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 ___ (JPP – 2)

REMARKS OF CHAIRWOMAN PATRICIA L. ACAMPORA
LEHMAN BROTHERS -- NOVEMBER 13, 2007 -- ANAHEIM, CA

Thank you, Faith (Klaus). I want to thank Lehman Brothers for inviting me here today to participate in your commissioner panel sessions. This forum provides an excellent opportunity to discuss some of the recent New York Commission initiatives and cases that have relevance to your work on the High-Grade Fixed Income Electric Utility Research Team.

In a lot of ways, regulatory commission interests are aligned with those of fixed income investors. To set the stage, I would like to take a moment to read the recently revised mission statement of the Commission which reads as follows:

> The primary mission of the New York State Department of Public Service is to ensure safe, **secure, and reliable** access to electric, gas, steam, telecommunications, and water services for New York State's residential consumers and businesses, at just and reasonable rates. The Department seeks to stimulate innovation, **strategic infrastructure investment**, consumer awareness, **competitive markets where feasible**, and **the use of resources in an efficient and environmentally sound manner**.

This new statement uses fewer words and more precise language to define our focus. As you have heard, it clearly lays out our hopes, dreams and aspirations for all to understand.

You’ll notice the emphasis on infrastructure investment directly in the mission statement. We recognize that the utility infrastructure in New York is aging and needs improvements. As such, utilities will increasingly need to raise capital for these investments.

Similar to fixed income investors, it is important to us that utilities have stable and predictable cash flows to ensure they can service outstanding debt and attract new capital. Cash flows for utilities in New York are stabilized and protected by pass-through of commodity costs, various true-ups of uncontrollable costs such as pensions and Other Post Employment Benefits, or OPEBs, reconciliation of actual capital expenditures to projected levels, as in the current Con

Edison electric and gas cases, weather normalization clauses and now revenue decoupling mechanisms.

Now I would like to take this opportunity to share some of the highlights of what the Commission has accomplished in the past year, then I would like to provide some insight as to where we are heading. Afterward, I will be available to address any questions you might have, keeping in mind that my comments will have to be limited as they pertain to any ongoing cases.

The highlights for the past year include:

1. Approval of a major rate cases and approval of the National Grid merger with KeySpan;
2. Institution of the Energy Efficiency Portfolio Standard, or EPS, Case; and,
3. Continued efforts in the Renewable Portfolio Standards, or RPS, Case.

Rate and Merger Cases

Of course, setting utility rates remains one of the primary reasons for the Commission's existence. Since the last of these forums, we have resolved several major rate cases, including Con Edison gas rates, Orange & Rockland gas rates, and most recently, at the October Commission session, an Orange & Rockland electric rate case.

We are currently reviewing a Con Edison electric rate request that will have a significant impact on ratepayers. The initial request was for a $1.22 billion one-year rate hike, the largest in history. A decision on that proceeding is expected in March of next year.

There are other significant rate cases pending for Orange & Rockland, National Fuel Gas, KeySpan NY, and KeySpan Long Island. There is also a competitive transition charge reset proceeding for National Grid. In addition, we have pending before us the merger proposal of Energy East and Iberdrola. The tentative schedule in that case sets initial negotiation and/or litigation tracks through the first quarter of 2008, which could lead to a Commission decision later in 2008.

We have a strong interest in keeping rates down, but the aging infrastructure throughout the state, combined with growing demands for energy, is placing upward pressure on rates for utilities as we seek to assure a reasonable level of utility investment in infrastructure additions and upgrades that will maintain or enhance reliability. Thus we face significant rate increase requests from many of our utilities.

You will see that the allowed return on equity in New York is among the lowest in the country. However, allowed returns on equity are only part of the story. I believe that if you consider our overall regulatory approach, you will view our allowed returns in a different light.

In December 2006 we issued an Order to Show Cause against Orange and Rockland Utilities, a subsidiary of Con Edison, due to what we perceived were significant excess earnings in its electric business.

From 2004 through 2006, Orange and Rockland had earned between 13.4 percent and 16.2 percent on equity. The company's most recent earned return for the twelve months ending March 31, 2007 was 15.6 percent. In October, we allowed a 9.1 percent return on equity and 47.5 percent equity ratio for Orange & Rockland's electric division.

We did not require Orange & Rockland to reduce its rates to address this over-earnings situation, but instead required that the excess earnings be applied to deferred pension and OPEB costs, and we adjusted the pension expense allowances going forward.

Our return on equity allowances are consistent with market conditions and the relative risks faced by the New York utilities. The return on equity models we use, the discounted cash flow model, or DCF, and the capital asset pricing model, or CAPM, generally track interest rates. Since 1980, 30 year treasury rates have ranged from about 4.5 percent to 14.7 percent, however, only in recent years have rates fallen below 5 percent and we are currently at about 4.8 percent. Thus, our allowed ROE's are low by historical standards, just as interest rates are also low.

Orange and Rockland has an “A” bond rating and a Standard & Poor’s business risk profile of “2”. As you all know, business profiles are categorized from “1” as excellent or low risk to “10” as vulnerable or high risk. These measures compare favorably with the average “BBB minus” rating and significantly riskier — almost “5” — business risk profile of all the non-New York electric and gas utilities for which returns have been set since the beginning of 2006.

These results are not surprising because New York utilities have divested their generation assets leaving us with lower risk T&D utilities.

In addition, as I already discussed, various mechanisms are in place to further stabilize the cash flows of the New York companies for items that are out of their control and to decouple revenues from sales in order to encourage energy efficiency.

Another key point is that New York sets rates on a fully forecast test year as opposed to a partially forecast test year or historic year used by most other state commissions. This significantly enhances the ability of New York companies to realize their allowed returns when compared to most other utilities.

