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 2008

Exhibit____(Policy Panel - 11)

Moody's Global
Corporate Finance

Special Comment

October 2007

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Europe's Electricity Producers

Is Comparability Compromised By Different Accounting Practices?

Objective

In 2005, six of Europe's major electricity producers, Electricité de France S.A. ('EDF', rated Aa1/P-1/stable), Endesa S.A. (A3 under review for possible downgrade/P-2), ENEL S.p.A. (A1 under review for possible further downgrade/P-1), Iberdrola, S.A. ('IBE', A2/P-1, both ratings on review for possible downgrade), Suez (A2, under review for possible upgrade) and Vattenfall AB ('Vatt', A2/stable) began reporting under International Financial Reporting Standards ('IFRS'). E.ON AG (A2/P-1/stable) prepared its financial statements[1] for 2006 under US GAAP, but converted to IFRS in 2007. RWE AG (A1/P-1/stable) adopted IFRS several years earlier.

A single system of reporting has numerous advantages for users of accounts, provided that it is applied consistently and that different accounting treatments are not adopted for transactions that have similar economic effects. In this report, we examine whether the information provided by the eight companies allows meaningful comparisons to be made of their performance and financial profiles. Our research is based on annual reports and related profit announcements for the 2006 financial year.

Moody's routinely adjusts the accounts of companies in order to improve comparability and to better reflect, for analytical purposes, the underlying economics of transactions and events.[2] Tables showing how these adjustments affect the eight companies' credit metrics for 2006 and 2005 are set out in the Appendix to this report. It is usually not practicable for Moody's to completely standardise the accounting adopted by companies in the same sector, so another objective of this report is to draw attention to any significant residual differences that we have not adjusted for in our published credit metrics.

1 'Financial statements' are henceforth referred to as 'accounts'.
2 Moody's does not perform forensic or audit procedures, nor do we assess compliance with laws or regulations governing financial reporting.

Summary of Main Findings

Differences in segment reporting hinder comparisons of financial performance

According to their annual reports, the eight companies featured in this Special Comment produced approximately 1,900 TWh[3] of electricity in 2006 from an installed generation capacity that totalled 440,496 MW at the end of that year. Electricity production on this scale implies a profit of somewhere between €20bn and €35bn which would represent a substantial proportion of the companies' total operating income of €45bn.[4] However, both IFRS and US GAAP permit considerable flexibility in segment reporting, and only two companies (Endesa and Vatt) actually reveal how much profit they derive from producing electricity.

Installed power generation capacity is neither reported, nor accounted for, consistently

Although all eight companies report a figure for "installed capacity", closer examination reveals that there are a number of inconsistencies and anomalies (including an element of double counting) in the way that capacity is reported and accounted for.

More information about PPE would provide additional insight

The net book value of the eight companies' property, plant and equipment ('PPE') totalled €305bn at the end of 2006. Reporting entities are permitted to decide how much detail they would like to provide about their aggregate investment in PPE, and only four companies (EDF, Endesa, ENEL and IBE) provide a breakdown between power plants and other assets. The available data suggests that the gross carrying amount of the companies' power plants is likely to be significantly lower than their current replacement cost. The gross carrying amount affects the expense recorded for depreciation. We estimate that Endesa's and IBE's profit from electricity generation would be reduced by more than 10% if the depreciation expense were to be uplifted to reflect the current, rather than the historical, cost of the capacity consumed in the production of electricity. For some of the other companies, the impact could be higher.

Amounts set aside for decommissioning nuclear power plants vary significantly

At the end of 2006, the eight companies estimated their liability for managing nuclear waste at €60bn. Approximately half of this amount represents the cost of decommissioning the facilities themselves (the other half relates to fuel rods and other nuclear waste). Moody's regards the balance sheet liability as "debt-like" and €42bn of the €60bn has been added to debt at the end of 2006 (see Figure A3 in the Appendix). The comparability of our credit metrics depends on the companies adopting a broadly consistent approach to measuring this liability (which is likely to vary by geography). However, our analysis of the plant decommissioning component suggests that the amount provided per MW of installed capacity in Germany is more than double that set aside by EDF, ENEL and Suez for dismantling their nuclear plants in other countries.

