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 - 4)

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

RESEARCH

New York State Electric & Gas Corp.

Publication date: 14-Nov-2007
Primary Credit Analyst: John Kennedy, New York (1) 212-438-7670; john_kennedy@standardandpoors.com

Major Rating Factors

Strengths:

- Low-risk distribution business;
- Minimal competition;
- Limited unregulated business; and
- Somewhat supportive regulatory regimes.

Corporate Credit Rating

BBB+/Negative/A-2

Weaknesses:

- Limited growth opportunities;
- Large capital program; and
- High debt to capital ratio.

Rationale

On June 26, 2007, Standard & Poor's Ratings Services affirmed its 'BBB+' corporate credit rating on Energy East Corp. and its affiliates on the announcement that Iberdrola S.A. will acquire the company for about $8.5 billion, including the assumption of about $4 billion of debt. The outlook remains negative. Iberdrola has targeted a closing date for the second half of 2008.

The ratings affirmation incorporates our view of the strategic importance of Energy East to the Iberdrola family. Upon the consummation of the transaction, Energy East will account for about 16% of pro forma revenue and 11% of pro forma EBITDA. Thus, the ratings on Energy East will primarily reflect its stand-alone profile, which is presently at the 'BBB+' corporate credit rating. The negative outlook indicates that the ratings could be lowered by one notch depending on Iberdrola's ultimate financing structure and potential regulatory outcomes that could impinge on cash flow metrics.

New York State Electric & Gas Corp. (NYSEG), headquartered in Rochester, N.Y., is primarily a regulated electric and gas transmission and distribution company, and serves 860,000 electric and 254,000 gas customers in New York state. NYSEG is a subsidiary of the Energy East Corp., a holding company that owns regulated electric and gas utilities in the northeastern U.S. serving nearly three million customers. NYSEG's credit quality reflects the consolidated ratings on its parent.

The ratings on Energy East and its regulated subsidiaries, Central Maine Power Co., NYSEG, Southern Connecticut Gas Co., Connecticut Natural Gas Corp., and Rochester Gas & Electric Corp. (RG&E), reflect a strong business profile and a consolidated financial profile that is intermediate for the rating.

The business profile is characterized by the low operating risk and geographic diversity of the company's predominantly electric and gas transmission and distribution (T&D) subsidiaries. Standard & Poor's Ratings Services characterizes Energy East's business profile as strong, with a score of '3', primarily because the utilities are less exposed to operating risk than integrated utilities. (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable).) Energy East's service territories span from central New York to southern Maine. The market diversity encompasses the densely populated and affluent Connecticut markets as well as the limited-growth rural upstate New York markets. Despite competition, Energy East's regulated utilities often benefit from being the incumbent service provider in many of its markets.

The offsetting factors are a weaker regulatory environment for NYSEG and Energy East's consolidated financial profile that is likely to be pressured over the intermediate term. This is exacerbated by the addition of off-balance-sheet debt obligations due to the purchase-power agreement with the owners of the Ginna nuclear power plant and some regulatory lag in the capital program.

The 'BBB+' corporate credit rating on NYSEG reflects the consolidated ratings profile of the parent. The negative outlook is based on the New York State Public Service Commission's (NYPSC) decision to approve a one-year rate plan that reduces NYSEG's electric delivery rates by $36.2 million annually starting in January 2007. The company had requested a $58 million increase.

Energy East's financial performance is likely to deteriorate in the intermediate term due to the NYPSC's adverse rate decision. NYSEG contributed about 57% of Energy East's earnings in 2006, so the rate decrease materially affects the company's overall financial health. The authorized 9.55% ROE is considerably lower than its previously allowed 12.5% ROE and the 11% NYSEG had requested. Therefore, the $36.2 million annual reduction of delivery rates beginning in 2007 will result in weaker credit measures than expected for the rating.

The order also has the following effects:

- NYSEG's authorized equity ratio would decrease to 41.6%, based on Energy East's consolidated capital structure, as opposed to the near 50% equity ratio at NYSEG on a stand-alone basis.
- The company had to refund $77 million to customers in early 2007 from its asset sale gain account.
- NYSEG's commodity option program would be modified to include the use of a variable-rate supply option, as opposed to the current fixed-price default option for all customers not making a supply election.

Outside of this decision, Energy East's electric and gas companies have operated under generally supportive regulatory schemes in some service areas. For example, regulators allow all of Energy East's natural gas operations to pass through gas costs in rates. Southern Connecticut Gas, RG&E, and NYSEG's gas operations operate under a multiyear agreement reached with the NYPSC and other interveners (approved in May 2004) that covers the five years ending Dec. 31, 2008. The agreement also includes an earnings sharing mechanism that allows RG&E to retain earnings ranging from 12% to 12.5%, provided that specific incentive benchmarks are met. Rates remain flat through the rate period, and surcharges and other mechanisms are implemented to recover certain electric and gas costs.

Average adjusted funds from operations (FFO) interest coverage was at about2.7x for the 12 months ended June 30, 2007, and is projected to remain below 3x for the rest of 2007. Adjusted FFO to total debt was adequate for the rating at 16.8% in the same period. Standard & Poor's expects the $2 billion capital spending program (2007-2011) to require modest external financing.

Short-term credit factors

The short-term rating on Energy East is 'A-2'. As of June 30, 2007, the company had about $200 million of cash and short-term investments. Additional liquidity is provided by its bank credit facilities at the parent and operating company level.

Energy East has two committed bank facilities totaling $775 million, which mature in 2011. The $300 million facility is available to Energy East, and the $475 million facility is available to the utilities, with various limits. The agreements don't contain material adverse change clauses or rating triggers, but a default with respect to any other debt in excess of $50 million is considered a default under its revolving credit facility.

Outlook

The negative outlook indicates that ratings could be lowered one notch depending on Iberdrola's ultimate financing structure for the acquisition. Moreover, potential regulatory outcomes that could hurt cash flow metrics would precipitate lower ratings. Ratings stability at the current level is highly dependent on a balanced capital approach at Energy East, consistent cash flow metrics, and supportive regulatory outcomes. Higher ratings are limited by the company's persistent high debt.

Accounting

Energy East reports its consolidated financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by Energy East's independent auditor, PricewaterhouseCoopers LLP, in the most recent annual audited period.

Energy East prepares its consolidated financial statements in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS No. 71). SFAS No. 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation. As a result, a regulated entity is required to defer the recognition of costs or income if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. Accordingly, Energy East has deferred certain costs and income that will be recognized in earnings over various future periods. Energy East's consolidated balance sheet as on Dec. 31, 2006 contains total regulatory assets of $1.5 billion and total regulatory liabilities of $1.3 billion.

On Dec. 31, 2006, Energy East adopted SFAS 158 which relates to the way employers' account for defined benefit pension and other postretirement plans. SFAS 158 requires companies to recognize the funded status of a benefit plan for years ending after Dec. 15, 2006. The adoption of this statement increased assets and liabilities, but had no effect on the company's results of operation or cash flows.

Standard & Poor's has made certain analytical adjustments to Energy East's reported financial information to reflect off-balance-sheet obligations (OBS), such as purchased power commitments and operating leases, when calculating its adjusted financial ratios.

To analyze the financial effect of purchased-power contracts, Standard & Poor's calculates the net present value of future annual capacity payments (discounted at the company's average costs of debt in 2006 of about 6%). Standard & Poor's then adds to the balance sheet only a portion of this amount, recognizing that such contractual arrangements are not entirely the equivalent of debt. The percentage that is added (the risk factor) is a function of Standard & Poor's qualitative analysis of the specific contracts and the extent to which market, operating, and regulatory risks are borne by the utility. Standard & Poor's has assigned a risk factor of 25% to Energy East's PPA contracts, which translates into a debt equivalent of $119 million.

The present value of the company's operating leases is determined using the company's average cost of debt as the discount rate and is treated as a debt equivalent. Operating lease interest expense and depreciation expense are also computed. The amounts relating to operating leases that were included in Energy East's adjusted ratios for 2006 were $68.2 million for OBS debt, $3.5 million for imputed interest, and $5.5 million for depreciation.

Standard & Poor's also makes an analytical adjustment for allowance for funds used during construction (AFUDC) charges capitalized by the company and treats the charges as a part of operating expenses. The AFUDC charge is backed out to arrive at cash flows from operations. Adjustment for AFUDC debt in 2006 was minimal at about $2.3 million.

The company has asset retirement obligations of $57.3 million as on Dec. 31, 2006. Standard & Poor's imputes a debt of $37.2 million to the reported debt of the company on account of these asset retirement obligations. This amount is derived by deducting 35% from the liability on Energy East's balance sheet, representing the tax benefit the company will receive as it incurs the expense.

