

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 31, 2008

Exhibit ____ (JDM - 2)

Case No. 07-M-0906

Iberdrola, S.A. and Energy East Corp.

Staff Response to Request For Information

STAFF RESPONSE TO: IBER/EE IR No. DPS 84
PREPARED BY: Electric Reliability and Safety Panel
DATE: January 25, 2008

Question:

Reference page 255, lines 11-12, of the Policy Panel Prepared Testimony:

- a. Please explain in detail why the Commission should remove Goodwill for purposes of ratemaking if it is not yet determinable that Goodwill will need to be impaired?
- b. Please explain in detail the basis for the recommendation that the Commission remove Goodwill at a rate of 75% equity and 25% debt. Provide all studies, analyses, workpapers or other documents that support this recommendation.

Response:

- a. New York regulation is based on original cost. Goodwill is not a part of the historical cost of a company's rate base. Typically in a utility ratemaking context, Goodwill might not be impaired during the period where synergy savings are retained by the companies. However, the proposed transaction provides no synergies to support any level of Goodwill remaining on the companies' books. Therefore, the Panel believes that impairment is eventually inevitable.
- b. There are no studies that the Panel is aware of that cite the appropriate capital structure to support an asset as risky as utility goodwill. The Panel considered past capitalization rates the Commission used to remove non-regulated equity from a consolidated capital structure, the fact that Goodwill's contra account for accounting purposes consists of 100% equity, and tax effects of the write-off of Goodwill that create some offset value.