In addition to the main findings summarised above, several other accounting differences are set out in the Detailed Findings section of this Special Comment. They include inconsistencies in the reporting of interest expense and differences in the treatment of jointly controlled entities and emission allowances, and in the amounts presented as "debt" and "net debt".

3 The precise figure is not known because electricity production is not disclosed in Suez's Reference Document for 2006.
4 Calculated by deducting €20bn for depreciation and amortisation from aggregate headline EBITDA of €65bn.

Implications for Credit Analysis

Moody's uses "as adjusted" credit metrics which eliminate many of the accounting differences...

The "as adjusted" credit metrics set out in the Appendix to this report are based on standardised definitions for measures such as cash flow from operations ('CFO'), funds from operations ('FFO'), retained cash flow ('RCF'), debt and net debt. This overcomes one of the deficiencies in IFRS. Moody's has dealt with the lack of a prescribed accounting method for borrowing costs by treating interest as a period cost, and we have addressed in broad terms the somewhat artificial distinction between "finance" and "operating" leases by capitalising the latter.

...But it is not practicable for us to deal with all the issues we have identified

It is not practicable for Moody's published credit metrics to include adjustments for all the accounting differences we have identified. In particular, we have not adjusted the unusually high interest expense reported by E.ON and RWE, so care should be taken when comparing interest coverage ratios based on our published metrics. We are also unable to standardise the accounting for jointly controlled entities because IFRS does not require disclosure of the reporting entity's share of these entities' interest expense, FFO, debt or net debt. However, the credit metrics would be affected to a material extent only in cases where the jointly controlled entities have significantly different financial profiles. They would also have to be sizeable entities in their own right in order to affect the overall outcome and we do not believe that the comparability of the companies' credit metrics is materially compromised in this instance. We would like the cost of acquiring additional emission allowances to be treated consistently and reflected in measures such as earnings before interest, tax, depreciation and amortisation ('EBITDA'), CFO, FFO and RCF, but there is insufficient information to be certain that this is actually the case.

More comprehensive reporting on a consistent basis would be welcome

In sectors such as oil & gas, standardised reporting which separates "upstream" and "downstream" businesses allows the performance of the companies to be compared despite differences in the mix of their activities. This analysis is particularly valuable when financial measures can be set in the context of non-financial metrics such as the volume of output.

In the utilities sector, more comprehensive reporting of electricity generation activities on a consistent basis would allow better comparisons to be made of the companies' relative performance than is currently possible. This would also provide valuable insight into whether reported earnings are a reliable measure of sustainable cash generation. It would also reveal the extent to which balance sheets are consistent with investments made in installed capacity.

Detailed Findings

Explanatory note regarding the conversion of amounts into euros

The currency amounts shown in this report are expressed in euros. We have used a single exchange rate to convert Vatt's income statement, balance sheet and cash flow statement from Swedish krona into euros. This ensures that the financial ratios derived from the euro amounts in this report are consistent with those for Vatt that appear in Moody's Financial Metrics. For simplicity, and because the actual average exchange rate was largely unchanged, we have used SEK 1 = €0.11 for both 2006 and 2005.

1. Segment Reporting

Only two companies reveal how much profit they derive from producing electricity

The production of electricity is a major activity for all the companies featured in this report, but only Endesa and Vatt report electricity generation separately from their other businesses:

Figure 1: Segment reporting

€ billion

2006	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Total revenue from sales (note 1)	58.93	19.64	37.50	64.20	11.02	42.87	44.29	16.04
Revenue attributable to electricity generation	nds	15.12	nds	nds	nds	nds	nds	8.28
Operating profit from electricity generation	nds	3.85	nds	nds	nds	nds	nds	2.17
Margin	nds	25%	nds	nds	nds	nds	nds	26%

Note 1: This represents the external revenue earned from sales as reported for the entire group. For E.ON and RWE, we have excluded electricity and natural gas taxes. Discontinued operations are, where appropriate, also excluded.
"nds" = not disclosed separately by the company.
Source: Company Annual Reports and Moody's Financial Metrics.