Energy East does not amortize goodwill or intangible assets with indefinite lives. The company tests both goodwill and intangible assets with indefinite lives for impairment at least annually. The company amortizes intangible assets with finite lives and reviews them for impairment. Impairment testing includes various assumptions, primarily the discount rate and forecast cash flows. Impairment testing was conducted using a range of discount rates representing the company's marginal, weighted-average cost of capital and a range of assumptions for cash flows. Changes in those assumptions outside of the ranges analyzed could have a significant effect on the company's determination of impairment. The company did not have any impairment in 2006 of its $1.5 billion of goodwill or intangible assets with indefinite lives.

Table 1

Energy East Corp. -- Peer Comparison*

Industry Sector: Utilities

	--Average of past three fiscal years--		
	Energy East Corp.	**Consolidated Edison Inc.**	**CH Energy Group Inc.**
Rating as of Nov. 14, 2007	BBB+/Negative/A-2	A/Negative/A-2	NR
(Mil. $)			
Revenues	5,095.3	11,169.3	919.2
Net income from cont. oper.	251.4	673.0	43.3
Funds from oper. (FFO)	597.6	1,481.7	88.5
Capital expenditures	369.8	1,706.5	72.3
Cash and investments	224.5	84.0	92.5
Debt	4,413.7	8,889.3	463.2

Preferred stock	32.0	213.0	21.0
Equity	2,646.6	6,643.7	438.7
Debt and equity	7,060.3	15,533.0	901.9
Adjusted ratios			
EBIT interest coverage (x)	2.2	2.6	5.0
FFO interest coverage (x)	2.8	3.6	4.8
FFO/debt (%)	13.5	16.7	19.1
Discretionary cash flow/debt (%)	(1.6)	(10.5)	(6.4)
Net cash flow/capex (%)	120.7	56.7	75.3
Debt/total capital (%)	62.5	57.2	51.4
Return on common equity (%)	9.1	9.0	8.6
Common dividend payout ratio (un-adj.) (%)	60.2	78.3	78.7

*Fully adjusted (including postretirement obligations). NR--Not rated.

Table 2

Energy East Corp. -- Financial Summary*

Industry Sector: Utilities

	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB+/Negative/A-2	BBB+/Negative/--
(Mil. $)					
Revenues	5,230.7	5,298.5	4,756.7	4,593.8	4,008.9
Net income from cont. oper.	259.8	256.8	237.6	207.4	188.6
Funds from oper. (FFO)	612.3	654.8	525.7	589.3	453.8
Capital expenditures	454.9	329.7	324.8	294.4	227.8
Cash and investments	113.4	312.9	247.1	113.2	250.5
Debt	4,321.2	4,465.3	4,454.5	4,757.8	5,108.1
Preferred stock	24.6	24.6	46.7	91.1	116.0
Equity	2,888.9	2,623.0	2,427.9	2,417.0	2,236.7
Debt and equity	7,210.1	7,088.3	6,882.4	7,174.8	7,344.8
Adjusted ratios					
EBIT interest coverage (x)	2.2	2.3	2.2	2.1	1.9
FFO int. cov. (x)	2.7	3.0	2.7	2.8	2.6
FFO/debt (%)	14.2	14.7	11.8	12.4	8.9
Discretionary cash flow/debt (%)	(5.1)	1.7	(1.6)	2.0	1.7
Net cash flow/capex (%)	97.8	153.0	119.9	156.7	144.1
Debt/debt and equity (%)	59.9	63.0	64.7	66.3	69.5
Return on common equity (%)	9.0	9.3	9.1	8.2	8.8
Common dividend payout ratio (un-adj.) (%)	64.4	58.5	57.4	61.7	66.5

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Energy East Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2006--						
Energy East Corp. 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**	**Capital expenditures**

Reported	4,096.8	986.1	986.1	703.5	308.8	379.5	379.5	408.2
Standard & Poor's adjustments								
Operating leases	68.2	9.0	3.5	3.5	3.5	5.5	5.5	48.9
Postretirement benefit obligations	--	(33.8)	(33.8)	(33.8)	--	33.9	33.9	--
Capitalized interest	--	--	--	--	2.3	(2.3)	(2.3)	(2.3)
Share-based compensation expense	--	--	12.0	--	--	--	--	--
Power purchase agreements	119.0	9.0	9.0	9.0	9.0	--	--	--
Asset retirement obligations	37.2	1.5	1.5	1.5	1.5	(13.7)	(13.7)	--
Reclassification of nonoperating income (expenses)	--	--	--	26.9	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	209.5	--
Total adjustments	224.4	(14.3)	(7.7)	7.2	16.3	23.3	232.8	46.7

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	4,321.2	971.8	978.3	710.7	325.2	402.8	612.3	454.9

*Energy East Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. 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.

Ratings Detail (As Of 14-Nov-2007)*

New York State Electric & Gas Corp.	
Corporate Credit Rating	BBB+/Negative/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	
Local Currency	BBB-
Senior Secured	
Local Currency	BBB+
Senior Unsecured	
Local Currency	BBB+
Corporate Credit Ratings History	
25-Aug-2006	BBB+/Negative/A-2
17-Jun-2005	BBB+/Stable/A-2
29-Mar-2002	BBB+/Negative/A-2
Business Risk Profile	**1 2 3 4 5 6 7 8 9 10**
Financial Risk Profile	Intermediate
Debt Maturities	
2008 $320 mil. 2009 $368 mil. 2010 $470 mil. 2011 $410 mil. Thereafter $5.5 bil.	
Related Entities	
Central Maine Power Co.	
Issuer Credit Rating	BBB+/Negative/NR

Senior Unsecured	
Local Currency	BBB+
Connecticut Natural Gas Corp.	
Issuer Credit Rating	BBB+/Negative/--
Senior Unsecured	
Local Currency	BBB+
Energy East Corp.	
Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	
Local Currency	BBB-
Senior Unsecured	
Local Currency	BBB
Rochester Gas & Electric Corp.	
Issuer Credit Rating	BBB+/Negative/--
Senior Secured	
Local Currency	A
Southern Connecticut Gas Co.	
Issuer Credit Rating	BBB+/Negative/NR
Senior Secured	
Local Currency	A

*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.

Moody's Investors Service

Global Credit Research
Credit Opinion
26 DEC 2007

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Credit Opinion: New York State Electric and Gas Corporation

New York State Electric and Gas Corporation

Ithaca, New York, United States

Ratings

Category	**Moody's Rating**
Outlook	Negative
Issuer Rating	Baa1
Senior Unsecured	Baa1
Preferred Stock	Baa3
Commercial Paper	P-2
Ult Parent: Energy East Corporation	
Outlook	Negative
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate Shelf	(P)Baa3
Preferred Shelf	(P)Ba1
Commercial Paper	P-2

Contacts

Analyst	**Phone**
Kevin G. Rose/New York	212.553.0389
William L. Hess/New York	212.553.3837

Key Indicators

New York State Electric and Gas Corporation

	LTM 9/07	**2006**	**2005**	**2004**
(CFO Pre-W/C + Interest) / Interest Expense [1]	**4.5x**	**3.6x**	**5.1x**	**4.7x**
(CFO Pre-W/C) / Debt [1]	**21.2%**	**19.7%**	**30.5%**	**24.1%**
(CFO Pre-W/C - Dividends) / Debt [1]	**12.8%**	**9.6%**	**21.1%**	**12.5%**
(CFO Pre-W/C - Dividends) / Capex [1]	**122.1%**	**78.3%**	**136.7%**	**123.5%**
Debt / Book Capitalization	**41.6%**	**41.2%**	**37.8%**	**42.5%**
EBITA Margin %	**9.7%**	**12.4%**	**13.9%**	**12.0%**

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

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

Opinion

Company Profile

New York State Electric & Gas Corporation (NYSEG) is a regulated electric and gas utility subsidiary of Energy East Corporation (EEC), providing electricity transmission and distribution and natural gas transportation, storage and distribution services for the benefit of customers in upstate New York. Although NYSEG has sold most of its electric generation assets, it still generates a small amount of electricity from several hydroelectric stations that it owns. NYSEG is the largest of EEC's six regulated utility subsidiaries serving customers throughout the New York and New England regions. NYSEG is under the regulatory purview of the New York Public Service Commission (NYPSC) and the Federal Energy Regulatory Commission. NYSEG's customer base currently includes about 871,000 who receive electric service and about 256,000 who receive natural gas service. Included among the larger cities within the 20,000 square mile service territory spanning central, eastern, and western parts of the state are Binghamton, Elmira, Auburn, Geneva, Ithaca and Lockport.

