

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 ___ (SMF – 4)



Moody's Investors Service

Global Credit Research
Rating Action
12 DEC 2007

Rating Action: Iberdrola S.A.

Moody's downgrades Iberdrola to A3/P-2; Stable outlook

All ratings of Scottish Power and subsidiaries are A3; Stable Outlook

London, 12 December 2007 -- Moody's Investors Service has downgraded to A3/P-2 from A2/P-1 the senior unsecured ratings of Iberdrola and its guaranteed subsidiaries. The rating downgrades incorporate the partly debt-funded acquisition of Scottish Power in April 2007; the recently announced IPO of Iberdrola's renewables subsidiary, Iberdrola Renovables SA, for around EUR4.5 billion; and an ambitious investment strategy for 2008-2010 amounting to EUR24.2 billion, of which EUR17.8 billion will be focused on organic investments and EUR6.4 billion devoted to the expected acquisition of Energy East Corporation (EEC) of the US, subject to regulatory approvals.

Iberdrola's A3/P-2 ratings reflect Moody's overall low/medium assessment of Iberdrola's business risk following the recent corporate actions and take into account its revised strategic plan. This risk assessment reflects the significantly increased scale of the group with leading positions in Spain and the UK, and the benefits of increased size, geographic spread and diversification of risks, in particular those of regulation, pricing and fuel technology. Nonetheless, Moody's assessment also factors a degree of execution and integration risk as the company has expanded into new markets in which it has had less prior experience, and in addition it has ambitious growth targets which may be affected if the operating environment becomes more difficult.

Moody's expects Iberdrola's ratios to be positioned at the low end of the expected range for an A3 rating for a company with this business risk profile: RCF/adjusted debt of 12-16%, FFO/debt of >17% and FFO/interest of >4x; these ratios are anticipated to improve gradually. Around 75% of the plan will be funded by the proceeds of the renewables IPO, cash flow and divestments. Whilst debt has risen from around EUR13 billion to EUR26 billion prior to IPO proceeds, leverage is expected to stay within 50% aided by the recent capital-raising exercises. The rating outlook is stable; however, failure to maintain this financial profile could exert negative pressure on the rating.

Moody's will not notch the rating at this point to reflect structural subordination at Iberdrola SA; nonetheless Moody's notes that debt at operating companies is expected to be initially rather high (slightly above 25% of overall debt by end 2008 assuming the EEC transaction goes ahead) and the rating does assume that the company will gradually reduce the degree of debt at the operating companies towards 20% over time.

In Moody's view the business and financial profile of Scottish Power on a "stand-alone" has improved over time, reflecting strong business operations and lower debt within the group – partially as a result of the transfer of some debt and businesses (renewables) to Iberdrola. Moody's therefore believes that the combined profile of Scottish Power Ltd (SP Ltd) and the UK group companies – where all major operating subsidiaries are concentrated – today has a credit profile of a "mid A" company, an improvement over the previous "low A" evaluation. As a result, the intermediate and ultimate holding companies within the group, and their guaranteed entities, that were previously rated one notch lower to reflect structural subordination have been raised to A3. Given the lack of external debt above Scottish Power UK plc (SPUK), notching is compressed at one notch. However, all ratings are capped at A3 by the rating of Iberdrola, reflecting the reality of Iberdrola's ability to move cash flows around the group to service debt. Moody's has hence confirmed the A3/P-2 senior unsecured ratings of SPUK and the A3 ratings of SP Manweb plc, Scottish Power Distribution Ltd, Scottish Power Transmission Ltd and Scottish Power Investments Ltd. Ratings upgraded to A3 from Baa1 are the long term ratings of Scottish Power UK Holdings Ltd (SPUKH) and its guaranteed entities: Scottish Power Generation Ltd, Scottish Power Energy Retail Ltd and Scottish Power Energy Management Ltd; SP Ltd and its guaranteed entity Scottish Power (Finance) US.

Scottish Power ratings were formerly under review for possible downgrade as a result of the lack of clarity, and hence possible negative implications for, the group's future business and financial structure following its takeover by Iberdrola. Clarification of these issues, including the transfer of some debt and assets to Iberdrola, and the continuing strong performance of Scottish Power has led to an upwards evaluation of the credit strength of the group on a "stand-alone" basis and Moody's has hence been in a position to take the actions indicated.

These actions conclude the reviews of the Iberdrola and Scottish Power group ratings, initiated in September 2005 and November 2006, respectively.

Iberdrola SA is a leading vertically integrated utility in Spain. Scottish Power Ltd is a vertically integrated energy group based in the UK, owned by Iberdrola. As of end-Q3 2007 the combined group had total revenues of EUR11.4billion.

London
 Stuart Lawton
 Managing Director
 European Corporates
 Moody's Investors Service Ltd.
 JOURNALISTS: 44 20 7772 5456
 SUBSCRIBERS: 44 20 7772 5454

London
 Helen Francis
 Vice President - Senior Analyst
 European Corporates
 Moody's Investors Service Ltd.
 JOURNALISTS: 44 20 7772 5456
 SUBSCRIBERS: 44 20 7772 5454

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