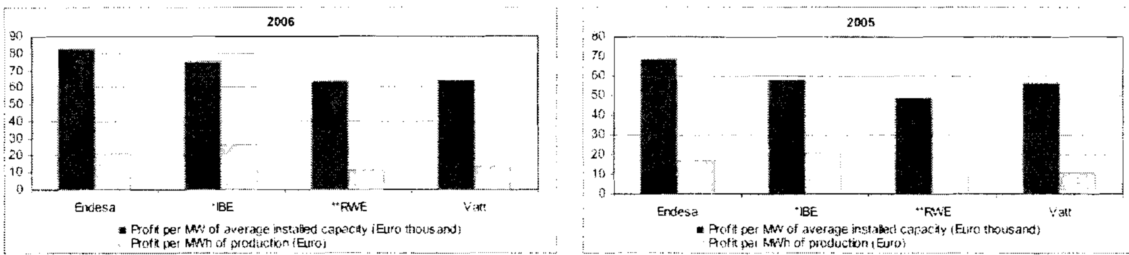
Both IFRS and US GAAP permit considerable flexibility in segment reporting, and the other six companies are under no obligation to provide the same information as Endesa and Vatt.

- EDF presents segment profitability principally on a geographical basis, rather than by type of business. The businesses in France comprise regulated activities (mainly Distribution and Transmission) and deregulated activities (mainly Generation and Supply, including natural gas sales), but their respective profit contributions are broken out only at the EBITDA level – €5.37bn for the deregulated activities in 2006 is equivalent to €56,000 per MW of average installed capacity and €11 per MWh of production in France.
- ENEL's "Domestic Generation and Energy Management" segment combines electricity generation in Italy with ENEL Trade's supply and sale of energy products (including natural gas) and the provision of engineering and construction services. The "International Division" combines electricity generation with distribution activities in both electricity and gas.
- E.ON's reportable segments ("market units") are presented in line with the company's internal organisational and reporting structure. The Central Europe market unit comprises the integrated electricity business and the downstream gas business in central Europe. The UK and Nordic market units encompass the integrated energy businesses in the UK and Northern Europe, respectively. The US Midwest market unit is focused primarily on the regulated electric and gas utility sector in the US state of Kentucky
- IBE's "Latin America" segment combines electricity generation, transmission and supply activities, in addition to a small water supply business. However, the company helpfully breaks out the results from electricity generation in Spain, as well as the performance of its renewables business. The installed capacity of these businesses at the end of 2006 (25,966 MW) represented 85% of the total for the group (30,384 MW) and IBE made €1.90bn (36%) on sales of €5.28bn in that year.
- "RWE npower" is a geographical segment which combines all the activities in the UK – electricity generation as well as the supply of electricity and gas. The "RWE Power" business segment includes electricity generation, the gas and electricity trading activities of RWE Trading and RWE Dea's gas and oil production business. The operating result of the RWE Dea business is helpfully broken out separately and this reveals that €2.13bn of RWE Power's operating result for 2006 is attributable to power generation. However, this figure includes an undisclosed, and potentially volatile, contribution from RWE Trading.

- Suez's "Electricity and Gas" business segment combines the production of electricity with electricity transmission and distribution services, and the supply, transportation and distribution of natural gas.

Although all the companies disclose their installed generation capacity, and (apart from Suez) the electricity they have produced during the year, it is unfortunate that only Endesa and Vatt break out the financial result from this activity. The absence of this information makes it difficult to assess the relative performance of the companies, and to view their financial results in the context of a physical measure such as installed generation capacity. Figure 2 below provides an indication of the information that would be available if the companies were to adopt a more consistent approach to segment reporting. The figures shown for IBE and RWE relate essentially to their electricity generation in Spain and Germany, respectively.

Figure 2: Operating profit from electricity generation



** Apart from a small international element in the Renewables business, the figures shown for IBE relate to activities in Spain.*

*** Figures shown for RWE relate to RWE Power and exclude RWE npower. Operating profit includes an undisclosed and potentially volatile contribution from RWE Trading.*

Note 1: Operating profit for RWE represents management's "operating result" which includes income from operating investments and excludes unusual items. For Vatt, operating profit excludes items identified by the company as affecting comparability.

Source: Company Annual Reports.

