed in relation to a company's burden of fixed charges. Otherwise-strong performance can be affected detrimentally by aggressive debt financing, and the opposite also is true. The primary fixed-charge coverage ratio is EBIT interest coverage (pretax income plus interest divided by interest). If preferred stock is outstanding, coverage ratios are calculated both including and excluding preferred dividends, to reflect the company's discretion over paying the dividend when under stress.

To reflect more accurately the ongoing earnings power of the firm, reported profit figures are adjusted. These adjustments remove the effect of foreign-exchange gains and losses, writedowns, and other nonrecurring or extraordinary gains and losses. Unremitted equity earnings of a subsidiary are also excluded. Adjustments are also made for the impact of hyperinflation on nonmonetary assets—gains are subtracted while losses are added back.

Shareholder pressures and accounting standards in certain countries, such as the U.S., can result in companies seeking to maximize profits on a quarter-to-quarter or short-term basis. In other regions, abetted by local tax regulation, it is normal practice to take provisions against earnings in good times to provide a cushion against downturns, resulting in a long run "smoothing" of reported earnings. For example, given local accounting standards, it is common to see a Swiss or German company vaguely report "other income" or "other expenses," which are largely provisions or provision reversals, as large items in a profit and loss account. In its meetings with management, Standard & Poor's delves into provisioning and depreciation practices to see to what extent a company employs noncash charges to reduce or bolster earnings.

There are numerous analytical adjustments to the interest accounts. Interest that has been capitalized is added back. An interest component is computed for debt-equivalents such as operating leases, fixed contractual obligations, and receivable sales. For U.S. utilities, allowance for funds used during construction is removed from income and interest expense.

In some regions, notably Japan and Europe, the local practice is to maintain a high level of debt while holding a large portfolio of cash and marketable securities. Many companies manage their finances on a net debt basis. When a company consistently demonstrates such excess liquidity, interest income may be offset against interest expense in looking at overall financial expenses. Each situation is evaluated on a case-by-case basis, in light of a company's liquidity position, normal working cash needs, nature of short-term borrowings, and funding philosophy.

Capital structure. The principal capital structure ratio analyzed is total debt to total debt plus equity. However, analyzing debt leverage goes beyond the balance sheet and covers quasi-debt items and elements of hidden financial leverage. Noncapitalized leases, debt guarantees, receivables financing, and purchased-power contracts are all considered debt equivalents and are reflected as debt in calculating capital structure ratios. Moreover, adjustments are made to reflect unfunded pension liabilities.

In countries where local practice is to hold significant cash and marketable securities, Standard & Poor's will focus on net debt leverage, which nets out excess liquidity from borrowings.

Most firms use short-term debt as a permanent piece of their capital structure or to bridge to permanent financing. Seasonal, self-liquidating debt is excluded from the permanent debt amount, but this situation is rare—except in the case of natural gas utilities. Given the long life of almost all utility assets, short-term debt exposes these companies to interest-rate volatility, remarketing risk, bank line backup risk, and regulatory exposure that cannot be readily offset. The lower cost of shorter-term obligations (assuming a positively sloped yield curve) partially mitigates the risk of interest-rate variability.

Also important is the term structure of a power company's long-term debt. Amortizing debt is less risky than bullet maturities, and may be more appropriate for certain companies with limited asset lives. Generators, in particular, may have a tendency to rapidly depreciate assets, so they face greater risk of mismatching assets and liabilities when they fund their operations with long-term bullet maturity debt.

What is considered "debt" and "equity" for the purpose of ratio calculation is not always simple. In the case of preferred stock and other hybrid securities, the analysis is based on their features, not the accounting or nomenclature. Pension and retiree health obligations are similar to debt in many respects.

Knowing the true values to assign to a company's assets is important to capital structure analysis. Consequently, assets are examined to identify undervalued or overvalued items. Asset valuation practices differ from country to country, resulting in differences in both a company's reported equity base and its depreciation expense. There is no easy way to compare companies that revalue their assets with those that do not. Rather, Standard & Poor's recognizes that, for all companies, reported asset values often differ from market values. In discussions with management, Standard & Poor's analysts endeavor to gain an appreciation of the realizable values of a company's assets under reasonably conservative assumptions.

Cash flow. Cash flow analysis is critical in all credit rating decisions. Interest or principal obligations cannot be serviced out of earnings, which is just an accounting concept; payment has to be made with cash. Many transactions and accounting entries can affect earnings but not cash, and vice versa. Analysis of cash flow patterns can reveal a level of debt-servicing capability that is either stronger or weaker than might be apparent from earnings. Since both common and preferred dividend payments are important to maintain capital market access, Standard & Poor's looks at cash flow measures both before and after dividends are paid. Working capital analysis is typically not a major factor in utility credit analysis given the relatively minor impact on cash flow from period to period. However, such analysis can be critical for certain utilities operating in developing economies—where late payment or nonpayment of bills can drive up receivables.

Cash flow is also measured against fixed contractual obligations, capital expenditures, debt maturities, and shareholder dividends.

Some of the specific ratios considered are:

- Funds from operations/total debt (adjusted for excess liquidity and off-balance-sheet liabilities).
- EBITDA/interest.
- Funds from operations - dividends/capital expenditures.
- Capital expenditures/total capital (debt + equity).

