

STATE OF NEW YORK

PUBLIC SERVICE COMMISSION

Case 08017/07-M-0906

The New York State Public Service Commission today announced it is seeking public comment as to whether to approve Iberdrola, S.A.'s proposal to acquire Energy East Corporation, the parent holding company of New York State Electric & Gas Corporation (NYSEG) and Rochester Gas and Electric Corporation (RG7E).

PUBLIC STATEMENT HEARING

February 20, 2008

Ithaca Town Hall

Shirley Raffensperger Meeting Room

Ithaca, New York

1:00 p.m.

BEFORE: Rafael A. Epstein

Administrative Law Judge

REPORTED BY: Marilyn F. (Lyn) Wilson

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

(1:00)

ADMINISTRATIVE LAW JUDGE: I call case 08017/7-M-0906. We'll proceed with a statement hearing before the Public Service Commission on whether to approve a takeover of Energy East by Iberdrola. Energy East of course is the owner of RG&E and NYSEG.

My name is Rafael Epstein and I'm the Administrative Law Judge who's been assigned by the PSC to hear this case.

This is a public statement hearing and what that means is that this is an opportunity for you to make a statement that can be put on record. We have a court reporter here to transcribe it and any comments that we have in that way will be reported to the Commission as part of the record that's going to be before them when they decide this case.

If you picked up the press release over there on the table, you'll see on the back of it it lists also a number of other ways that you can make your opinions known. There's a telephone hot line you can call in

1 and make a statement which will be
2 summarized and sent to me and distributed
3 around the agency. You can write a letter.
4 Or you can write an e-mail. Or you can fill
5 in the box on the Department of Public
6 Service website, you can write your comments
7 there.

8 The whole point is that we're doing
9 these hearings throughout the RG&E and NYSEG
10 service territories this week, as you can
11 tell from the press release.

12 There are likely to be other hearings
13 which are trial-type evidentiary hearings
14 where the various parties to the case
15 present witnesses. These are witnesses who
16 have already filed their written testimony
17 with us. If you'd like to read that
18 material, it's all posted on the Department
19 of Public Service website. The address of
20 that appears on the back of the press
21 release. If you go there almost
22 immediately, you should be able to find a
23 page with Iberdrola materials. All the
24 testimony is there and also various rulings

1 and other documents related to the case.
2 Depending how interested you are, there's
3 tons of potential reading there, if you care
4 to read it.

5 I think that pretty much covers it by
6 way of preliminaries. If you'd like to make
7 a statement, you should pick up one of those
8 cards over on the table there, fill in your
9 name and address and that's all there is to
10 it.

11 I'll be taking speakers in the order
12 in which they signed up. If you would just
13 go to the podium and identify yourself,
14 stating your name and address for the
15 reporter.

16 Also, I should add if we've heard all
17 the speakers and there's no one else waiting
18 to be heard, we'll go off the record and at
19 that point, if you want to ask me questions
20 about the speakers in this case, or we can
21 do this on the record, if you prefer. But
22 while we're off the record, it's an
23 opportunity for informal discussions. So if
24 you want to ask me your questions, I can

1 talk to you about that. I can't talk to you
2 about the merits of the case because I'm
3 going to be deciding it. I should not have
4 any opinions about the case at this point.
5 If I do, I should darned well keep it to
6 myself. But I can explain as much as you
7 care to know about how the case is being
8 done and tell what might develop.

9 Also, a member of the staff of
10 Department of Public Service, Jeff Wagner,
11 who may also be able to talk to you about
12 questions you might have. Also, if you have
13 concerns about your utility service, Jeff
14 can either talk to you about that or take
15 your questions back to other experts in the
16 Department who may be able to help you
17 resolve any problems that you have.

18 And also here is Stanley Widger who
19 is an attorney for Iberdrola, which is
20 obviously one of the parties in the case.
21 There are many parties. And he is not
22 prepared to make a presentation here today.
23 That's kind of contrary to the idea of these
24 hearings which the parties like Iberdrola

1 have plenty of opportunity to present their
2 case in other hearings before the
3 Commission. This is just really supposed to
4 be an opportunity for members of the public
5 and customers to have their say.

6 If you do have questions for him, you
7 can put them to him and he presumably can
8 get back to his client and put out some type
9 of response.

10 Now I think that covers all the
11 preliminaries, so I will call the first
12 speaker and that will be Ms. Sonner.

13 If you could please state your name
14 and address for the reporter and also
15 indicate if you are representing anybody.

16 MS. SONNER: My name is Debra Sonner.
17 My address is 10476 Tannery Creek Road,
18 Corning, New York. I report to Patrick
19 Jackson who is the manager of Global Energy
20 Management in Corning. Patrick wanted to be
21 here today to testify before you.
22 Unfortunately, he's in Mexico on Corning
23 business so he's asked me to come and
24 present these comments to this hearing.