2. Installed Generation Capacity

Basis of the calculation is not consistent and there is an element of double counting

According to their annual reports, the installed electricity generation capacity of the eight companies featured in this Special Comment totalled 440,496 MW at the end of 2006. However, on closer examination there are a number of anomalies and inconsistencies. For example:

- Suez counts 100% of the capacity of plants in joint ventures that are included in the accounts using the proportionate consolidation method, and 100% of the capacity of plants in other companies that are included via the equity accounting method. Suez does not disclose capacity based on its attributable share of plants that are not wholly owned.
- Suez's 51,943 MW includes 1,107 MW that is included in EDF's reported capacity. Suez is entitled to a proportionate share of the output of two of EDF's nuclear plants (Chooz 650 MW and Tricastin 457 MW). The precise amount of EDF's capacity that is subject to generation allocation contracts, which entitle third parties (including Suez) to a share of the output in return for their share of the costs, is not disclosed, but it does not exceed 7,600 MW of the 128,190 MW total reported by the company.
- RWE's nuclear capacity (6,308 MW) includes 100% of the Gundremmingen B and C nuclear power plants (2,572 MW) of which 25% (643 MW) is included in E.ON's 53,542 MW. RWE also counts 100% of KKW Emsland (1,329 MW) although E.ON is entitled to 12.5% of the output.

Balance sheet accounting for installed capacity is also affected by inconsistencies and anomalies

As noted in the section above, reporting inconsistencies can arise when companies enter into arrangements to share the capacity of individual power plants, in particular those using nuclear power. In some cases (such as Endesa and IBE) the accounting treatment reflects the underlying economics, but this is not necessarily always the case:

- Endesa states that "indivisible assets owned jointly by the Group with other owners (joint property entities) are recognized in proportion to the Group's ownership interest in those assets."
- IBE explains that "companies that perform jointly controlled activities directly through joint property associations include in their financial statements the proportion of assets and liabilities managed and their share of income and expenses. If joint control gives rise to the incorporation of a separate company, this company is proportionately consolidated."
- Under US GAAP, E.ON's accounting is determined by the legal form of ownership of the plants. For example, E.ON includes 75% of the Isar 2 power plant in its balance sheet and 25% of Gundremmingen B and C. This reflects the company's share of the output and the related costs. However, although the economics are the same, the accounting is different when the plant is owned by a separate legal entity. E.ON includes 100% of the plant when it is the majority shareholder in the plant-owning company even if its economic interest is below 100% (such as the 80% stake in Brokdorf). In those cases where E.ON is a minority owner, the plant is excluded from the balance sheet. Examples include the 33.3% and 50% E.ON owns in Brunsbüttel and Krümmel, respectively, and the German company's share of the various Forsmark and Ringhals plants in Sweden. E.ON helpfully reports installed generation capacity based on its attributable share of the plants concerned. We estimate that approximately 900 MW (8%) of the disclosed 11,055 MW of nuclear capacity is excluded from plant as reported on E.ON's balance sheet.
- Vatt reports under IFRS, but the accounting is similar to E.ON's in that Vatt includes 100% of the plant where it is the majority shareholder in the plant-owning company, and 0% where it is a minority shareholder. Vatt helpfully discloses that the balance sheet accounting is based on 35,114 MW of installed capacity whereas the company's pro-rata ownership interest in these plants is 33,038 MW.
- RWE's accounting policies are silent on the treatment of shared interests in power plants. However, it appears that the balance sheet includes 100% of the Gundremmingen B and C plants (25% of which is in E.ON's balance sheet, as noted above). Of greater significance is that approximately 20% (8,744 MW) of the company's total capacity (43,434 MW) is excluded from the balance sheet because it is secured from plants which the company "can deploy at our discretion on the basis of long-term agreements". These arrangements do not appear to be accounted for as leases of the plants concerned. They are consequently excluded from Moody's adjustment to debt for leased assets.
- Suez explains that, in cases where "the Group helped to finance the construction of certain nuclear power stations operated by third parties and in consideration received the right to purchase a share of the production over the useful life of the assets", the amount invested in this way (€1.16bn at the end of 2006) is reported as an intangible asset (rather than PPE) in the balance sheet. EDF is the counter party to some of these arrangements, and the advances received from the partners (including Suez and others) totalling €3.1bn at the end of 2006 are reported on the liability side of EDF's balance sheet. The power plant reported on the other side represents the entire asset even though some of the capacity is subject to generation allocation contracts.