Because of the capital-intensive nature of the power industry and the lengthy periods sometimes necessary to construct facilities—particularly generating plants—utilities require extensive and flexible capital planning. The ability to limit the use of debt also depends on a utility's skill in managing construction projects and completing any new facilities on schedule and within cost estimates. Accordingly, Standard & Poor's reviews capital priorities for the next five years and beyond.

Financial flexibility. Financial flexibility incorporates a utility's financing needs, plans, and alternatives, as well as its flexibility to accomplish its financing program under stress without damaging creditworthiness. External funding capability complements internal cash flow. Especially since utilities are so capital intensive, a firm's ability to tap capital markets on an ongoing basis must be considered. Relationships with banks and the availability of bank lines are also reviewed. A utility's debt capacity reflects all the earlier elements: profitability, capital structure, and cash flow. Market access at reasonable rates is restricted if a reasonable capital structure is not maintained and the company's operational and financial prospects dim.

Standard & Poor's also reviews indenture and bank loan covenants. Certain restrictions, such as a limit on the ability to issue additional debt, provide some comfort, as do provisions that restrict the distribution of dividends unless there is adequate cash flow to provide for projected debt service (interest and principal). Other covenants viewed favorably are those that may reduce default risk, such as a requirement for a funded debt-service reserve. However, very tight covenants can raise default risk by limiting a company's flexibility to raise cash in times of crisis.

For investor-owned utilities, Standard & Poor's assesses a company's capacity and willingness to issue common equity. This is affected by various factors, including stock price, dividend policy, and any regulatory restrictions regarding the composition of the capital structure. For government-owned utilities, analysis focuses on the government's willingness and ability to inject equity as needed or to forgo dividends. An additional measure of financial flexibility important in the analysis of U.S. municipal utilities is ratemaking flexibility, taking into account both political and competitive considerations.

Transmission and distribution qualitative analysis

Reflecting relatively low business risk, electric transmission and distribution companies can be generally expected to have business pro-

file assessments of 1-4. However, few companies receive the top score and some do fall below a 4.

When evaluating electric transmission and distribution companies, Standard & Poor's is most concerned about the predictability and sustainability of financial performance. For typical transmission and distribution companies, regulation, markets, and management are more important factors than operations and competitiveness, although the relative emphasis on the factors may differ depending on the type of system. Regardless of type, the regulatory environment will have great impact. Variations in policies and practices among local and national regulatory bodies are key considerations. Markets and customer composition are also important factors, with weak economic performance and a large industrial sector being less favorable. Importantly, Standard & Poor's evaluates management, especially its leadership qualities and its response to industry changes.

Regulation. Regulation defines the environment in which a utility operates, and has great influence on the company's financial performance. A utility with a marginal financial profile can, at the same time, be considered highly creditworthy due to a supportive regulatory environment. Conversely, unpredictable or antagonistic regulatory action can undermine the financial position of utilities that are very strong from an operational standpoint. To be viewed positively, regulatory treatment should be timely and allow consistent performance from period to period, given the importance of financial stability as a rating consideration. Also important is the transparency of regulatory polices and the length of time that the regulatory framework has been in place. Clearly, there is concern that the mechanics of a recently privatized system could be revisited for fine tuning. Because of this, Standard & Poor's also examines the relative ease with which regulation can be changed. That is, a transparent system that requires legislative action to modify is viewed more favorably than one more subject to the whim of ministerial discretion, as in some Asian countries. Also key is the selection process for membership of a regulatory body.

Evaluation of regulation encompasses the administrative, judicial, and legislative processes involved in local or national regulation. These can affect rate-setting activities and other aspects of the business, such as competitive entry, environmental and safety rules, facility siting, and securities sales. In addition, the terms of a utility's license or franchise often impose obligations to serve any customer and provide a reasonable standard of service, and a variety of other stipulations. Ratings factor in the impact of such constraints and obligations on a utility's operations and financial performance.

Transmission and distribution companies are expected to remain tightly regulated monopolies, with rates set on a cost-plus basis in many circumstances. Under a cost-plus regime, rates are set to recover costs and, for investor-owned utilities, a return on shareholder investment. Under cost-based rates, Standard & Poor's analysis focuses on the predictability of costs and revenues. While a utility may be largely protected from business risk under cost-based rates, the responsiveness of the rate-setting process to changes in a utility's cost structure or to discrepancies between allowed and actual revenues influences the business pressures on the company.

One drawback to cost-based ratemaking is the lack of strong incentive for utilities to control costs. Since rates and earnings are closely linked to the amount of invested capital and the cost of capital, utilities may be rewarded more for justifying costs than for containing them. Consequently, Standard & Poor's believes that performance-based ratemaking will become an increasingly popular form of ratemaking, particularly for the distribution business. Because financial results can vary depending on a company's ability to meet performance challenges, performance-based systems are inherently more risky than cost-based systems. Flexible plans incorporating performance-based rewards or penalties could include market-based rates, price caps, revenue caps, index-based prices or other yardstick measures, and rates premised on the value of customer service.