Recent Developments

Effective June 27, 2007, Moody's affirmed the ratings and negative outlook of EEC (Baa2 senior unsecured, negative outlook) and its regulated utility subsidiaries, including NYSEG (Baa1 senior unsecured, negative outlook), Rochester Gas and Electric Corporation (RG&E: Baa1 senior unsecured, negative outlook), Central Maine Power Company (CMP: A3 senior unsecured, negative outlook), Connecticut Natural Gas Corporation (CNG: A3 senior unsecured, negative outlook), and Southern Connecticut Gas Company (SCG: A3 senior secured, negative outlook). The ratings affirmation was in response to the announcement that Iberdrola of Spain agreed to acquire EEC for approximately EUR 6,400 million (approximately US$8,588 million), inclusive of assumed debt of EUR 3,007 million or US$4,065 million. Since then, effective October 2007, Moody's assigned a first time Issuer Rating of Baa1 to EEC's smallest utility subsidiary, Berkshire Gas Company (BGC) and assigned a negative rating outlook, as well. The rating outlook remains negative for EEC and all of its subsidiaries.

The ratings affirmation took into account the ratings of Iberdrola at the time of the aforementioned announcement (i.e. A2 senior unsecured/ Prime-1 short-term rating; under review for possible downgrade) and reflected Moody's view that there would not likely be a significant increase in leverage at EEC. Effective December 12, 2007, Moody's concluded its review of Iberdrola's ratings by downgrading the company's senior unsecured long-term debt rating to A3 and the short-term rating for commercial paper to Prime-2. The rating outlook for Iberdrola is now stable. (See Moody's press release of December 12, 2007 under Iberdrola for details pertaining to that rating action). Although Iberdrola has announced it will acquire 100% of the outstanding equity stock of EEC and its subsidiaries for cash, Iberdrola has recently undertaken various capital raising initiatives, including issuance of common equity. Our current ratings of A3 for Iberdrola's senior unsecured debt and Prime-2 for its commercial paper take these capital raising initiatives into account. We view these initiatives to be consistent with our view that it has been Iberdrola's objective to complete the acquisition in a way that would not unduly compromise credit quality. We note that some of the required approvals in order to close the acquisition have been obtained, but others, including a key approval from the New York Public Service Commission, are still pending. We note that EEC shareholders have approved the proposed buyout and EEC expects its acquisition by Iberdrola to be completed by June 30, 2008.

The negative outlooks for EEC and its subsidiaries reflect, in part, the financial and operating challenges resulting from a surprisingly unfavorable decision NYSEG received in its general rate case decided in August 2006. The decision in that case introduced the risk that there could be residual negative financial effects on EEC's other utility subsidiaries in the event that the parent requires an increase in dividends from those companies to compensate for any potential reduction in the levels previously paid by NYSEG. Moreover, there are still lingering questions about whether the NYPSC's August 2007 approval of a modified fixed price option for NYSEG's retail electric customers will provide the impetus for overcoming some of the earnings and cash flow pressures created by the NYPSC's September 2006 decision. The negative outlooks also recognize that while the transaction with Iberdrola is subject to numerous state and some federal regulatory approvals, it is not uncommon for approvals of this nature to be conditioned upon additional rate concessions. The negative outlooks further consider the uncertainty surrounding the ultimate capital structure of EEC, and the extent to which current dividend policies may be impacted by consummation of the proposed acquisition.

Rating Rationale

NYSEG's ratings reflect our combined assessment of several key factors that include its business risk profile, the regulatory environment in New York State, key financial metrics, and overall liquidity profile. NYSEG's business risk profile is generally acceptable for its Baa1 rating level, primarily reflecting the fact that virtually all of its activities relate to regulated electric and gas utility operations. The company's financial metrics, including cash flow from operations exclusive of changes in working capital (CFO Pre-W/C) to debt and interest were consistent with the A rating category for utility companies with a medium business risk profile for the fiscal years 2004 and 2005. However, this standing weakened in 2006, as anticipated, due in part to the financial impact of the surprisingly unfavorable August 2006 rate order. Although NYSEG's key credit metrics through September 30, 2007 have rebounded from the lower levels evidenced for the year ended December 31, 2006, they remain more in line with the Baa rating category. Regulatory risk has historically been consistent with the higher end of the Baa rating category, given the benefits of multi-year rate agreements that provided reasonable opportunity to earn at or above the allowed returns on equity, predictable rates for customers and timely and adequate recovery of costs of service. More recently, NYSEG's regulatory risk ranks more towards the lower end of Baa category, following the NYSEG rate case decision in August 2006. NYSEG's liquidity (including cash balances on hand and ample unused capacity under the joint operating companies' bank credit facility) is considered to be sufficient for the Baa rating category. Overall, we view these assessments as being consistent with the Baa1 rating assigned to NYSEG's senior unsecured debt, albeit with a negative rating outlook for NYSEG as described in more detail in the Rating Outlook section below.

We elaborate below on the more important factors that drive NYSEG's ratings and outlook.

EFFECTIVE MANAGEMENT OF ELECTRIC SUPPLIER OF LAST RESORT ROLE IS INTEGRAL TO MAINTAINING ACCEPTABLE BUSINESS RISK PROFILE

As referenced in Moody's Global Rating Methodology for Regulated Electric Utilities (the Rating Methodology), we generally view companies involved in regulated transmission and distribution utility operations as having a considerably lower business risk when compared to companies primarily involved in unregulated or competitive businesses. This is especially so when we are comfortable with the regulatory practices used to determine rates charged to customers, which in turn influence overall financial performance.

NYSEG has been maintaining an acceptable business risk profile, thanks in part to its success in selling all its generating assets at a premium to book value, which eliminated all stranded costs tied to owned generation, including its nuclear interests, leaving only those related to certain regulatory assets and purchased power. Despite selling virtually all of its generation assets, NYSEG accepted the role of provider of last resort (POLR) for electric customers who do not choose to exercise their option to take supply service from an alternative supplier. The regulatory rate treatment of NYSEG's costs of providing POLR service does not allow for automatic pass through to retail customers, making it essential for NYSEG to effectively manage the potential price risks associated with this role. We note that NYSEG has historically maintained an effective hedging strategy to manage this exposure as it has related to a majority of its electric customers. Year-ahead hedging generally exceeds 90% and increases to 100% over the course of a given year.

MIXED VIEWS ON DEGREE OF NYPSC SUPPORT

As we mentioned above, regulatory supportiveness has sometimes been consistent with the higher end of the Baa rating category. This assessment is largely reflective of historical regulatory decisions that approved multi-year rate agreements providing NYSEG a reasonable opportunity to earn at or above the allowed returns on equity, predictable rates for customers and reasonably timely and adequate recovery of costs of service. More recently, however, we have become more cautious of NYSEG's regulatory risk profile. This shift largely reflects our concern about the less supportive aspects of the NYPSC's August 2006 rate case decision for NYSEG, which included changes in the NYPSC's approach to rate setting for NYSEG (i.e.; required rate refunds that commenced earlier this year instead of the rate increase requested; the atypical use of the parent's equity component instead of NYSEG's; and a very low allowed return on equity).

More recently, NYSEG received a decision from the NYPSC on August 29, 2007, approving a settlement proposal in the company's case to revise its commodity supply service effective January 1, 2008, for a three-year term. Under the plan, retail customers can continue to take service from an energy service company (ESCO), from NYSEG under a fixed price option (FPO), or from NYSEG under an assortment of variable price options (VPO). Key aspects of the settlement include the following: 1) during each November and December of the preceding year, NYSEG's retail customers would be given a chance to select one of the three service options; the VPO would be the default supply option (i.e., the service provided to those customers who do not make a specific selection); 2) although there is no change to the commodity component of the FPO as to how it will be calculated and set annually, there will be an increase to the cost allowance (i.e. the margin allowed over projected market prices) used to set the supply rate; 3) customers will be allowed to switch between ESCO and FPO service at any time during the year; 4) NYSEG can keep 100% of the first $10 million of pre-tax earnings, after which point earnings will be shared on a 85%/15% basis between ratepayers and EEC shareholders, respectively; and 5) NYSEG will absorb any losses incurred under the FPO. Although the revised commodity service plan continues to allow NYSEG an opportunity to earn margins on sales under the FPO, it continues to leave the utility exposed to price risks. Thus, it remains to be seen whether this plan can provide sufficient impetus to overcome the earnings and cash flow pressures resulting from the August 2006 rate decision.