3. Property, Plant and Equipment

Additional information would provide valuable insight

Under both IFRS and US GAAP, companies are permitted to decide how much detail they would like to provide about their aggregate investment in PPE. As shown in Figure 3 below, the net book value of the eight companies' PPE (including power plants and non-generation assets such as electricity transmission and distribution lines, and gas network assets) totalled €305bn at the end of 2006. However, only four companies provide a breakdown of this figure between power plants and other assets:

Figure 3: Power generating plant as reported in the balance sheet

€ billion

At 31 December 2006	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt	Total
Installed capacity (MW) (note 1)	128,190	47,113	50,776	53,542	30,384	43,434	51,943	35,114	440,496
Power plant - gross carrying amount (note 2)	68.84	36.20	33.10	nds	21.73	nds	nds	nds	na
Accumulated depreciation (note 2)	-40.59	-19.87	-18.91	nds	-9.10	nds	nds	nds	na
Net book value (NBV)	28.25	16.33	14.19	nds	12.63	nds	nds	nds	na
Total PPE (note 3)	103.88	33.71	34.85	42.71	21.07	26.03	21.00	22.15	305.40
Power plant as % of total PPE	27%	48%	41%	nds	60%	nds	nds	nds	na

Note 1: This represents the "headline" capacity as reported by the company. For Vatt, we have used capacity "according to IFRS consolidation principles".

Note 2: Assets in the course of construction are excluded. The amounts shown for ENEL include industrial land and buildings.

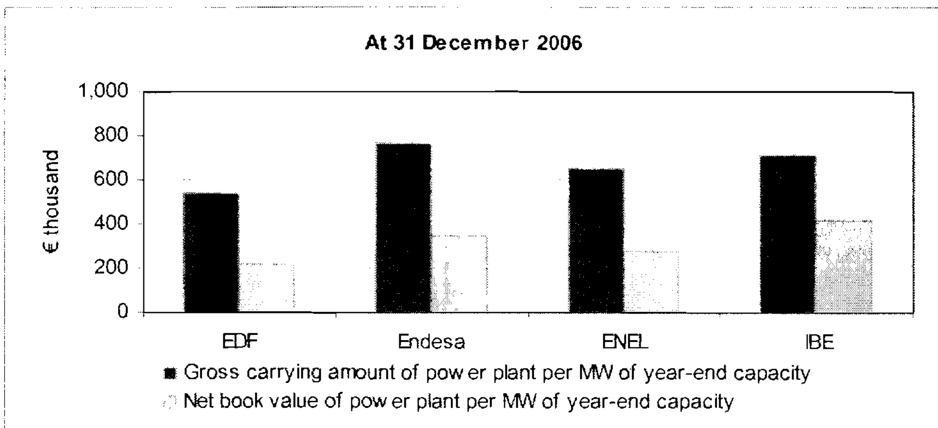
Note 3: This represents the net book value of the company's entire property, plant and equipment as reported in the balance sheet (including assets in the course of construction).

"nds" = not disclosed separately by the company; "na" = not applicable.

Source: Company Annual Reports and Moody's Financial Metrics.

The separate reporting of power plants by EDF, Endesa, ENEL and IBE allows a comparison to be made between the accounting measure and a physical measure such as installed capacity. However, this should be done with due regard to the inconsistencies and anomalies in the way installed capacity is reported and accounted for, as explained in the previous section of this report.

Figure 4: Power plant assets compared with installed capacity



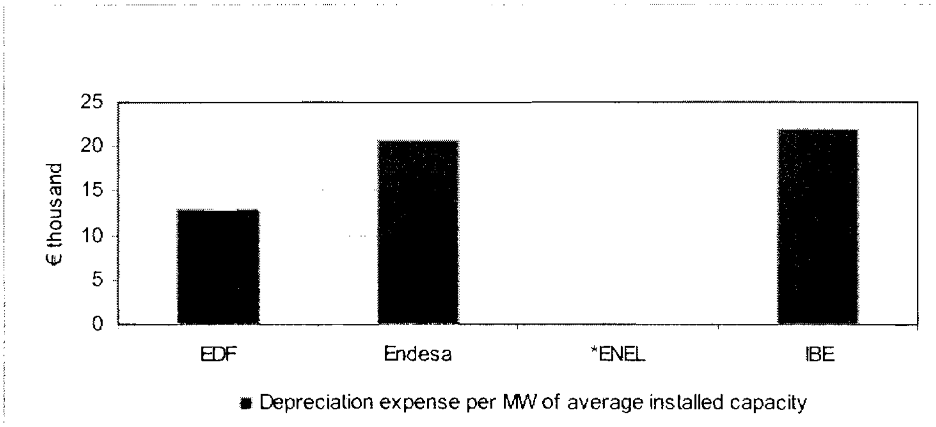
Note 1: Assets in the course of construction are excluded. The amounts shown for ENEL include industrial land and buildings.