1 I'm pleased to have this opportunity
2 to testify on behalf of the proposed
3 Iberdrola/Energy East merger on behalf of
4 Corning, Incorporated, a leading employer in
5 New York State Southern Tier for the last
6 century-and-a-half.

7 Corning, Incorporated supports this
8 merger because we think it will do good
9 things for Energy East. Repairs, for the
10 environmental rolls of New York State and
11 for the economy of New York State,
12 especially Upstate New York.

13 Corning, Incorporated is the world
14 leader in specialty glass ceramics with more
15 than 150 years of material sites and process
16 engineering knowledge. We create and make
17 keystone components that enable high
18 technology systems for consumer electronics,
19 global emissions controls,
20 telecommunications and life sciences. We're
21 proud to be known for our leadership in the
22 realm around the world, whether our
23 neighbors in the Southern Tier or our
24 customers in Southeast Asia, you'll get

1 good, positive information about who we are
2 and what we do.

3 We're more than just a global
4 corporation that happens to do good. We are
5 also a corporate citizen of New York State
6 and the Upstate Region. As such, we have a
7 duty to New York State. That's why I'm here
8 today to testify on the project.

9 The Iberdrola/Energy East merger
10 would bring New York State major economic
11 gains and that our economy needs. It will
12 also help move the State closer to its goal
13 of increasing the State's use of renewable
14 energy and perhaps most importantly, it will
15 send a signal to the global business
16 community that New York State is committed
17 to offer the world's corporate leaders a
18 safe, competitive business.

19 Let me review quickly the economic
20 benefits of this deal. Energy East is a
21 good, stable company. Iberdrola is even
22 stronger. Its current ratings are better
23 than Energy East across the board which
24 ultimately means savings by Iberdrola to

1 rate payers in New York State. Iberdrola
2 has capital to invest in the energy
3 infrastructure in reliability projects
4 across Upstate New York. Iberdrola is one
5 of the world's leading energy companies,
6 especially in renewable energy. It has a
7 strong commitment to investing the
8 territories it services. It has a tendency
9 to invest in those areas where it operates
10 and requires new companies.

11 Also, it's announced plans to invest
12 six point seven billion dollars in global
13 energy just in the US between 2008 and 2010.
14 That seems likely to benefit New York State
15 greatly. If New York State wins this deal
16 it becomes a major center of Iberdrola
17 operations.

18 Finally, Iberdrola has already
19 indicated it does not plan any job
20 dispersions as a results of the proposed
21 merger. Substantial and environmental
22 benefits also accompany this deal. I
23 mentioned that Iberdrola is a leading global
24 energy company with strengths in renewable

1 energy. This expertise and record will
2 invariably help New York State in many ways.
3 It's developed programs pursuant to its 15
4 by 15 agenda for renewable energy. It seems
5 likely to add to the growth of green power
6 jobs in New York State.

7 New York State cannot afford to let
8 this opportunity pass. The positives
9 available to us are too great. There would
10 be substantial substantive harm in telling
11 the world that New York State cannot or will
12 not do what it takes to land such an
13 economic development project. That's why
14 Corning, Incorporated is pleased to join New
15 York State's lead economic development
16 policy, Empire State Development, and its
17 leading environmental agency, the State
18 Department of Environmental Conservation, in
19 support of this proposal.

20 This is not just what's good for
21 Corning, Incorporated, it goes way beyond
22 Corning, Incorporated. This project is good
23 for all New York State. And we hope the
24 PSC, and its professional staff, will find a

1 way to join the Federal Government and
2 regulatories that have been made to New
3 Hampshire and Connecticut in concluding this
4 deal.

5 Thank you. Patrick O. Jackson,
6 Manager, Global Energy, Corning,
7 Incorporated.

8 ADMINISTRATIVE LAW JUDGE: Thank you
9 very much, Ms. Sonner. Do you happen to
10 have a copy of that?

11 (HANDING DOCUMENT.)

12 ADMINISTRATIVE LAW JUDGE: Mr. Jones.

13 MR. JONES: Good afternoon. My name
14 is Brad Jones. I live in the small Town of
15 Italy at the west end of Yates County, 3996
16 Donley Road, Zip Code 14512.

17 We have been NYSEG customers for just
18 about 20 years on our property. Prior to
19 that, we were RG&E customers basically from
20 the time I was born. We've always been very
21 satisfied with the service we received from
22 both companies.

