

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 – 3)

December 13, 2007

Research Update:

Spain's Iberdrola Affirmed At 'A-/A-2' On IPO Completion; L-T Rating Off Watch; Outlook Stable

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Rationale

On Dec. 13, 2007, Standard & Poor's Ratings Services affirmed its 'A-' long-term and 'A-2' short-term corporate credit ratings on Spanish utility Iberdrola S.A. At the same time, the long-term rating was removed from CreditWatch, where it was placed with negative implications on Sept. 6, 2005. The outlook is stable.

The rating action follows the completion of the IPO of Iberdrola Renovables on Dec. 11, 2007, at a price of €5.3 per share. The resulting €4.48 billion in proceeds will enable the group to maintain gearing below 50%, funds from operations (FFO) to debt of about 17%, and FFO interest coverage of about 4x during the period of the new strategic plan (2008-2010).

The ratings reflect Iberdrola's strong position as one of Spain's dominant vertically integrated electricity utilities and the regulated and quasiregulated nature of its electricity distribution and renewable operations, respectively, which together contribute about 40% of EBITDA and provide cash flow stability and predictability. They also reflect the group's increased earnings diversity--both geographic and operational--through the acquisition of Scottish Power Ltd. (A-/Stable/A-2).

These strengths are offset by increasing competitive pressure in the Spanish electricity market, Iberdrola's exposure to electricity price volatility, and the group's weaker capital structure resulting from the Scottish Power deal. In addition, Iberdrola must now face the challenge of integrating the acquired business.

Iberdrola is one of the world's largest energy companies, with total assets worth €63.5 billion, installed capacity of 40,000 MW, and operations in Europe, the U.S., and Latin America. Over the next three years, Iberdrola will undertake a large investment program of €24.2 billion, including the €6.4 billion offer for U.S. utility Energy East Corp. (BBB+/Negative/A-2). Renewable energy will represent the core of the group's future growth, and accounts for about 50% of expected organic investments. The IPO proceeds will finance this growth and are key to maintaining credit metrics that are consistent with an 'A-' rating.

We expect Iberdrola to fund 72% of its cash outflows for the 2008-2010 period with operating cash flows, asset disposals of more than €3 billion, and IPO proceeds.

Short-term credit factors

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

equity issue to prefund the acquisition of Energy East and the IPO of Iberdrola Renovables. Available cash, short-term financial investments of €1.85 billion, and committed undrawn credit facilities of €2.7 billion at end-September 2007 more than fully covered the €2.4 billion in debt maturing over the subsequent 15 months. In addition, Iberdrola signed a €3 billion credit facility in October 2007.

Outlook

The stable outlook reflects Standard & Poor's expectations that Iberdrola will focus on consolidating its operations and that its management will be consistent with its commitment to strengthen the group's capital structure. Credit metrics should remain in line with the levels indicated. The ratings could be lowered if credit metrics are weaker than anticipated because of lower profit margins, large acquisitions, or a more aggressive dividend policy. Changes to the regulatory framework for renewable energies (rate-of-return reduction, elimination of tax credits) would also have a negative impact on the rating. An upgrade is unlikely in the short term.

Ratings List

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

*Guaranteed by Iberdrola S.A.

NB: This list does not include all ratings affected.

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