It is worth noting that the NYPSC recently commenced a proceeding intended to establish revenue decoupling mechanisms for both NYSEG's electric and gas segments. We generally consider such mechanisms to be supportive of credit quality because they help mitigate the financial consequences of reduced customer usage due to price elasticity.

WEAKER CREDIT METRICS IN RECENT PERIODS COMPARED TO 2005, BUT STILL IN LINE WITH

CURRENT RATING; INCREASED CAPITAL SPENDING LOOMS LARGE

NYSEG's three-year average CFO Pre-W/C to interest and debt for 2004 - 2006 were 4.5x and 24.8%, respectively. Although the average levels are consistent with what we typically see for regulated utilities in the A rating category, we note the particularly robust coverage metrics for 2005 that were not viewed as sustainable and that the actual levels achieved by NYSEG for fiscal 2006 and the 12-months ended September 30, 2007 are more in line with the Baa rating category. The more recent coverage levels reflect the earnings and cash flow pressures due to the August 2006 NYPSC rate decision.

Meanwhile, we expect that NYSEG's capital spending will increase considerably over the next few years, consistent with EEC's plans to spend over $3.0 billion in capital expenditures over the next five years. Major spending programs include the installation of advanced metering infrastructure (AMI) in New York and Maine requiring an investment of approximately $360 million; in excess of $500 million of transmission investments, predominantly in Maine; a high efficiency transformer replacement program; and a "green" fleet initiative. NYSEG's capital spending budget over this time frame could approach $900 million of the EEC consolidated budget, with significant amounts allotted for investments in AMI, various transmission projects and substation upgrades. The costs are expected to be largely funded with NYSEG's internally generated cash flow, with the balance of funding to be provided by a relatively modest amount of new debt that should allow NYSEG to keep the common equity component of its capital structure near its 45% level. In the event that spending levels exceed expected levels, we would anticipate NYSEG to balance new debt issuance with common equity infusions from the parent or possibly other hybrid securities to keep within its 45% common equity target.

Under this scenario, we believe that NYSEG should be able to maintain its key credit metrics at levels that would be appropriate for a Baa1 rated regulated utility with a medium business risk profile, as outlined in the Rating Methodology, including CFO Pre-W/C to interest and debt near 4x and 20%, respectively.

Liquidity

NYSEG's Prime-2 short-term rating for commercial paper reflects its status as a combination electric and natural gas distribution company, and also reflects its reasonable liquidity profile. For the 12-months ended September 30, 2007, NYSEG generated CFO Pre-W/C of $255 million. These funds together with liquidity provided under the company's commercial paper program supported the company's $124 million of capital expenditures and $100 million of dividends paid to EEC, leaving NYSEG with about $29 million of cash as of September 30, 2007. In response to the outcome of NYSEG's general electric rate case proceeding in August 2006, which used the parent's consolidated common equity level as a basis for rate setting purposes, NYSEG's dividend policy has been influenced by EEC's objective to realign the utility's capital structure. Over the next four quarters, NYSEG could face some modest external financing needs, depending on the pace of spending associated with its capital expenditures

In addition to meeting its own capital needs, NYSEG is a significant source of funds upon which its parent relies to meet its standalone debt obligations and to pay its common stock dividend. EEC also relies on dividends from several other regulated energy distribution companies acquired since 2000 to help meet its obligations. Even with some debt reduction achieved by EEC in the past, the parent's debt obligations are still sizable (and hence so are the demands on NYSEG's cash flow) due to past acquisition-related financing. As of September 30, 2007, NYSEG had $44.9 million of notes payable outstanding with $150.8 million reported as the current portion of long-term debt (CPLTD) on its books. Since September 30, 2007, NYSEG repaid the CPLTD on November 15, 2007, with funds drawn under its available bank credit facilities (see below for more details) and then toward the end of November NYSEG issued $200 million of 6.15% senior unsecured debt due December 15, 2010. NYSEG used a portion of the proceeds to repay the bank debt and will use the remainder to partially fund a contribution to an external VEBA trust required by a joint proposal approved by the NYPSC on September 20, 2007 that addressed OPEB accounting issues. Following this financing activity, NYSEG's next long-term debt maturity is not until November 15, 2012, when a $100 million series of 5.5% notes come due. Meanwhile, we expect that NYSEG's short term notes during the next four quarters should be kept under $100 million for the majority of the time, with usage primarily confined to meeting seasonal working capital needs and keeping the capital structure in line with the 45% common equity target.

NYSEG can issue commercial paper in amounts up to the amount of its unutilized sub-borrowing capacity under its bank revolver. Alternate liquidity for the company's commercial paper primarily exists in the form of a joint $475 million five-year committed revolving credit agreement entered into with all of EEC's operating utility subsidiaries, which expires June 16, 2012, following a one-year extension of the facility's original expiration date earlier this year. Sub-limits that total to the aggregate $475 million facility apply to each joint borrower and can be altered within the constraints imposed by maximum limits that apply to each joint borrower. NYSEG's maximum limit is $200 million. The jointly arranged $475 million facility contains a $100 million accordion feature, which could provide for higher sub-borrowing limits for one or more of the utilities, subject to requisite approvals by the participating banks. In addition to the jointly arranged facility, NYSEG had a $75 million revolving credit agreement in place as of November 13, 2007 to be used as a bridge between the November 15th maturity of $150 million of 4.275% notes and the December issuance of the 6.15% notes; the facility was terminated after the issuance of the 6.15% notes. The joint facility does not contain rating triggers that would cause default, acceleration, or puts; however, it does contain rating sensitive pricing. It also contains a covenant setting a maximum allowed consolidated debt to consolidated total capitalization at 65%. The facility does not contain a material adverse effect clause that applies beyond closing. NYSEG was comfortably in compliance with the financial covenant at September 30, 2007 when its total consolidated debt to consolidated total capitalization as defined in the bank credit facilities (i.e., consolidated total capitalization carves out accumulated other comprehensive income from common equity) was 53.45%. We expect the current adequate headroom under the covenant to continue over the foreseeable future.

Rating Outlook

NYSEG's negative rating outlook, which mirrors the negative rating outlook for its parent and all of EEC's other rated utility subsidiaries, reflects a myriad of concerns that exist throughout the EEC family. Regulatory concerns relate to the negative outcome of NYSEG's general rate case in August 2006 plus the uncertainties about whether the modified fixed price option approved earlier this year by the NYPSC for NYSEG's retail electric customers can provide sufficient impetus for overcoming some of the financial challenges created by the August 2006 rate decision. Evidence of the challenges lie in NYSEG's recent financial performance (i.e. weaker CFO-Pre-W/C to interest and debt for 2006 and the 12-months ended September 30, 2007 compared to 2005). Specifically, the 2006 rate case decision for NYSEG included rate reductions, a much lower allowed return on equity and reduced the company's opportunity to earn margins on sales to customers using the fixed price option. We are also concerned about what the August 2006 NYSEG rate case decision might portend for any future rate case that RG&E may decide to file at the NYPSC when its multi-year rate agreement expires at the end of 2008.

Separately, the negative outlook recognizes the aforementioned pending buyout transaction with Iberdrola which remains subject to various state and some federal regulatory approvals, which can sometimes be conditioned upon additional rate concessions. The negative outlook also considers uncertainty surrounding the ultimate capital structure of EEC, and the extent to which its dividend demands on subsidiaries may be affected by the consummation of the proposed transaction.

Lastly, EEC still has a higher standalone debt level than its Baa2-rated utility holding company peers, which will likely continue to constrain positive rating momentum within the EEC family.

What Could Change the Rating - Up

All other factors equal, if the August 2007 NYPSC decision to support NYSEG's modified fixed price option provides sufficient impetus for overcoming earnings and cash flow pressures for NYSEG and reduces the possibility for greater demands for dividends from EEC's other utility subsidiaries, then that could have a stabilizing effect on NYSEG's rating outlook, as well as those for all the entities within the EEC family.

Separately, regulatory decisions in the pending acquisition by Iberdrola that do not impose harsh rate concessions could also lend stability to NYSEG's rating outlook, assuming Iberdrola does not unexpectedly introduce aggressive leveraging into its financing strategies. Moreover, if Iberdrola is successful in acquiring EEC and then takes aggressive steps to reduce structural subordination by lowering or eliminating debt at the EEC and/or other operating company levels, then such a strategy could at least help stabilize the outlook for NYSEG, EEC and the other operating subsidiaries within the current EEC family. Indeed, depending on the magnitude, such steps might even contribute to higher ratings for some of the lower rated entities in the current EEC family (i.e. those with senior unsecured debt rated Baa1 or lower).