23 MR. JONES' WRITTEN STATEMENT:

24 We are, however, as current NYSEG

1 customers, deeply opposed to this proposed
2 acquisition and we urge that the Public
3 Service Commission not allow it to proceed.
4 The reasons for our opposition are as
5 follow. There will be six of these.

6 The first is Energy Security. We do
7 not believe it is in the best interest of
8 utility customers for our electrical
9 generation infrastructure to be in the hands
10 of foreign investors and under the influence
11 of foreign governments that may not always
12 have our best interests in mind.

13 Our second issue is with regard to
14 energy reliability. Iberdrola has made this
15 bid not because they wish to provide a
16 superior service and value to utility
17 customers, but because they want to make a
18 superior return on their investment.
19 Maximizing these returns may encourage them
20 to inappropriately reduce expenditures for
21 maintenance and repair and thus risk
22 reliability of the supply. With a parallel
23 abiding interest in maximizing cash flow
24 they may be tempted to postpone or cancel

1 capital improvements and thus put future
2 supply at risk. The objectives of
3 maximizing their profits while also
4 providing reliable affordable service are in
5 direct conflict and cannot be reconciled.
6 Less value for us simply means more value
7 for them. Acting in their interests of
8 their majority foreign shareholders they
9 will choose more value, less service.

10 Our third concern is with energy
11 cost. Iberdrola can give no assurance, nor
12 is there anything in their history to
13 indicate that utility customers will not be
14 facing significant increases for energy as
15 price increases are a direct contributor to
16 increased profits for Iberdrola.

17 Our fourth concern has to do with
18 long-term commitment. We believe that
19 Iberdrola and any other foreign investors
20 are rapidly buying into the U.S.
21 infrastructure sectors for only one reason:
22 that is that our dollar is weak compared to
23 other currencies and their Euro buys much
24 more than at any time in the past. We are

1 concerned that this deal does not constitute
2 a long-term commitment to utility customers
3 and that it is a matter of convenient
4 opportunity for Iberdrola to buy Energy East
5 at a bargain basement price. We fear that
6 after several rounds of cost cutting that
7 Iberdrola will break up the assets of Energy
8 East and resell them for a quick profit.

9 Our fifth concern has to do with
10 continuity of ownership. On February 5,
11 2008, it was reported that Energie de France
12 SA was working with a Spanish builder, ACS,
13 on a plan for hostile takeover of Iberdrola.
14 Such a consecutive change in ownership would
15 be further step away from the interest of
16 utility customers and put the government of
17 France in a majority position in that
18 organization.

19 Our sixth and perhaps one of our most
20 important issues has to deal with business
21 ethics. We do not believe that Iberdrola
22 has demonstrated a sufficiently high level
23 of business ethics and respect for the law
24 to be allowed to control our energy

1 infrastructure.

2 On February 15th, 2008, it was
3 reported that Iberdrola has been fined 15.4
4 million Euros for (quote) "abusing its
5 dominant position in the electricity
6 generally market" (unquote). The fine was
7 levied by the Nacional Comision de law
8 Competencia, and followed a complaint from
9 Endesa SA, a smaller Spanish utility.

10 In April of 1007, an Antitrust
11 Complaint was filed with the U.S. Department
12 of Justice, targeting the industrial wind
13 energy industry in New York, in which
14 Iberdrola is trying to become a major
15 player. It is alleged that wind energy
16 developers and their associates, including
17 Iberdrola, conspired to geographically
18 allocate the market for wind energy projects
19 and fix prices for leases, payments of taxes
20 and other payments.

21 Additionally, there are criminal
22 allegations that include bribery, larceny,
23 false instruments, mail fraud, conspiracy
24 to deprive taxing authorities and attorney

1 misconduct.

2 The New York State Attorney General's
3 Office has several active investigations
4 underway as per those allegations.

5 We believe that our objections to the
6 proposed acquisition are serious and
7 substantive and we strongly urge the Public
8 Service Commission to prevent Iberdrola's
9 takeover of our energy supplier.

10 Thank you for the opportunity to
11 comment on this matter.

12 ADMINISTRATIVE LAW JUDGE: Thank you
13 very much.

14 Mr. Bors.

15 MR. BORS: My name is Ronald Bors. I
16 live at 121 Texas Lane in Ithaca, New York.
17 I am a retiree of NYSEG with 35 years of
18 service, primarily in financial management.
19 I've also been a stockholder of NYSEG for 40
20 years.

21 First of all I thank you very much
22 for making provision for these hearings so
23 that the public can be heard. I think it's
24 very important.

1 I'm opposed to the takeover for two
2 reasons. First, on the subject of national
3 security which has been referred to by the
4 prior speaker, I think it is very poor
5 public policy to even consider in putting
6 our utility system under control of a
7 national entity. I realize that there is
8 some precedent, the national grid and so on.
9 I think it's bad enough that with the UK
10 company; I think it's even worse with a
11 Spanish company.