Markets. Many distribution companies are common carriers. That is, they carry electricity being purchased by customers from independent suppliers, either generating companies or marketers. Other distributors participate in the energy marketing (supply) business by buying, brokering, or generating electricity through an affiliate, and selling the power to a customer. Risks in the marketing business include the significant challenge of matching fuel and power supply with demand. Whether a utility

is involved in the sale or brokering of electricity or merely distributes the commodity, prospects for the stable growth of revenues and cash flow are ultimately related to the strength of the local economy. Customer growth is important for distributors. And, even for utilities involved only in distribution and not in energy marketing, electricity consumption is important—because the typical distributor recovers some portion of its distribution costs through a volumetric, per kWh charge, in addition to any fixed monthly or quarterly customer charge that may be in place. Accordingly, assessing a distributor's markets begins with the economic and demographic evaluation of the area in which distribution services are provided. Strength of long-term demand is examined from a macroeconomic perspective, which enables Standard & Poor's to measure trends in investment, income, and employment as indicators of economic change within the service area. The sustainability of increasing demand is also analyzed. Many emerging economies go through periods of very rapid growth followed by severe contractions. This volatility can contribute to significant and unhealthy swings in a utility's revenues.

The analyst also tries to discern any secular consumption trends and, more importantly, the reasons behind them. Specific items addressed include the size and growth rate of the market, strength of the franchise, historical and projected growth, income levels and trends in population, employment, and per capita income. Other relevant factors include proximity to attractive markets, the quality of public infrastructure, and, particularly in developing countries, the affordability of electricity and customers' ability and willingness to pay their bills.

A distributor with a healthy economy and customer base, as illustrated by diverse employment opportunities, average or above-average wealth and income statistics, and low unemployment, is likely to exhibit greater revenue stability.

For electric distribution utilities, the number and type of customers, revenue analysis, and margin breakdowns are closely scrutinized to assess the depth and diversity of the utility's customer mix. For example, heavy industrial concentration is viewed cautiously, since the utility may have significant exposure to cyclical volatility. On the other hand, a large residential component produces a stable and more predictable revenue stream. The utility's largest customers are identified to determine their stability and relevance to the bottom line. Sometimes, the loss of just one large customer can have a material effect on the utility's financial position. Credit concerns arise where any one customer plays a dominant role in the overall economic base of the service area. Moreover, large customers may turn to self generation and leave the distribution system altogether, potentially leading to reduced financial protection for the utility.

Similarly, for electric transmission companies, the total number of customers—largely distributors—is evaluated to assess the depth and diversity of the transmission company's customer mix. The transmission company's largest distribution customers are identified to determine their stability and contribution to revenues. Also important to a transmission company is the strength and diversity of the end-use markets of its distribution customers. Accordingly, these end-use markets are evaluated from a macroeconomic perspective in an analysis identical to that described above for a distribution utility.

Another key consideration for a transmission company is the location of its transmission facilities. A transmission company that is strategically located to connect surplus low-cost generation with growth markets is best. On the other hand, a transmission company that connects relatively high-cost generation to a mature or declining area is at risk. Usage and electric growth levels in the end-use markets are compared with transmission capacity utilization. Underutilized transmission lines that serve growth markets have positive implications, while fully utilized lines that serve mature markets have less favorable implications.

Operations. Transmission and distribution operations are typically low risk. To evaluate the operations of a transmission or distribution company, Standard & Poor's focuses on cost, reliability, and quality of service. With gradually increasing competition in all segments of the electric power business, utility managers are under increasing pressure to optimize their use of resources. If utilities are not cost-effective in meeting service standards, compared to the performance of other utilities and administrative benchmarks, stronger regulatory or competitive pressures are likely.

Consequently, emphasis is placed on those areas that require management attention (in terms of time or money) and which, if unresolved, may lead to political, regulatory, or competitive problems.

In addition, the status of utility plant investment is reviewed, with regard to reliability and utilization, as well as for compliance with existing and contemplated environmental and other regulatory standards. The record of outages, system losses, and capacity utilization are examined. Important considerations include the projected capital improvements necessary to provide high-quality and reliable service. Additionally, unique operating challenges could be present that impact costs to a degree where credit quality suffers. Examples of operating challenges include harsh climates, severe storms, and difficult terrain.

Utilities in emerging countries face additional operating challenges, such as the fundamentals of metering and billing. Certain utilities may struggle with accurate and timely metering and billing because they do not have the appropriate technology, computer infrastructure, or control systems in place. Moreover, getting the bills correct and out in a timely fashion is only part of the issue. Collections can be a nagging problem where political or economic realities prevent service cutoff for nonpayment. In addition, outright theft of electricity service can be a big problem.

Assets must be in good physical condition and well maintained. Capital expenditures for system improvements must be at manageable levels, while sufficient to provide for constant renewal and refurbishment of the system. Operating performance, reliability statistics, and efficiency measures are expected to meet industry and regional averages. Having interconnections that provide access to low-cost and diverse power supply sources is viewed favorably, as is limited environmental exposure.

Competitiveness. Competitive pressures in the transmission and distribution businesses are generally quite limited by virtue of franchise monopolies. While introducing competition into the generation business and creating national or international power exchange systems is increasingly popular worldwide, there is near unanimous agreement that transmission and distribution systems should largely remain monopolies. This limited competition is a major factor in the strong business profile assessment for a typical transmission or distribution utility. Franchise monopolies are significant barriers to entry by competitors. Where there are nonexclusive franchises, other barriers to competitors exist, such as siting difficulties caused by public concerns over duplicate utility poles and wires and environmental issues.