What Could Change the Rating - Down

If EEC increases demands for dividends from its other utility subsidiaries because of shortfalls in dividends from NYSEG, or because Iberdrola unexpectedly uses aggressive amounts of debt in its acquisition financing strategy, then that could cause us to consider a downgrade of NYSEG's ratings. Also, if future regulatory decisions by the NYPSC are unsupportive, then the potential for a downgrade of the ratings of NYSEG, EEC, and its other utility subsidiaries could increase. In terms of credit metrics, if NYSEG's CFO Pre-W/C to interest and debt were to fall below 3.7x and 18%, respectively, for an extended period, then such a trend could lead us to reconsider the current rating.

Rating Factors

New York State Electric and Gas Corporation

Select Key Ratios for Global Regulated Electric Utilities

Rating	Aa	Aa	A	A	Baa	Baa	Ba	Ba
Level of Business Risk	Medium	Low	Medium	Low	Medium	Low	Medium	Low
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

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RESEARCH

Rochester Gas & Electric Corp.

Publication date: 14-Nov-2007
Primary Credit Analyst: John Kennedy, New York (1) 212-438-7670; john_kennedy@standardandpoors.com

Major Rating Factors

Corporate Credit Rating

BBB+/Negative/--

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Strengths:

- Low-risk distribution business;
- Minimal competition;
- Limited unregulated business; and
- Somewhat supportive regulatory regimes.

Weaknesses:

- Limited growth opportunities;
- Large capital program; and
- High debt to capital ratio.

Rationale

On June 26, 2007, Standard & Poor's Ratings Services affirmed its 'BBB+' corporate credit rating on Energy East Corp. and its affiliates on the announcement that Iberdrola S.A. will acquire the company for about $8.5 billion, including the assumption of about $4 billion of debt. The outlook remains negative. Iberdrola has targeted a closing date for the second half of 2008.

The ratings affirmation incorporates our view of the strategic importance of Energy East to the Iberdrola family. Upon the consummation of the transaction, Energy East will account for about 16% of pro forma revenue and 11% of pro forma EBITDA. Thus, the ratings on Energy East will primarily reflect its stand-alone profile, which is presently at the 'BBB+' corporate credit rating. The negative outlook indicates that the ratings could be lowered by one notch depending on Iberdrola's ultimate financing structure and potential regulatory outcomes that could impinge on cash flow metrics.

Rochester Gas & Electric Corp. (RG&E) is primarily an integrated electric and gas transmission and distribution utility, and has approximately 360,000 electric and 296,000 natural gas customers centered in the Rochester, N.Y., area. RG&E's owned electric generation is limited to one 257 MW coal plant, three smaller gas turbines, and three hydroelectric facilities. RG&E is a subsidiary of Energy East Corp., a holding company that owns regulated electric and gas utilities in the northeastern U.S., serving nearly three million customers. Credit quality of RG&E reflects the consolidated ratings of its parent.

The ratings on Energy East and its regulated subsidiaries, Central Maine Power Co., New York State Electric & Gas Corp. (NYSEG), Southern Connecticut Gas Co., Connecticut Natural Gas Corp., and RG&E, reflect a strong business profile and a consolidated financial profile that is intermediate for the rating.

The business profile is characterized by the low operating risk and geographic diversity of the company's predominantly electric and gas transmission and distribution (T&D) subsidiaries. Standard & Poor's Ratings Services characterizes Energy East's business profile as strong, with a score of '3', primarily because the utilities are less exposed to operating risk than integrated utilities. (Utility business profiles are categorized from '1' (excellent) to '10' (vulnerable).) Energy East's service territories span from central New York to southern Maine. The market diversity encompasses the densely populated and affluent Connecticut markets as well as the limited-growth rural upstate New York markets. Despite competition, Energy East's regulated utilities often benefit from being the incumbent service provider in many of its markets.

The offsetting factors are a weaker regulatory environment for NYSEG and Energy East's consolidated financial profile that is likely to be pressured over the intermediate term. This is exacerbated by the addition of off-balance-sheet debt obligations due to the purchase-power agreement with the owners of the Ginna nuclear power plant and some regulatory lag in the capital program.

The 'BBB+' corporate credit rating on NYSEG reflects the consolidated ratings profile of the parent. The negative outlook is based on the New York State Public Service Commission's (NYPSC) decision to approve a one-year rate plan that reduces NYSEG's electric delivery rates by $36.2 million annually starting in January 2007. The company had requested a $58 million increase.

Energy East's financial performance is likely to deteriorate in the intermediate term due to the NYPSC's adverse rate decision. NYSEG contributed about 57% of Energy East's earnings in 2006, so the rate decrease materially affects the company's overall financial health. The authorized 9.55% ROE is considerably lower than its previously allowed 12.5% ROE and the 11% NYSEG had requested. Therefore, the $36.2 million annual reduction of delivery rates beginning in 2007 will result in weaker credit measures than expected for the rating.

The order also has the following effects.

- NYSEG's authorized equity ratio would decrease to 41.6%, based on Energy East's consolidated capital structure, as opposed to the near 50% equity ratio at NYSEG on a stand-alone basis.
- The company had to refund $77 million to customers in early 2007 from its asset sale gain account.
- NYSEG's commodity option program would be modified to include the use of a variable-rate supply option, as opposed to the current fixed-price default option for all customers not making a supply election.

Outside of this decision, Energy East's electric and gas companies have operated under generally supportive regulatory schemes in some service areas. For example, regulators allow all of Energy East's natural gas operations to pass through gas costs in rates. Southern Connecticut Gas, RG&E, and NYSEG's gas operations operate under a multiyear agreement reached with the NYPSC and other interveners (approved in May 2004) that covers the five years ending Dec. 31, 2008. The agreement also includes an earnings sharing mechanism that allows RG&E to retain earnings ranging from 12% to 12.5%, provided that specific incentive benchmarks are met. Rates remain flat through the rate period, and surcharges and other mechanisms are implemented to recover certain electric and gas costs.

Average adjusted funds from operations (FFO) interest coverage was at about 2.7x for the 12 months ended June 30, 2007, and is projected to remain below 3x for the rest of 2007. Adjusted FFO to total debt was adequate for the rating at 16.8% in the same period. Standard & Poor's expects the $2 billion capital spending program (2007-2011) to require modest external financing.

Short-term credit factors

The short-term rating on Energy East is 'A-2'. As of June 30, 2007, the company had about $200 million of cash and short-term investments. Additional liquidity is provided by its bank credit facilities at the parent and operating company level.

Energy East has two committed bank facilities totaling $775 million, which mature in 2011. The $300 million facility is available to Energy East, and the $475 million facility is available to the utilities, with various limits. The agreements don't contain material adverse change clauses or rating triggers, but a default with respect to any other debt in excess of $50 million is considered a default under its revolving credit facility.

Outlook

The negative outlook indicates that ratings could be lowered one notch depending on Iberdrola's ultimate financing structure for the acquisition. Moreover, potential regulatory outcomes that could hurt cash flow metrics would precipitate lower ratings. Ratings stability at the current level is highly dependent on a balanced capital approach at Energy East, consistent cash flow metrics, and supportive regulatory outcomes. Higher ratings are limited by the company's persistent high debt.

Accounting

Energy East reports its consolidated financial statements in accordance with U.S. GAAP. These statements received an unqualified opinion by Energy East's independent auditor, PricewaterhouseCoopers LLP, in the most recent annual audited period.

Energy East prepares its consolidated financial statements in accordance with the provisions of Statement of Financial

Accounting Standards ("SFAS") No. 71, "Accounting for the Effects of Certain Types of Regulation," (SFAS No. 71). SFAS No. 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation. As a result, a regulated entity is required to defer the recognition of costs or income if it is probable that, through the rate-making process, there will be a corresponding increase or decrease in future rates. Accordingly, Energy East has deferred certain costs and income that will be recognized in earnings over various future periods. Energy East's consolidated balance sheet as on Dec. 31, 2006 contains total regulatory assets of $1.5 billion and total regulatory liabilities of $1.3 billion.

On Dec. 31, 2006, Energy East adopted SFAS 158 which relates to the way employers' account for defined benefit pension and other postretirement plans. SFAS 158 requires companies to recognize the funded status of a benefit plan for years ending after Dec. 15, 2006. The adoption of this statement increased assets and liabilities, but had no effect on the company's results of operation or cash flows.

Standard & Poor's has made certain analytical adjustments to Energy East's reported financial information to reflect off-balance-sheet obligations (OBS), such as purchased power commitments and operating leases, when calculating its adjusted financial ratios.

