

BEFORE THE  
STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

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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.

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January 31, 2008

Exhibit \_\_\_\_ (SMF – 5)

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. 27  
PREPARED BY: Policy Panel  
DATE: January 25, 2008

Question:

Reference page 150, lines 9-17, of the Policy Panel Prepared Testimony:

- a. Please provide all documents, analyses or other data or information, including but not limited to any credit rating agency reports that Staff reviewed in support of its assertion that "the debt ratio of 58% for a company of Iberdrola's business profile is more consistent with a BBB rated company."
- b. Did Staff review any analyst report, communication or other document that has placed Iberdrola on credit watch for a downgrade to a BBB rating for reasons not subsequently resolved by the Iberdrola Renovables IPO? If so, please provide a copy of all such reports, communications or other documents.

Response:

- a. The relevant reports are found in Exhibit \_\_\_ (PP-16) and Exhibit \_\_\_ (PP-17). S&P's "New Business Profile Scores Assigned for U.S. Utility and Power Companies; Financial Guidelines Revised" shows the financial guidelines for BBB rated companies with a business profile rating of 5 to have a suggested debt ratio of between 50% and 60%. Thus, Iberdrola's debt ratio implies a weak BBB rating from S&P. The S&P document entitled "Power Companies" shows the financial guidelines for BBB rated companies with a business profile rating of 5 to have a suggested debt ratio of 56%. Thus, Iberdrola's debt ratio implies a weaker than average BBB rating from S&P.
- b. Staff is unaware of any analyst report, communication or other document that has placed Iberdrola on credit watch for a downgrade to a BBB traditional credit rating subsequent to the Iberdrola Renovables IPO. However, Staff notes that Iberdrola currently has a "Credit Default-Swap Implied" Credit Rating of Baal and a "Moody's Default Predictor-Implied" Credit Rating of Baa2 from Moody's. It is the Panel's understanding that these credit ratings are more driven by financial ratios than those of a traditional credit rating.

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. 51

PREPARED BY: Policy Panel

DATE: January 25, 2008

Question:

Reference pages 192-193 of the Policy Panel Prepared Testimony:

Please provide all documents, analyses or other data or information, including but not limited to any credit rating agency reports, that Staff reviewed that indicates that the Goodwill reported on Iberdrola's books (i) plays any meaningful role in the assessment of its credit rating by credit agencies, and (ii) "is an impediment to its credit quality."

Response:

The Panel notes that quality of assets on a company's balance sheet is typically reviewed by credit agencies. To that extent, the Panel believes that the presence of Goodwill plays a meaningful role in the assessment of Iberdrola's credit rating. While not mentioned in any report, Staff believes it is not a coincidence that Iberdrola's Goodwill has risen as its credit quality has declined. Therefore, evidence indicates that Goodwill is playing a role in the credit quality decline of Iberdrola.

The Panel notes that Goodwill is not used and useful and therefore is not a profit center for a company. Credit ratings, in the long run, will eventually reflect the demonstrated fundamental profitability of a Company. As there is no direct profitability from the Goodwill, sooner or later - particularly in a poor business environment - the credit agencies will visit the issue when the growth of Iberdrola no longer obscures the drag Goodwill places on the company.