Transmission and distribution utilities do face competitive pressures in the form of substitute energy sources and customer self-generation and bypass. Electricity competes with other fuels such as natural gas for certain segments of the market, like space heating, water heating, and cooking. Thus, high electricity prices, which may be caused by inefficient transmission or distribution service, are cause for concern if customers have alternate energy sources. Self-generation has for many years been a significant concern for larger commercial and industrial customers who have been able to take advantage of cogeneration technologies to significantly reduce their reliance on, and, in some cases, disconnect from transmission and distribution systems. In the future, technology could pose a greater threat for transmission and distribution companies. Bypass risk is likely to grow as distributed generation, microgeneration, and self-generation gradually become more economically attractive for smaller and smaller customers. However, these technological evolutions are likely to be gradual, so the currently configured transmission and distribution networks should continue to play a viable role for the foreseeable future.

Management. Owing to the safety net provided by regulation, evaluation of management is less critical for tightly regulated transmission and distribution companies than for generators or energy marketers operating in a very competitive environment. Still, assessing management remains significant, since management's abilities and decisions affect all areas of a company's operations, and ultimately drive the success of a company. Important considerations include strengths and weakness of key members of management, depth and stability of top management, and recent and prospective management changes. Management strategies are also a material determinant in differentiating utilities. Standard & Poor's assesses financial policies, corporate goals, strategies, tactics, and plans for both regulated and diversified businesses, and monitors how effectively they are implemented.

The assessment of management is based on such factors as tenure, industry experience, grasp of industry issues, and knowledge of customers and their needs. Management quality is also indicated by thoughtful balancing of public and private priorities, a record of credibility, and effective communication with the public, regulatory bodies, and the financial community.

Key financial policy considerations include commitment to credit quality. This can be assessed by evaluating accounting and financing practices, capitalization and common dividend objectives, and the company's philosophy regarding growth and risk taking.

Generation qualitative analysis

Generation is the riskiest segment of the electric utility industry due to complex operating risks and the increasingly competitive nature of the business. Risk may be further heightened by absence of the regulatory umbrella. Because of the higher risks, generators can generally be expected to have business profile assessments in the 7-10 range.

Generation is a commodity business. Electrons are physically indistinguishable from each other and therefore compete primarily on price. However, electricity has some characteristics that make it less like other commodities. Electricity cannot be stored. Electricity must be used instantaneously, as it is produced, and its deliverability can be hampered by transmission constraints. Reliability and deliverability distinguish one generating company from another, and perhaps elicit a premium in the marketplace. Value-added services, such as customization and load-following, can tailor the shape and firmness (or lack of firmness, for example, interruptible service) of electricity delivered to the customer.

Generation also faces unique operating risks. Because electricity cannot be stored, generating plants cannot afford to have unplanned outages. Of course, they are only paid when they run. Furthermore, contractual commitments could force a downed generator into the market to seek replacement power, which could be costly—or unavailable if the outage occurs during a peak usage period. Thus, while low production costs factor heavily into the business profile of a generation company, other criteria are considered when assessing creditworthiness.

Regulation. Some generators may remain highly regulated and achieve superior business profiles due to the more stable revenue stream. Some centralized supply systems derive strength and stability from their highly cohesive nature, stemming, in part, from direct or indirect cross ownership between generators and distributors, and government entities as ultimate owners. However, most global generators operate in deregulated environments, where rates are determined by the market.

Even so, regulatory considerations are still pertinent, and vary among global electric utility systems. Regulation typically establishes the basic framework of the electricity market. The market may be primarily a wholesale, rather than retail, market. The system may mandate that all players bid into a pool or exchange, whereby generators are economically dispatched and the last unit to run sets the market clearing price for all players. A power pool may have rules regarding price bids, dispatch, financial standing of market players, or other factors. Generators may have an obligation to build—or may be limited in building or investing. Furthermore, political stability, legal environment, and contract law influence the generator's operating environment and are examined under this heading. In general, regulation is likely to constrain upside profit potential, while providing little protection on the downside.

Standard & Poor's seeks to determine the regulatory posture toward credit quality. The length of time that the regulatory framework has been in place is noteworthy, given the potential for a relatively new system to be modified. The U.K. is notorious for having touted its competitive power pool, only to have the regulator step in and tamper with the pool's market clearing price.

In the U.S., the Federal Energy Regulatory Commission (FERC) has established regulations for nondiscriminatory interstate transmission pricing. Therefore, a transaction between a generation company and an end user will not be undermined by inflated wheeling fees. But market power issues are still being sorted out. FERC may prohibit mergers where bulking up on generation results in a utility being able to exert market power over its competitors. As a result, regulators may limit size and restrict certain contractual arrangements. Regulators may also set prudence requirements (financial creditworthiness) for entrants to the market. Questions asked include: How

will prices be established? Will there be a power pool or bilateral contracts only? (In bilateral contracts, buyers and sellers negotiate the terms, including cost, of the transaction.) Often times a pool transaction can be hedged to financially simulate a bilateral contract through "contracts for differences."