Securing infrastructure reliability and ensuring ratepayer benefits were some of the reasons behind the Commission’s decision to approve National Grid’s acquisition of KeySpan in August 2007.

Our general public service responsibility is to ensure safe and reliable service at a reasonable price. For merger this means that our goal is to improve the utility’s energy delivery system, improve the quality of service for ratepayers and provide measurable savings to ratepayers.

In the National Grid-KeySpan merger the Commission was particularly attuned to financial integrity concerns. To start with, National Grid had lower credit quality than KeySpan. In addition, the proposed transaction was highly leveraged and was forecast to reduce KeySpan’s bond rating upon consummation.

Before the merger the National Grid US GAAP-based consolidated equity ratio was approximately 48 percent and was forecast to decline to 37 percent. Furthermore, this equity was supported 74 percent by goodwill.

The Commission found that the proposed transaction poses a number of risks to the ratepayers of New York that could adversely impact the ability of the KeySpan New York subsidiaries to provide safe and adequate service at a reasonable price.

This conclusion stems from concerns related to the manner in which National Grid financed the transaction, the level of National Grid’s post-merger goodwill balance relative to its overall capital structure, and a general lack of transparency in National Grid’s financial statements for its United States operations.

We, therefore, sought to insulate KeySpan and ensure that cash was not drained out of the business and the company still had access to capital. We instituted various protections designed to ensure financial integrity as a condition of the merger including equity ratio requirements, dividend and cash flow restrictions.

We also took the unusual step of ordering that a “Golden Share” be issued to further insulate KeySpan from being brought voluntarily into a National Grid bankruptcy proceeding. This “Golden Share” would be a class of preferred stock having one share, subordinate to any existing preferred stock, and to issue such share of stock to a party to be determined by the Commission who would protect the interests of New York and would be independent of the parent company and its subsidiaries.

The Commission also, required that these provisions be added to Niagara Mohawk.

Renewable Portfolio Standard (RPS) Case

Renewable energy continues to be important to the Commission. In 2004, the Commission adopted a renewable energy policy designed to increase to at least 25 percent by 2013 the proportion of electricity sold to consumers in New York State that is generated from renewable resources. At the time that standard was adopted New York had 19.3 percent renewable resources. Of this 25 percent, 24 percent is to come from the State administered Renewable Portfolio case and 1 percent is to come from voluntary markets.

In August, the Commission received a report from Staff on the implementation status of the Renewable Portfolio Standard Program, or RPS, following two solicitations for renewable generation proposals. This report also described various planned initiatives to expand this already successful program, including a third solicitation for renewable generation proposals scheduled for later this year, and a promise by Staff to produce a new cost study for the Commission's consideration.

According to the report, the first two solicitations successfully spurred construction of new renewable generation in New York State, and interest among developers is continuing. NYSERDA, the entity the Commission appointed as the program's central administrator, has contracted for the purchase of about 2.8 million megawatt hours of attributes related to energy generation from renewable resources in 2008.

Coupled with production from existing renewable generators, this means that the RPS has increased to 20.5 percent the amount of megawatt hours retailed in New York State coming from renewable generators by 2008. This is a good step forward toward our goal of 25 percent by 2013.

The RPS Program's two solicitations for renewable energy have resulted in contracts for approximately 3 million megawatt hours of renewable energy from 26 projects, totaling more than 800 megawatts, or enough clean energy to supply approximately 400,000 average-size homes.

It is expected that more than $1.9 billion will be invested by project developers to construct the New York-based renewable generation facilities awarded contracts under the RPS. According to estimates, these investments have the potential to yield more than $720 million of in-state economic development benefits over a 20-year period, in addition to energy, environmental and fuel diversity benefits.

Energy Efficiency Portfolio Case

In April of this year, Governor Spitzer issued a statement calling for a 15 percent reduction in forecast electricity consumption by 2015. Similar programs are being designed for gas consumption. In May, as a lead agency for this initiative, we began a proceeding with all the industry participants. The latest status of that case was reported at the Commission's session in September.

Staff has issued a Preliminary Proposal for Energy Efficiency Program Design and Delivery at the end of August which can be found on our web site. Collaborative meetings have been held with all parties to the case and party comments have been considered. The case has been divided into fast track programs that can be implemented quickly and longer term initiatives. The Staff recently issued its Final Proposal, and, after another round of comments, this is expected to be considered by the Commission next year.

In addition, as part of a major Departmental reorganization, an Office of Energy Efficiency and the Environment has been created. The purpose of this new office is to develop and pursue energy efficiency initiatives and ongoing renewable energy initiatives. With this reorganization the Department will be able to better meet the expected energy-related challenges of the future in terms of energy usage, energy supply, and the ways in which energy use impacts the environment.

Future Goals

In conclusion, I would like to just briefly mention the Commission's five most important goals for 2008 which will help it proactively meet expected demands and future realities.

The Department's highest priorities for the coming year include:

1. Developing energy efficiency programs to ensure the goal of reducing electricity consumption by 15 percent below the forecasted level in 2015;

2. Continuing implementation of the goals of the Renewable Portfolio Standard designed to increase to at least 25 percent by 2013 the electricity sold in New York State from renewable resources;

3. Considering setting in place a process to begin long-range energy planning;

4. Ensuring the reliability of the electric, gas, steam, and telecommunications networks, and

5. Accomplishing all the prior objectives in a manner that does not place inordinate upward pressure on utility rates.

So, as you can see, we have a full plate of exciting and important initiatives. Considering what I have shared with you today, you can now better understand just how eager we are to move forward.

With that, I want to thank you once again for having me here today. I would be more than happy to answer any questions you may have at this time.