Source: Company Annual Reports.

As shown in Figure 4 above, the net book value of EDF's power plant (€220,000 per MW) is significantly lower than the other three companies. When comparing the cost of installed capacity, differences in generation mix need to be taken into account. Nevertheless, it is notable that EDF's nuclear fleet in France (63,130 MW), and the company's 46% share of EnBW's 4,011 MW of attributable nuclear plant capacity, are recorded in the balance sheet at a gross carrying amount of €700,000 per MW (€45.47bn in total). This contrasts with Endesa's €2.4m and IBE's €2.0m per MW of nuclear capacity, respectively. Unlike EDF, the two Spanish companies include capitalised interest in the cost of their plant, but the difference is clearly also due to other factors.

The gross carrying amount of the power plants affects the amounts the companies charge for depreciation. When depreciation does not adequately capture the cost of replacing the installed assets, reported earnings may not be the best measure of the entity's ability to generate surplus cash on a sustainable basis. An indication of the current cost of replacing installed power capacity is RWE's intention to spend €7.7bn in Germany on a portfolio of power plants (lignite, hard-coal, CCGT and CO_2 free) with a capacity of just under 6,500 MW. The average cost of €1.2m per MW is equivalent to an annual depreciation expense of €30,000 per MW, assuming a 40-year economic life. This is significantly higher than the €13,000 to €22,000 per MW currently charged in the companies' income statements, as shown in Figure 5 below:

Figure 5: Depreciation of power plants in 2006



** Although ENEL discloses the gross cost and accumulated depreciation for its power plants, the depreciation expense is not disclosed separately. The gross cost of ENEL's power plants is €33.10bn (2005, €28.81bn). A simplistic estimate, which assumes that none of the plants is fully depreciated and that they are being written down evenly to zero over say 30 to 40 years, produces a depreciation expense ranging from €770m to €1.03bn, or €16,000 to €21,000 per MW of average installed capacity.*

Note 1: Where appropriate (and disclosed), impairment charges are excluded from the depreciation expense reported by the company.

Source: Company Annual Reports.

An upward adjustment to the depreciation expense in 2006 of €9,000 per MW of capacity for Endesa and €8,000 per MW for IBE would reduce the Spanish companies' operating income from electricity generation (€83,000 and €75,000 per MW, respectively – see Figure 2) by more than 10%. Due to a lack of comparable reported data, this analysis cannot be extended to the other companies.

4. Nuclear Power Plant Decommissioning Provisions

There are wide variations in the amounts set aside by the companies

At the end of 2006, the eight companies estimated their liability for managing nuclear waste at €60bn. Approximately half of this amount represents the cost of decommissioning the facilities themselves (the other half relates to fuel rods and other nuclear waste). The decommissioning liability reported in the balance sheet represents the companies' best estimate (in present value terms) of the expenditure required to dismantle the power plants at the end of their useful lives.

The following table compares each company's installed nuclear capacity with the amount provided in the balance sheet for decommissioning the nuclear power plants. Endesa and IBE are excluded because the amounts involved, which are not disclosed separately, are not significant. This is because the two Spanish companies are responsible only for certain preliminary work before Enresa, the public radioactive waste management entity, assumes responsibility for decommissioning their plants. Vatt is excluded because the cost of decommissioning the facilities is not reported separately from the liability related to fuel rods and other nuclear waste.

Figure 6: Decommissioning nuclear power plants - simplistic comparison

€ million

At 31 December 2006	*EDF	**EnBW	ENEL	E-ON	RWE	Suez
Decommissioning provision in the balance sheet (note 1)	10,000	2,689	679	8,988	4,213	1,649
Discount rate used by the company	5.0%	5.5%	4.2-4.5%	nd	5.0%	5.0%
Installed nuclear capacity (MW) (note 2)	63,130	4,450	2,460	11,055	6,308	6,300
Provision per MW of installed capacity (€ thousand)	**158**	**604**	**276**	**813**	**668**	**262**

** The column headed "EDF" refers to EDF's nuclear power plants in France only.*

*** EDF owns 46.07% of EnBW and the German company is proportionately consolidated in EDF's accounts. The column headed "EnBW" reflects 100% of EnBW and the decommissioning provision is taken from EnBW's accounts.*

Note 1: The amount reported in EDF's balance sheet (€10.65bn) has been reduced by Moody's to exclude a rough estimate of the portion that relates to fossil-fired plants. The amount shown for Suez is taken from Electrabel's balance sheet.