In some international systems, short-term marginal cost is determined by a pool, but the tariff also includes a charge to cover the long-run marginal cost of the next capital addition. This pricing system offers some greater assurance to the recovery of fixed costs and therefore lowers risk to the generator.

Markets. A generator's market expands as far as it can transport its electrons within physical (transmission) and economic (transportation fees) constraints. It typically has no obligation to serve, and may be free to hand pick its customers and negotiate its own contracts. While it is anticipated that in the U.S. all customers will be able to choose their supplier (retail wheeling), other countries permit retail access to only the very largest industrial entities. Markets in these countries are primarily wholesale. It is anticipated in the U.S. that residential and small customers will initially tend to stick with their local utility distribution company for supply. However, in pilot programs to date, many customers have exercised their option to choose and left their traditional suppliers.

As electricity markets become more liquid, prices become more transparent, and energy marketers and financial derivatives begin to develop. It remains to be seen if marketers can aggregate small customer loads effectively to make them economically desirable.

If a generator sells directly to end users, it is important to know the customer mix, in terms of residential, commercial, and industrial segments. A diverse customer base within a stable, growing economy would be positive from a credit risk perspective. An economy that is driven by only a handful of products or industries introduces concentration risk.

Further market evaluation looks at the economic prospects, inflationary pressures, and electricity consumption patterns within the country or region where the generating company operates. In developing countries, growth prospects would be higher than in a mature economy such as the U.S. However, strong growth could be subject to extreme volatility, due to recessionary or inflationary pressures. If one or a few industries dominate the region, growth prospects could be tied to the fate of that industry.

In terms of supply, who are the other players in the market, and what are the barriers to entry? How much capacity is there relative to demand? Surplus capacity could reduce sales and/or put pressure on margins. A deficit capacity situation would inflate margins over the short term, but encourage other entrants to the market. This would not necessarily be bad, depending on the incremental cost of supply (lower cost would be a threat to existing generators, higher cost would enhance the generating company's competitive position) and the subsequent surplus situation. If transmission constraints are relieved, either through construction or technology, the supply/demand balance changes. Generators may have access to a broader market, but other suppliers will have access to their customers as well.

Operations. An analysis of operations overlaps somewhat with examination of markets and competitiveness. The market within which a generating company is a player (local, regional, national, or international) has implications for how it operates. Transmission interconnections and constraints, as well as the location of a plant relative to customers, provide operating limitations and opportunities. Having a strategic location might necessitate that the plant be run constantly to provide system voltage support. And the efficiency of a generator's operations is directly tied to its competitive position.

Managing production inputs effectively is crucial to competitiveness. Suppliers of fuel, labor, and supplies are sources of economic risk to a generator's ability to produce low-cost power. The generator can be at risk if supplies are disrupted or prices are raised. A generator should diversify risk, as opposed to relying on a few suppliers. What has been the historic growth of operating and maintenance expenditures, and how will they be controlled (or reduced) prospectively? Efficient use of technology enables a generation company to manage its costs more efficiently.

Fuel typically represents about half the cost per kWh. Generators will need to become sophisticated in physical and financial hedging of fuel commodity risk. To the extent that a generation company has contracted to sell its output at a fixed price, it will be necessary to match the length of fuel contracts and hedges

to insure that margins are locked in. Some contracts permit a pass-through of fuel price changes, which might mitigate the necessity of hedging.

Contracts to sell a portion of production output at negotiated prices can protect generators from price and volume risk. Electricity markets are quite volatile, with prices fluctuating as much as 300% daily in U.S. markets. Contracts for differences are a common way to have price settlement around an erratic market clearing price. The mechanics, in very simple terms, are as follows: A buyer and seller agree on a price for power, say, 4 cents per kWh. If the market clears at 5 cents per kWh, the seller sells into the pool and receives 5 cents. The buyer must buy from the pool for 5 cents, which is 1 cent higher than his arrangement. To reconcile their 4 cent agreement, the seller pays the buyer 1 cent. Clearly, strategies will vary depending on how contracts are structured and how much of production is sold under contract versus on the spot market. These strategies are indicative of management's risk appetite.

In addition to these considerations, Standard & Poor's examines key statistical efficiency measures, such as capacity factor, availability factor, and heat rate of individual plants as compared to industry peers. Clearly, it is preferable to achieve parameters which exceed industry standards. Capacity factor measures the degree to which a plant is actually run over a certain period of time, while availability indicates what percent of the time it would have been available to operate. Heat rates measure a power plant's fuel efficiency. A low heat rate indicates less fuel input per unit of output. The average age of the facilities in the portfolio is also important; maintenance expense tends to increase as plants age.

The technologies utilized by a generating company also impact the assessment. New technology is riskier than proven designs. Moreover, nuclear facilities present greater-than-average risk in light of complex technology, additional operating challenges and concerns, and decommissioning costs.

Asset concentration risk is present where any one unit represents a disproportionate share of capital or output in the portfolio. Construction risk is considered in terms of the level of capital expenditures, demonstrated ability to complete projects on time and on budget, and success of start-up. Turnkey projects could transfer construction risks from the generator to the engineering firm. Lastly, environmental risks are evaluated. Imposition of a carbon tax could have significant financial consequences for coal-fired generation.