12 Second, as a retiree, I've been
13 informed that our health benefits which are
14 meager enough under the present
15 administration, will only be continued for
16 18 months. A major reason that NYSEG is
17 worth as much as it is because people like
18 me put our soul into the company and caused
19 it to be worth what it is.

20 If you approve this acquisition,
21 please make provision to continue retiree
22 health benefits.

23 Thank you very much.

24 ADMINISTRATIVE LAW JUDGE: Thank you,

1 Mr. Bos.

2 Does anybody else want to speak at
3 this time? Yes. Mr. Mount.

4 MR. MOUNT: My name is Tim Mount. I
5 live at 303 East Upland Road in Ithaca. I
6 want to raise two issues that have been
7 addressed in some of the testimony that has
8 been presented earlier.

9 The country faces tremendous
10 challenge over energy and a need to reduce
11 emissions of carbon in the future is going
12 to be something that we'll have to deal with
13 in the very near future. My concern is that
14 Energy East has really not been very
15 innovative and in spite of earning over 20
16 percent greater return on their equity
17 there's very little innovation compared to
18 the things that are being done in Europe.
19 So I support the testimony of the
20 Environmental Defense Fund saying that there
21 needs to be two types of tables.

22 First, there needs to more innovative
23 rate structures that encourage investment in
24 new types of technology and there needs to

1 be much greater development of distributing
2 energy resources and renewables.
3 Potentially, because Spain has actually been
4 a leader in the development of wind
5 technology and solar technology, there are
6 benefits that could come from this new
7 ownership.

8 However, I see nothing there
9 determines that we will not just capitalize
10 the high rate of return on NYSEG that is
11 going on and continue to have a lack of
12 innovation in the NYSEG territory.

13 Thank you.

14 ADMINISTRATIVE LAW JUDGE: Thank you
15 very much, Mr. Mount.

16 Is there anyone else who would like
17 to speak? Okay. What will happen next is
18 we'll go off the record. We'll remain here
19 until 2 o'clock just in case more people
20 arrive or in case anyone who is already here
21 changes their mind and wants to say
22 something for the record.

23 If you've already spoken, that
24 doesn't bar you from speaking again if there

1 is something you would like to add. As I
2 was indicating before while we were off the
3 record, it's an opportunity for us to talk
4 and if anybody wants to be back on the
5 record for any purpose, whether it's for any
6 discussion or any questions and answers with
7 me, that's fine also. Just let me know.

8 But we're now off the record.

9 (RECESS TAKEN.)

10 ADMINISTRATIVE LAW JUDGE: We'll go
11 back on the record. State your name and
12 address for the reporter.

13 MS. MCPHEETERS: I have this in
14 writing, so I'll give it to you afterwards.

15 WRITTEN STATEMENT OF MS. MCPHEETERS:

16 Good afternoon. I am Jean
17 McPheeters, I'm the President of the
18 Tompkins County Chamber of Commerce,
19 which is located at 904 East Shore Drive,
20 Ithaca, New York 14850.

21 I am in favor of the proposed merger
22 of Energy East and Iberdrola. As I
23 understand it, Iberdrola is prepared to
24 invest substantially in New York and this

1 investment would benefit the people and
2 companies of Upstate New York.

3 New York would become the focus on
4 Iberdrola's US presence, which I hope would
5 lead to further investments in New York
6 State.

7 This project should have no negative
8 impact on New York State ratepayers and
9 should make the Energy East replacement a
10 stronger company with a higher bond rate. I
11 also understand the Iberdrola does not plan
12 to reduce jobs as a result of the merger and
13 those results are especially important to
14 Upstate New York.

15 Most importantly, New York needs more
16 power generation and more transmission. I
17 believe this merger would foster an
18 environment that could lead to more
19 renewable energy for our region and
20 facilitate the transmission of this energy
21 throughout New York State.

22 I hope that the Public Service
23 Commission will approve this merger and will
24 move this process forward with all

1 deliberate speed.

2 Thank you.

3 ADMINISTRATIVE LAW JUDGE: Thank you
4 very much.

5 (RECESS TAKEN)

6 ADMINISTRATIVE LAW JUDGE: We've been
7 in session for one hour. There are no other
8 speakers and therefore, we are adjourning
9 until 7 p.m. tonight in Lancaster.

10 (HEARING ADJOURNED.)

11

1
2
3
4
5
6

7
8

C E R T I F I C A T I O N

I hereby certify that the proceedings and evidence are contained fully and accurately in the notes taken by me on the above cause and that this is a correct transcript of the same to the best of my ability.

Marilyn F. (Lyn) Wilson