To analyze the financial effect of purchased-power contracts, Standard & Poor's calculates the net present value of future annual capacity payments (discounted at the company's average costs of debt in 2006 of about 6%). Standard & Poor's then adds to the balance sheet only a portion of this amount, recognizing that such contractual arrangements are not entirely the equivalent of debt. The percentage that is added (the risk factor) is a function of Standard & Poor's qualitative analysis of the specific contracts and the extent to which market, operating, and regulatory risks are borne by the utility. Standard & Poor's has assigned a risk factor of 25% to Energy East's PPA contracts, which translates into a debt equivalent of $119 million.

The present value of the company's operating leases is determined using the company's average cost of debt as the discount rate and is treated as a debt equivalent. Operating lease interest expense and depreciation expense are also computed. The amounts relating to operating leases that were included in Energy East's adjusted ratios for 2006 were $68.2 million for OBS debt, $3.5 million for imputed interest, and $5.5 million for depreciation.

Standard & Poor's also makes an analytical adjustment for allowance for funds used during construction (AFUDC) charges capitalized by the company and treats the charges as a part of operating expenses. The AFUDC charge is backed out to arrive at cash flows from operations. Adjustment for AFUDC debt in 2006 was minimal at about $2.3 million.

The company has asset retirement obligations of $57.3 million as on Dec. 31, 2006. Standard & Poor's imputes a debt of $37.2 million to the reported debt of the company on account of these asset retirement obligations. This amount is derived by deducting 35% from the liability on Energy East's balance sheet, representing the tax benefit the company will receive as it incurs the expense.

Energy East does not amortize goodwill or intangible assets with indefinite lives. The company tests both goodwill and intangible assets with indefinite lives for impairment at least annually. The company amortizes intangible assets with finite lives and reviews them for impairment. Impairment testing includes various assumptions, primarily the discount rate and forecast cash flows. Impairment testing was conducted using a range of discount rates representing the company's marginal, weighted-average cost of capital and a range of assumptions for cash flows. Changes in those assumptions outside of the ranges analyzed could have a significant effect on the company's determination of impairment. The company did not have any impairment in 2006 of its $1.5 billion of goodwill or intangible assets with indefinite lives.

Table 1

Energy East Corp. -- Peer Comparison*

Industry Sector: Utilities

	--Average of past three fiscal years--		
	Energy East Corp.	**Consolidated Edison Inc.**	**CH Energy Group Inc.**
Rating as of Nov. 14, 2007	BBB+/Negative/A-2	A/Negative/A-2	NR
(Mil. $)			
Revenues	5,095.3	11,169.3	919.2
Net income from cont. oper.	251.4	673.0	43.3
Funds from oper. (FFO)	597.6	1,481.7	88.5
Capital expenditures	369.8	1,706.5	72.3
Cash and investments	224.5	84.0	92.5

Debt	4,413.7	8,889.3	463.2
Preferred stock	32.0	213.0	21.0
Equity	2,646.6	6,643.7	438.7
Debt and equity	7,060.3	15,533.0	901.9
Adjusted ratios			
EBIT interest coverage (x)	2.2	2.6	5.0
FFO interest coverage (x)	2.8	3.6	4.8
FFO/debt (%)	13.5	16.7	19.1
Discretionary cash flow/debt (%)	(1.6)	(10.5)	(6.4)
Net cash flow/capex (%)	120.7	56.7	75.3
Debt/total capital (%)	62.5	57.2	51.4
Return on common equity (%)	9.1	9.0	8.6
Common dividend payout ratio (un-adj.) (%)	60.2	78.3	78.7

*Fully adjusted (including postretirement obligations). NR--Not rated.

Table 2

Energy East Corp. -- Financial Summary*

Industry Sector: Utilities

	--Fiscal year ended Dec. 31--				
	2006	**2005**	**2004**	**2003**	**2002**
Rating history	BBB+/Negative/A-2	BBB+/Stable/A-2	BBB+/Negative/A-2	BBB+/Negative/A-2	BBB+/Negative/--
(Mil. $)					
Revenues	5,230.7	5,298.5	4,756.7	4,593.8	4,008.9
Net income from cont. oper.	259.8	256.8	237.6	207.4	188.6
Funds from oper. (FFO)	612.3	654.8	525.7	589.3	453.8
Capital expenditures	454.9	329.7	324.8	294.4	227.8
Cash and investments	113.4	312.9	247.1	113.2	250.5
Debt	4,321.2	4,465.3	4,454.5	4,757.8	5,108.1
Preferred stock	24.6	24.6	46.7	91.1	116.0
Equity	2,888.9	2,623.0	2,427.9	2,417.0	2,236.7
Debt and equity	7,210.1	7,088.3	6,882.4	7,174.8	7,344.8
Adjusted ratios					
EBIT interest coverage (x)	2.2	2.3	2.2	2.1	1.9
FFO int. cov. (x)	2.7	3.0	2.7	2.8	2.6
FFO/debt (%)	14.2	14.7	11.8	12.4	8.9
Discretionary cash flow/debt (%)	(5.1)	1.7	(1.6)	2.0	1.7
Net cash flow/capex (%)	97.8	153.0	119.9	156.7	144.1
Debt/debt and equity (%)	59.9	63.0	64.7	66.3	69.5
Return on common equity (%)	9.0	9.3	9.1	8.2	8.8
Common dividend payout ratio (un-adj.) (%)	64.4	58.5	57.4	61.7	66.5

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of Energy East Corp. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2006--						
Energy East Corp. reported amounts							
	Operating income (before	**Operating income (before**	**Operating income**	**Interest**	**Cash flow from**	**Cash flow from**	**Capital**

	Debt	D&A)	D&A)	(after D&A)	expense	operations	operations	expenditures
Reported	4,096.8	986.1	986.1	703.5	308.8	379.5	379.5	408.2
Standard & Poor's adjustments								
Operating leases	68.2	9.0	3.5	3.5	3.5	5.5	5.5	48.9
Postretirement benefit obligations	--	(33.8)	(33.8)	(33.8)	--	33.9	33.9	--
Capitalized interest	--	--	--	--	2.3	(2.3)	(2.3)	(2.3)
Share-based compensation expense	--	--	12.0	--	--	--	--	--
Power purchase agreements	119.0	9.0	9.0	9.0	9.0	--	--	--
Asset retirement obligations	37.2	1.5	1.5	1.5	1.5	(13.7)	(13.7)	--
Reclassification of nonoperating income (expenses)	--	--	--	26.9	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	209.5	--
Total adjustments	224.4	(14.3)	(7.7)	7.2	16.3	23.3	232.8	46.7

Standard & Poor's adjusted amounts

	Debt	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	4,321.2	971.8	978.3	710.7	325.2	402.8	612.3	454.9

*Energy East Corp. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. 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.

Ratings Detail (As Of 14-Nov-2007)*

Rochester Gas & Electric Corp.	
Corporate Credit Rating	BBB+/Negative/--
Senior Secured	
Local Currency	A
Corporate Credit Ratings History	
25-Aug-2006	BBB+/Negative/--
17-Jun-2005	BBB+/Stable/--
29-Mar-2002	BBB+/Negative/--
Business Risk Profile	**1 2 3 4 5 6 7 8 9 10**
Financial Risk Profile	Intermediate
Debt Maturities	
2008 $320 mil. 2009 $368 mil. 2010 $470 mil. 2011 $410 mil. Thereafter $5.5 bil.	
Related Entities	
Central Maine Power Co.	
Issuer Credit Rating	BBB+/Negative/NR
Senior Unsecured	
Local Currency	BBB+
Connecticut Natural Gas Corp.	
Issuer Credit Rating	BBB+/Negative/--

Senior Unsecured	
Local Currency	BBB+
Energy East Corp.	
Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	
Local Currency	BBB-
Senior Unsecured	
Local Currency	BBB
New York State Electric & Gas Corp.	
Issuer Credit Rating	BBB+/Negative/A-2
Commercial Paper	
Local Currency	A-2
Preferred Stock	
Local Currency	BBB-
Senior Secured	
Local Currency	BBB+
Senior Unsecured	
Local Currency	BBB+
Southern Connecticut Gas Co.	
Issuer Credit Rating	BBB+/Negative/NR
Senior Secured	
Local Currency	A

*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.