Diversity of the generation portfolio reduces the risk of dependence on any one unit, or any one fuel. Different fuel sources and the operating characteristics of the facilities (for example, base load versus peaking) further diversify the portfolio, and dual fuel capabilities at individual plants can enhance flexibility. Clearly, a single unit generator is inherently riskier than one with a portfolio of assets. The evolution of the merchant power plant has introduced a certain speculative element to the generation sector. Unlike their independent power producer predecessors, merchant plants are generally constructed without benefit of contractual commitments for the sale of their output. Thus, success depends on their ability to produce power consistently below the market's forward price curve for electricity. Since a merchant plant has less margin for error, it must have superior technological, marketing, finance, management, and operating skills, and be able to manage the risk of uncertain pricing and markets.

For generators selling into spot or short-term contractual markets, reliability is important. Generators who cannot deliver consistently on their commitments will lose credibility—and customers. This risk increases to the extent that the generating company is involved in marketing transactions beyond the sale of its own generation. Standard & Poor's believes that the more successful and higher-rated energy marketers will have leading national or regional market positions and need substantial physical and financial liquidity. Size is important because there are informational economies of scale in marketing, and smaller trading firms can be whipsawed. Generators with hard assets have a perceived advantage over energy traders with no owned assets.

Competitiveness. The first step of an analysis of competitiveness is to compare the generation company's cost of production to those of other market players. Unless there are overriding circumstances (for example, a must-run facility or an environmentally benign power source), a low-cost structure is crucial to a generator's success in a competitive environment. As important as the total cost is the variable cost of production—particularly in markets

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

Case 07-M-0906

Joint Petition of Iberdrola, S.A., Energy East Corporation, RGS Energy Group, Inc., Green Acquisition Capital, Inc., New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Approval of the Acquisition of Energy East Corporation by Iberdrola, S.A.

January 2008

Exhibit____(Policy Panel - 18)

Moody's Investors Service

Global Credit Research
Credit Opinion
13 DEC 2007
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Credit Opinion: Iberdrola S.A.

Iberdrola S.A.

Bilbao, Spain

Ratings

Category	**Moody's Rating**
Outlook	Stable
Issuer Rating	A3
Senior Unsecured -Dom Curr	A3
ST Issuer Rating	P-2
SP Distribution Ltd	
Outlook	Stable
Issuer Rating	A3
SP Manweb plc	
Outlook	Stable
Issuer Rating	A3
SP Transmission Ltd	
Outlook	Stable
Issuer Rating	A3
Scottish Power UK Holdings Ltd.	
Outlook	Stable
Issuer Rating	A3

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Key Indicators

[1]
Iberdrola S.A.

	2004	**2005**	**2006**
Adjusted FFO Interest Coverage [2]	**4.7x**	**4.6x**	**4.3x**
Adjusted FFO / Net Adjusted Debt [3]	**18.9%**	**18.7%**	**18.9%**
Adjusted RCF / Net Adjusted Debt [4]	**13.0%**	**12.8%**	**12.7%**
Adjusted RCF / Adjusted Capex [5]	**58.1%**	**71.2%**	**56.9%**

[1] Based on "As adjusted" Financial statements. Details in "Moody's Approach to Global Standard Adjustments in the Analysis of Financial Statements for Non-Financial Corporations - Part II, Rating Methodology, Feb-06 (#96729). [2] (Cash flow from operations (CFO) pre-Working Capital+ Interest Expense) / Interest Expense [3] (Cash flow from operations (CFO) pre-Working Capital) / Net Debt Adjusted [4] (Cash flow from operations (CFO) pre-Working Capital - Dividends Paid) / Net Debt Adjusted [5] (Cash flow from operations (CFO) pre-Working Capital - Dividends Paid) / (Adjusted Capex + Acquisitions - Divestitures)

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

Iberdrola SA's A3/P-2 ratings factor the company's strong market position as a leading vertically integrated utility in Spain with around 35% market share. Its acquisition - in April 2007 - of the British vertically integrated utility, Scottish Power Ltd (A3, stable - please see separate credit opinion for further comments), placed it as is one of Europe's leading utilities. Iberdrola now expects to further extend its franchise into the US via its June 2007 agreement to buy Energy East Corporation, (EEC - Baa2, negative). EEC is a holding company of a regulated electric and gas transmission and distribution utility group of six companies serving customers in and around Upstate New York. This deal is subject to a number of regulatory approvals, and, if successful, is expected to be completed in mid-2008.

In December 2007 Iberdrola launched the IPO of 20% of its renewables subsidiary Iberenova, which is expected to be the world leader in this growing area. Iberdrola's ratings were downgraded to A3/P-2 from A2/P1 in December 2007, reflecting the recent partially debt-financed acquisitions, and additionally incorporate an ambitious 2008-2010 strategic plan amounting to EUR 24.2 billion, of which EUR 17.8 billion will be focused on organic investments and EUR 6.4 billion on the EEC acquisition. Around 75% will be funded by the proceeds of the renewables IPO, cash flow and divestments.

