

STATE OF NEW YORK

Public Service Commission

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IBERDROLA'S ACQUISITION OF ENERGY EAST APPROVED

— New Owner of NYSEG, RG&E Positioned to Play Major Role in Upstate NY —

Albany, NY—9/03/08— The New York State Public Service Commission (Commission) today voted to authorize the acquisition of Energy East Corporation and its affiliates — New York State Electric & Gas Corporation along with Rochester Gas and Electric Corporation — by Iberdrola S.A. The Commission's action requires provisions designed to enhance ratepayer financial benefits, mitigate vertical market power, protect the utilities' assets and financial condition, improve transmission and distribution system reliability, and strengthen service quality.

“Determining whether a company should have the privilege to operate a utility franchise in New York is a paramount responsibility of the Commission, and it's a responsibility we exercise with great caution, and only after thorough review, careful thought and much deliberation,” said Commission Chairman Garry Brown. “Millions of people who depend on safe and reliable utility service at just and reasonable rates should expect nothing less; and the acquisition approved today, with necessary conditions, will do just that.”

Energy East's two New York subsidiaries have a total of 1.7 million customers in New York, or about 16 percent of the state's electric customers and 12 percent of the state's natural gas customers. The combined service territory encompasses a substantial portion of upstate New York, including portions of Western New York, the Finger Lakes, the Southern Tier, northern New York, the Capital Region and the Hudson Valley. The subsidiaries deliver electricity and natural gas across nearly 40 percent of New York State.

The Commission approved the Petitioners' proposed acquisition of Energy East, subject to conditions designed to establish and reaffirm ratepayer protections and set forth service quality performance incentives. Iberdrola is required to file a written statement of the acceptance of the Commission's order before any closing of the proposed acquisition.

Under the Commission's authorization, NYSEG and RG&E electric and gas customers will receive at least \$275 million in benefits. These benefits will, over time, be used to either reduce rates or moderate requested rate increases. Conditions were also established to ensure that ratepayers receive a portion of any added benefits associated with synergy savings and efficiency gains produced by the transaction. NYSEG's and RG&E's ongoing financial stability will also be protected as a result of restrictions on the ability of Iberdrola to expose the New York companies to business and financial risks from its international and competitive holdings.

Additionally, NYSEG and RG&E will be required to maintain current planned levels of capital investment in the transmission and distribution systems and safety, reliability and service quality standards will be strengthened as a result of substantial increases in assessments that will be triggered by failures to meet prescribed standards.

The Commission reaffirmed its statement of policy regarding vertical market power. Under the policy, the presumption that it is unacceptable for a company owning transmission and distribution facilities to also own generation can be overcome by a demonstration of substantial ratepayer benefits, together with mitigation measures. Therefore, the Commission will allow Iberdrola to develop and own wind generation, but imposed several conditions on the transaction. The conditions are designed to mitigate the risk that Iberdrola could exercise vertical market power, and to provide substantial ratepayer benefits, in the form of positive benefit adjustments reflected in the previously mentioned \$275 million, which taken together justify allowing the transaction to go forward.

“Throughout this proceeding, great attention has been given to a single aspect of this case: the potential ownership of wind facilities by a transmission and distribution company,” noted Chairman Brown. “Developing renewable energy sources is critically important for New

York. Our decision today allows Iberdrola to fulfill its commitment to invest in renewable energy projects in New York State.”

In addition to the \$100 million the company previously committed to wind development, the Commission ordered an additional \$100 million be set aside for the same purpose. If the company fails to invest the additional \$100 million, it will use up to \$25 million in shareholder funds to invest in economic development projects in its service territories.

The Commission accepted Iberdrola’s offer to divest fossil fuel generating plants and ordered the utilities to file a divestiture plan within 90 days of consummation of the merger; the Commission will also allow Iberdrola to continue to own and operate existing Energy East hydroelectric facilities.

The Commission also approved protective conditions designed to minimize the financial and business risks of the transaction. These conditions assure that ratepayers are not burdened with the acquisition costs and transaction cost of the merger and include requiring NYSEG and RG&E to establish a special voting right so that a bankruptcy of Iberdrola or its affiliates would not cause a bankruptcy of the New York companies. The Commission also ordered improved financial transparency and reporting requirements.

Finally, the Commission directed staff, petitioners, and other interested parties to work together to resolve their differences over the code of conduct and affiliate transaction and cost allocation rules to apply among Iberdrola and its subsidiaries, including but not limited to Energy East, NYSEG, and RG&E. The parties will submit a proposal to the Commission; any disagreements will be submitted to the Commission for final resolution.

As part of the proceeding, the Commission heard from more than 40 organizations and individuals as interested parties in the agency’s proceedings as well as hundreds of members of the public through six public statement hearings in upstate New York and letters received. Many of the comments advocated provisions to enhance ratepayer benefits, ensure greater financial strength of the merged entity, and create greater transparency.

The Commission's written decision, when issued, will be available on the Commission's Web site at www.dps.state.ny.us by accessing the Commission's File Room section of the homepage and referencing Case 07-M-0906. Many libraries offer free Internet access. Commission orders can also be obtained from the Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500).