Moody's Investors Service

Global Credit Research
Credit Opinion
26 DEC 2007
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Credit Opinion: Rochester Gas & Electric Corporation

Rochester Gas & Electric Corporation

Rochester, New York, United States

Ratings

Category	**Moody's Rating**
Outlook	Negative
Issuer Rating	Baa1
First Mortgage Bonds	A3
Senior Secured	A3
Senior Unsecured Shelf	(P)Baa1
Preferred Shelf	(P)Baa3
Ult Parent: Energy East Corporation	
Outlook	Negative
Sr Unsec Bank Credit Facility	Baa2
Senior Unsecured	Baa2
Jr Subordinate Shelf	(P)Baa3
Preferred Shelf	(P)Ba1
Commercial Paper	P-2

Contacts

Analyst	**Phone**
Kevin G. Rose/New York	212.553.0389
William L. Hess/New York	212.553.3837

Key Indicators

Rochester Gas & Electric Corporation

	LTM 9/07	**2006**	**2005**	**2004**
(CFO Pre-W/C + Interest) / Interest Expense [1]	**4.3x**	**3.6x**	**3.9x**	**3.6x**
(CFO Pre-W/C) / Debt [1]	**25.7%**	**20.1%**	**22.9%**	**19.5%**
(CFO Pre-W/C - Dividends) / Debt [1]	**18.6%**	**15.3%**	**13.3%**	**-14.5%**
(CFO Pre-W/C - Dividends) / Capex [1]	**93.5%**	**77.7%**	**173.1%**	**-128.8%**
Debt / Book Capitalization	**42.5%**	**46.1%**	**49.1%**	**48.9%**
EBITA Margin %	**12.1%**	**15.3%**	**14.0%**	**24.3%**

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items

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

Opinion

Company Profile

Rochester Gas and Electric Corporation (RG&E) is a regulated gas and electric utility serving customers in the city of Rochester, NY, and its surrounding neighborhoods. It provides services to about 359,000 electric customers and 296,000 natural gas customers throughout a service territory that spans approximately 2,700 square miles. RG&E is the second largest of Energy East Corporation's (EEC) six regulated utility subsidiaries serving customers throughout the New York and New England regions. RG&E is under the regulatory purview of the New York Public Service Commission (NYPSC) and the Federal Energy Regulatory Commission. RG&E is engaged in generating, purchasing and delivering electricity and in purchasing and delivering gas. RG&E still owns a relatively modest amount (395MW) of generation assets, including the Russell coal-fired plant (257 MW), three gas fired turbines, and a small hydroelectric plant. Consistent with EEC's primary focus on energy distribution, RG&E has reduced its generation portfolio over the years. In 2004, the company sold its largest generating asset, the Ginna nuclear power plant, and plans to shut down the Russell plant in Greece, NY, which is its largest remaining generating facility and is nearing the end of its useful life. More recently, however, RG&E has proposed a plan to re-power Russell Station as a 300 MW natural gas fired plant, at an estimated cost of $300 million. This plant would help meet the projected load requirements in the Rochester, NY area.

Recent Developments

Effective June 27, 2007, Moody's affirmed the ratings and negative outlook of EEC (Baa2 senior unsecured, negative outlook) and its regulated utility subsidiaries, including New York State Electric & Gas Corporation (NYSEG: Baa1 senior unsecured, negative outlook), Rochester Gas and Electric Corporation (RG&E: Baa1 senior unsecured, negative outlook), Central Maine Power Company (CMP: A3 senior unsecured, negative outlook), Connecticut Natural Gas Corporation (CNG: A3 senior unsecured, negative outlook), and Southern Connecticut Gas Company (SCG: A3 senior secured, negative outlook). The ratings affirmation was in response to the announcement that Iberdrola of Spain agreed to acquire EEC for approximately EUR 6,400 million (approximately US$8,588 million), inclusive of assumed debt of EUR 3,007 million or US$4,065 million. Since then, effective October 2007, Moody's assigned a first time Issuer Rating of Baa1 to EEC's smallest utility subsidiary, Berkshire Gas Company (BGC) and assigned a negative rating outlook for BGC. The rating outlook remains negative for EEC and all of its subsidiaries.

The ratings affirmation took into account the ratings of Iberdrola at the time of the aforementioned announcement (i.e. A2 senior unsecured/ Prime-1 short-term rating; under review for possible downgrade) and reflected Moody's view that there would not likely be a significant increase in leverage at EEC. Effective December 12, 2007, Moody's concluded its review of Iberdrola's ratings by downgrading the company's senior unsecured long-term debt rating to A3 and the short-term rating for commercial paper to Prime-2. The rating outlook for Iberdrola is now stable. (See Moody's press release of December 12, 2007 under Iberdrola for details pertaining to that rating action). Although Iberdrola has announced it will acquire 100% of the outstanding equity stock of EEC and its subsidiaries for cash, Iberdrola has recently undertaken various capital raising initiatives, including issuance of common equity. Our current ratings of A3 for Iberdrola's senior unsecured debt and Prime-2 for its commercial paper take these capital raising initiatives into account. We view these initiatives to be consistent with our view that it has been Iberdrola's objective to complete the acquisition in a way that would not unduly compromise credit quality. We note that some of the required approvals in order to close the acquisition have been obtained, but others, including a key approval from the New York Public Service Commission, are still pending. We note that EEC shareholders have approved the proposed buyout and EEC expects its acquisition by Iberdrola to be completed by June 30, 2008.

The negative outlooks for EEC and its subsidiaries reflect, in part, the financial and operating challenges resulting from a surprisingly unfavorable decision NYSEG received in its general rate case decided in August 2006. The decision in this case introduced the risk that there could be residual negative financial effects on EEC's other utility subsidiaries in the event that the parent required an increase in dividends from those companies to compensate for any potential reduction in the levels previously paid by NYSEG. Moreover, there are still lingering questions about whether the New York Public Service Commission's (NYPSC) August 2007 approval of a modified fixed price option for NYSEG's retail electric customers will provide the impetus for overcoming some of the earnings and cash flow pressures created by the NYPSC's September 2006 decision. The negative outlooks also recognize that the parent's announced transaction with Iberdrola is subject to numerous state and some federal regulatory approvals and that it is not uncommon for approvals of this nature to be conditioned upon additional rate concessions. The negative outlooks further consider the uncertainty surrounding the ultimate capital structure of EEC, and the extent to which its dividend policies may be impacted by consummation of the proposed acquisition.

Rating Rationale

RG&E's ratings reflect our combined assessment of key factors that include the company's regulatory environment and business risk profile, key financial metrics, and overall liquidity. RG&E's generally favorable business risk profile primarily reflects the predominance of its regulated business activities and reasonably supportive regulatory treatment afforded by multi-year rate settlement agreements. The company's financial metrics, including cash flow from operations exclusive of changes in working capital (CFO Pre-W/C) to interest and debt, have been typical of what we see for combination electric and gas utilities in the higher end of the Baa rating category for regulated utilities with a medium business risk profile and slightly better positioned within the range for such companies with a low business risk profile. This relative standing for financial metrics, together with the benefits of a multi-year regulatory rate plan, which extends through 2008, and sufficient liquidity (including cash balances on hand and ample unused capacity under a bank credit facility) that we also believe is consistent with Baa-rated utilities, helps balance some concerns about a high level of standalone debt at EEC (i.e. about 25% of EEC's consolidated debt). Overall, we view these assessments as being consistent with the Baa1 rating assigned to RG&E's senior unsecured debt, albeit with a negative rating outlook as described in more detail in the Rating Outlook section below.

We elaborate below on the more important factors that drive RG&E's ratings and outlook.

BENEFITS OF MULTI-YEAR RATE PLANS AND GENERALLY LOW OPERATING RISK

RG&E's ratings reflect the benefits of a multi-year rate plan as a result of the 2004 Electric Rate Agreement (ERA), which locks in RG&E's electric delivery rates through 2008. The 2004 ERA settled all of RG&E's electric and gas cost of service issues, as well as other key issues such as the rate treatment associated with the sale of the Ginna plant, deferral accounting, weather normalization, and earnings sharing.

The utility's ratings also incorporate the low operating risks and the financial benefits derived from the sale of the Ginna nuclear power plant which reduced RG&E's exposure to concentration in nuclear generation and provided significant cash which was used to pay down debt at RG&E and to redeem all of its preferred stock. The Ginna sale was also a benefit to the parent, which used the proceeds from a one time special dividend paid by RG&E to pay down a portion of EEC's long-term debt incurred as part of the funding of prior acquisitions and to reduce the parent's short-term debt balance at that time.

As part of the Ginna sale, RG&E also locked in 90% of Ginna's output in a 10-year power purchase agreement (PPA). Moody's believes that the purchased power prices associated with this contract and other hedging strategies will help minimize RG&E's exposure to commodity price and volume risk related to providing last resort electric service to customers choosing the fixed price option.