Rating Rationale

BUSINESS RISK

Iberdrola's A3/P-2 ratings reflect Moody's overall low/medium assessment of Iberdrola's business risk for an electric utility, following the recent corporate actions and taking into account its revised strategic plan. This risk assessment reflects the significantly increased scale of the group, its geographic spread and diversification of risks, particularly those of regulation, generation pricing and fuel technology.

Assuming successful completion of the EEC transaction, EBITDA from low risk fully regulated networks activities is expected to increase slightly to around a third of EBITDA, medium risk generation in UK and Spain is expected to be around 35-40% of EBITDA. Renewables (a low/medium risk activity) should grow to the mid-teens in percentage terms over time. Operations in Latam (Mexico and Brazil) and Real Estate/Engineering which are medium/high risk are, together, expected to total around the mid-teens.

Nonetheless, this risk assessment factors a degree of integration and execution risk as the company has expanded into new markets in which it has had less prior experience, and, in addition the group has ambitious growth targets which may not be achieved if operating conditions become more difficult. In particular, the company has strong growth expectations in the renewables field, through its subsidiary, Iberdrola Renovables, where it aims to be the global leader. This subsidiary will be the engine for growth for the company, with 48% of the total organic investment spend of EUR 17.8 billion during 2008-2010 being devoted to this area. Iberdrola has 7,342 MW of installed capacity as of 30 September 2007, aiming to reach 13,500 MW by 2010.

Iberdrola is well-placed to make good progress given its size, scale and diversified exposure to fairly favourable regimes in Iberia, the UK and US. It has long-term agreements with a range of turbine manufacturers; an experienced team in the development of sites and management of operations which should help offset key risks that include the speed at which the pipeline can be processed given possible delays in receiving permissions and/or accessing equipment; possible regulatory change; construction risk and weather conditions. Although fairly secure offtake structures in most instances limit volume risk, renewables businesses are exposed to pricing risks but quite often there are mitigants (e.g. in the US Iberdrola has mainly entered into fixed-price power purchase agreements or PPAs, and in Spain and in the UK there are, in some circumstances, a price floor).

Ambitious growth targets in the UK may be challenged by competitive activity and there are a number of regulatory and political challenges in Spain as the electricity system is transitioning only gradually to a fully liberalised market. Overall, commodity and generation pricing risks remain the most volatile component of the group's portfolio although these are somewhat limited by the vertical hedge of the UK and Spanish operations and the various hedging and risk-mitigating techniques Iberdrola employs.

FINANCIAL RISK PROFILE

Iberdrola has realised its recent investments through a mixture of debt and equity. Iberdrola paid EUR 17.1 billion for 100% of Scottish Power of which EUR 9.2 billion was debt-funded. In addition, the company closed a capital

increase for EUR 3.4 billion in June 2007 with the aim of financing the expected cash payment for EEC and Iberdrola will assume EUR 3 billion of debt (hence an enterprise value of EUR 6.4 billion). The recent IPO will raise EUR 4.5billion. These funds, together with announced further divestments of EUR 3 billion should allow the company stay within its leverage target of 50%. Overall, debt has risen from EUR 13 billion to EUR 26 billion prior to the IPO. Whilst large, the company's capex has limited flexibility, as (i) investments in renewables are required to meet growth targets, (ii) most of the capex in the UK is dedicated to mandatory capex in the networks or necessary plant upgrades and (iii) in common with the UK, domestic capex is directed at efficiency improvements of the networks or achieving peak capacity via plant upgrade. However, with the cash flows from new investments the company should be on track to achieve RCF/debt of 12% or over, and FFO/interest of 4x.

Iberdrola sees the acquisition of EEC as an attractive opportunity in the US and it expects to benefit from the company's taxable income in order to optimise its current position in renewables energy in the US. EEC should provide stable and regulated cash flows, although the rating of EEC currently carries a negative outlook due to a recent - surprisingly unfavourable - regulatory review. Overall, EEC is expected to represent around 15% of assets of the enlarged Iberdrola group and around 10% of EBITDA.

STRUCTURAL SUBORDINATION

Following recent acquisitions, and assuming the EEC transaction goes ahead, the amount of overall debt at operating companies below Iberdrola SA (the ultimate parent) is expected to amount to just over 25% of overall debt by end 2008. Excluding debt in Brazil and Mexico for which there is limited recourse outside of the actual legal entities, the percentage is closer to around 20%.) Moody's will not notch for structural subordination; nonetheless, the rating factors the expectation that Iberdrola will focus on the gradual reduction of debt at the operating companies.

Liquidity

Iberdrola's strong liquidity profile is underpinned by (i) the solid cash flows generated by its core activities (ii) the existence of EUR 1.8 billion of cash available on its balance sheet as at the end of Q3 2007 (iii) access to over EUR 4.6 billion of MAC- and covenant-free undrawn committed credit lines expiring in 2009-2010 (iv) EUR 1.1 billion available under the EUR 7 billion bridge loan used for the acquisition of Scottish Power which matures in November 2008 with a one-year term-out option and (v) and the expected EUR 4.5 billion proceeds from the sale of a 20% stake in its renewables business. Moody's regards those sources of funds as sufficient to cover the group's needs over the next 12 months, including high levels of capital expenditure (cumulative investment of circa EUR 5.2 billion over the next 12 months), dividends (around EUR 1.2 billion) and short-term debt repayments (excluding CP) of EUR 1.9 billion during 2008.

Rating Outlook

The rating outlook is stable although Iberdrola's ratios are expected to be positioned at the low end of the rating range for the A3 rating category applied for its business risk (RCF/debt of 12-16%, FFO/debt of >17% FFO/interest of >4x). Should the company fail to achieve growth targeted, or should negative regulatory or pricing developments affect the company, then pressure could develop on these ratios. Nonetheless, Moody's believes the company is committed to an A3 rating and that it would consider means at its disposal to reinforce its financial position if necessary.

What Could Change the Rating - Up

No intermediate upwards rating pressure is perceived given the recent acquisition activity and the size of the investment programme. The company would need to demonstrate that it could achieve RCF/net debt of around 16% or over, and FFO/interest of in the 5-6x range.

What Could Change the Rating - Down

(i)Failure to maintain the financial or business risk profile as outlined could mean that negative pressure could quickly develop on the company's ratings (ii) failure to gradually reduce structural subordination.

Moody's Investors Service

Global Credit Research
Announcement
28 NOV 2006

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Announcement: Iberdrola S.A.

Moody's maintains Iberdrola's A2/P-1 review for downgrade following bid for Scottish Power

London, 28 November 2006 -- Following the announcement that Iberdrola SA has made an offer to acquire 100% of the shares of Scottish Power Plc, Moody's Investors Service maintains the existing review for possible downgrade on the A2/Prime-1 ratings of Iberdrola. The ratings of Iberdrola SA were first placed on review in September 2005 in the context of Gas Natural's bid for Endesa SA.

Iberdrola's offer for all the share capital of Scottish Power, values the Scottish group's equity at approximately GBP11.6 billion (EUR17.1 billion). Under the proposed agreement, Iberdrola will make a part-cash, part-share offer at a total of 777 pence per share. The total cash price in the transaction is GBP5.9 billion (EUR8.8 billion).

The offer is conditional on 75% shareholder acceptance, shareholder approval of both companies -- including approvals to increase the share capital of Iberdrola SA -- and regulatory approvals. The acquisitions will be funded through a GBP8 billion syndicated credit facility to cover the cash acquisition price plus potential partial debt refinancing at Scottish Power Group.

Moody's said that if the acquisition were to be successful on the terms outlined, the most likely outcome would be a long-term A3 rating with stable outlook for Iberdrola with credit metrics that are weakly positioned for this rating category. The short term rating would be Prime-2 in this case. Moody's would expect Iberdrola to exhibit a ratio of sustainable adjusted net debt to retained cash flow in the range of 12-16% and FFO/gross interest cover of at least 4x in order to support an A3 rating. Moody's notes additionally that Iberdrola has expressed its commitment to maintains a solid A3 rating in the context of this transaction.

Moody's added, however, that the rating outcome will depend on a number of factors that are still uncertain at this early stage, including the level of acceptances from shareholders and the final level of debt. The potential A3 rating indicated does not assume any notching for structural subordination at this point, as acquisition debt is likely to be funded at the Iberdrola SA holding company level, and Moody's expects that efforts will be made to reduce debt levels within Scottish Power Group over time.

As part of the review of Iberdrola's ratings, Moody's will take into account the expected weaker financial metrics as a result of the transaction. Moody's will also factor a degree of execution/integration risk given that Iberdrola will be moving substantially outside its strong position in its domestic market -- the principal source of its revenues -- into new markets, primarily the UK and the US, with differing regulatory and competitive frameworks.

This will bring exposure not only to very low-risk regulated UK operations but also to the higher-risk UK generation and supply sectors. Additionally, Iberdrola will significantly increase opportunities for growth in the possibly more challenging, international renewables business, to supplement similar investments in its domestic market. Moody's, however, recognises that a broader portfolio of businesses will bring a greater diversity of revenue streams to Iberdrola, diluting its exposure to Latin America, as well as creating a group with significant scale and some potential for modest synergies.

Moody's would expect to conclude the review of all the ratings when and if the transaction is finalised, which Iberdrola estimates to be in April 2007.

Moody's expects to issue a separate press release shortly on the Scottish Power group.

The A2 ratings of Iberdrola SA were first placed on review in September 2005 following Gas Natural's bid for Endesa SA. As part of this offer there was an agreement with Iberdrola to buy EUR7-9 billion of assets if the bid were successful. Moody's indication of the likely rating impact of the Scottish Power transaction does not take into account any acquisition of Endesa assets in the now increasingly unlikely event that a bid by Gas

Natural for Endesa will be successful.

The following Iberdrola ratings and debt securities (currently A2 long-term and Prime-1 short-term) remain on review for possible downgrade:

- All issuance by Iberdrola Finanzas SAU and Iberdrola International BV under the EUR6 billion EMTN programme, guaranteed by Iberdrola SA;

- All issuance by Iberdrola International BV under the EUR1 billion ECP programme guaranteed by Iberdrola SA;

- All other unsecured debt issuance;

- Senior unsecured issuer rating

Iberdrola SA, based in Madrid, is Spain's second largest vertically integrated utility. As at FYE 2005, the company had revenues of EUR11.7 billion.

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