FINANCIAL METRICS TO REMAIN IN LINE WITH Baa1 RATING CATEGORY DESPITE SIGNIFICANTLY HIGHER CAPITAL PROGRAM AND EXTERNAL FINANCING NEEDS

RG&E's CFO Pre-W/C to interest and debt for the three-year period covering 2004 - 2006 averaged 3.7x and 20.8%, respectively, representing a level consistent with what we see as the norm for regulated electric utilities in the higher end of the Baa rating category, according to Moody's Global Rating Methodology for Regulated Electric Utilities (the Rating Methodology). More recently, for the 12-months ended September 30, 2007, RG&E's CFO Pre-W/C to interest and debt were 4.3x and 25.7%, respectively, largely reflecting stronger cash flow from operations for that period compared to the 2006 year. Against the backdrop of increased capital expenditures over the next several years (see below for more details), we expect that RG&E's key credit metrics are likely to revert back to levels more in line with the three-year averages noted above due to additional debt financing and the cash flow pressures associated from the effects of regulatory lag. Given that these levels would leave RG&E comfortably positioned within the range considered acceptable for a Baa1 rated utility with a medium business risk profile as outlined in the Rating Methodology, this trend, by itself, would not be cause for undue concern.

Our opinion of RG&E's creditworthiness incorporates EEC's plans to spend in excess of $3.0 billion on system-wide utility infrastructure needs over the next five years. Major spending programs include the installation of advanced metering infrastructure (AMI) in New York and Maine requiring an investment of approximately $360 million; in excess of $500 million of transmission investments, predominantly in Maine; a high efficiency transformer replacement program; and a "green" fleet initiative. RG&E's capital spending budget over this time frame could represent close to a third of the EEC consolidated budget, with significant amounts allotted for investments in AMI, various transmission projects and substation upgrades, and the aforementioned repowering of Russell Station as a 300 MW natural gas-fired generating plant at a cost of approximately $300 million. The costs are expected to be funded in part with RG&E's internally generated cash flow, with the balance of funding to be provided by a conservative mix of new debt and common equity infusions from the parent as required to keep the common equity component of RG&E's capital structure close to the level that the NYPSC provides the company an opportunity to earn a return on (i.e. 45%).

Liquidity

With the assumption that RG&E will continue to have ample access to public and private markets to finance its expected negative free cash flow, the company appears to have sufficient liquidity for the next four quarters as internally generated funds together with access to bank credit should support short-term working capital needs, long-term debt maturities, regular dividends to EEC, and about 60% of capital expenditures. We note that RG&E's next scheduled maturity of long-term debt is in December 2008, when $50 million of Series B medium term notes (MTNs) come due. Beyond this maturity, RG&E's next long-term debt maturity is October 2009, when $100 million of Series B MTNs come due. With respect to dividends, RG&E manages such payments to the parent consistent with management's objective of maintaining the targeted 45% equity component in its capital structure. This target is guided by the allowed level of common equity that the NYPSC currently allows the company an opportunity to earn a return on. RG&E had $8.9 million of unrestricted cash on hand as of September 30, 2007, and, in addition to its cash flow from operations, the utility's liquidity position is also supported by its access to funds under a $475 million bank credit facility jointly arranged by RG&E and EEC's other regulated utility subsidiaries. The facility expires on June 16, 2012, following a one-year extension of the original expiration date earlier this year. RG&E's maximum borrowing limit under the facility is $100 million. As of September 30, 2007, RG&E had $35.3 million drawn under the facility.

The facility contains a $100 million accordion feature, which could provide for higher sub-borrowing limits for one or more of the utilities, subject to requisite approvals by the participating banks. The joint facility contains no rating triggers that would cause default, acceleration, or puts, but does contain rating sensitive pricing. It also contains a covenant setting a maximum allowed consolidated debt to consolidated total capitalization at 65%. The facility does not contain a material adverse effect clause that applies beyond closing. RG&E was comfortably in compliance with the financial covenant at September 30, 2007 when its total consolidated debt to consolidated total capitalization as defined in the bank credit facility (i.e., consolidated total capitalization carves out accumulated other comprehensive income from common equity) was approximately 52.3%. We expect the adequate headroom under the covenants to continue over the foreseeable future.

Rating Outlook

RG&E's rating outlook is negative, which mirrors the negative rating outlook for its parent and all of EEC's other rated utility subsidiaries, and reflects a myriad of concerns that exist throughout the EEC family. Regulatory concerns relate to the negative outcome of the affiliated NYSEG's general rate case in August 2006 plus the uncertainties about whether the modified fixed price option approved earlier this year by the NYPSC for NYSEG's retail electric customers can provide sufficient impetus for overcoming some of the financial challenges created by the August 2006 rate decision. Evidence of the challenges lie in NYSEG's recent financial performance (i.e. weaker CFO-Pre-W/C to interest and debt for 2006 and the 12-months ended September 30, 2007 compared to 2005). Specifically, the 2006 rate case decision for NYSEG included rate reductions, a much lower allowed return on equity and reduced the company's opportunity to earn margins on sales to customers using the fixed price option. We are also concerned about what the August 2006 NYSEG rate case decision might portend for any future rate case that RG&E may decide to file at the NYPSC when its multi-year rate agreement expires at the end of 2008.

Separately, the negative outlook recognizes the aforementioned pending buyout transaction with Iberdrola. EEC and Iberdrola are awaiting the various state and some federal regulatory approvals, which can sometimes be conditioned upon additional rate concessions. The negative outlook also considers uncertainty surrounding the ultimate capital structure of EEC, and the extent to which its dividend demands on subsidiaries may be affected by the consummation of the proposed transaction.

Lastly, EEC still has a higher standalone debt level than its Baa2-rated utility holding company peers, which will likely continue to constrain positive rating momentum within the EEC family.

What Could Change the Rating - Up

All other factors equal, if the August 2007 NYPSC decision to support NYSEG's modified fixed price option provides sufficient impetus for overcoming earnings and cash flow pressures for NYSEG and reduces the possibility for greater demands for dividends from RG&E and EEC's other utility subsidiaries, then that could have a stabilizing effect on RG&E's rating outlook, as well as those for all the entities within the EEC family.

Separately, regulatory decisions in the pending transaction with Iberdrola that do not impose harsh rate concessions could also lend stability to RG&E's rating outlook, assuming Iberdrola does not unexpectedly introduce aggressive leveraging into its financing strategies. Moreover, if Iberdrola is successful in acquiring EEC and then takes aggressive steps to reduce structural subordination by lowering or eliminating debt at the EEC and/or other operating company levels, then such a strategy could at least help stabilize the outlook for RG&E, EEC and the other operating subsidiaries within the current EEC family. Indeed, depending on the magnitude, such steps might even contribute to higher ratings for some of the lower rated entities in the current EEC family (i.e. those with senior unsecured debt rated Baa1 or lower).

What Could Change the Rating - Down

If EEC increases demands for dividends from RG&E because of shortfalls in dividends from NYSEG and its other subsidiaries, or because Iberdrola unexpectedly uses aggressive amounts of debt in its acquisition financing strategy, then that could cause us to consider a downgrade of RG&E's ratings. Also, if future regulatory decisions by the NYPSC are unsupportive, then the potential for a downgrade of the ratings of RG&E, EEC, and its other utility subsidiaries could increase. In terms of credit metrics, if RG&E's CFO Pre-W/C to interest and debt were to fall below 3.7x and 18%, respectively, for a multiple year period, then such a trend could lead us to reconsider the current rating.

Rating Factors

Rochester Gas & Electric Corporation

Select Key Ratios for Global Regulated Electric Utilities

Rating	**Aa**	**Aa**	**A**	**A**	**Baa**	**Baa**	**Ba**	**Ba**
Level of Business Risk	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**	**Medium**	**Low**
CFO pre-W/C to Interest (x) [1]	>6	>5	3.5-6.0	3.0-5.7	2.7-5.0	2-4.0	<2.5	<2
CFO pre-W/C to Debt (%) [1]	>30	>22	22-30	12-22	13-25	5-13	<13	<5
CFO pre-W/C - Dividends to Debt (%) [1]	>25	>20	13-25	9-20	8-20	3-10	<10	<3
Total Debt to Book Capitalization (%)	<40	<50	40-60	50-70	50-70	60-75	>60	>70

[1] CFO pre-W/C, which is also referred to as FFO in the Global Regulated Electric Utilities Rating Methodology, is equal to net cash flow from operations less net changes in working capital items