Note 2: This represents the "headline" capacity as reported by the company.

"nd" = not disclosed by the company.

Source: Company Annual Reports.

The calculations in Figure 6 above are simplistic because they assume that the power plants have similar remaining lives for accounting purposes, and that there is no disconnect between the reporting of installed capacity and the accounting treatment adopted for balance sheet purposes. Another complication is that the balance sheet liability will include amounts set aside for plants that are excluded from installed capacity because they have been withdrawn from service (such as EDF's first generation UNGG power plants and others including Creys-Malville).

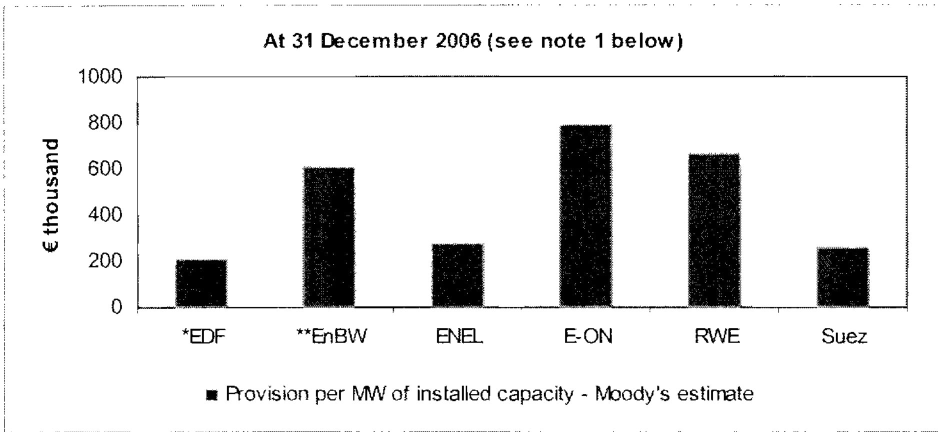
We estimate that EDF's nuclear power plants in France have an average remaining life for accounting purposes of about 20 years, compared with approximately 10 years for the German companies' plants and those belonging to Suez. To better compare the amounts provided in the balance sheet at the end of 2006, we should therefore assume that EDF's plants are 10 years older and that the balance sheet provision has consequently been accreted upwards by another 10 years of discount unwinding at 5.0% per annum. After reducing the balance sheet liability to exclude an estimate of the amounts relating to plants that have already been withdrawn from service, we estimate that, on a comparable age basis, EDF has provided the equivalent of approximately €200,000 per MW of installed capacity in France (see Figure 7 below).[5] In EDF's Reference Document for 2006, the company explains that "with respect to PWR-type reactors [in France], the provisions were made on the basis of an estimated amount of €294 (2006 Euros) per kW installed" and that "this estimated decommissioning cost, initially assessed by the Peon Commission (1979), was confirmed by detailed studies carried out in 1999 on the basis of a representative example: the Dampierre site (a site with four reactors). Furthermore, an international comparison conducted by the OECD in late 2003 showed that EDF's estimates are consistent with the estimates made by other countries."

As noted earlier in this report, we estimate that approximately 900 MW (8%) of E.ON's disclosed nuclear capacity is excluded from plant and the related decommissioning liability reported in the company's balance sheet. However, the balance sheet liability includes amounts set aside for decommissioning the plants at Würgassen and Stade which are not included in installed capacity because they have been withdrawn from service. E.ON has provided €1.7bn for Würgassen and Stade. This includes the management of spent nuclear fuel rods, as well as the dismantling of the plants. After adjusting E.ON's installed capacity for the off-balance-sheet element, and excluding say €1.0bn for Würgassen and Stade, we estimate that E.ON has provided the equivalent of €788,000 per MW of installed capacity (see Figure 7 below).

[5] The estimate of €200,000 per MW excludes a further 10 years of discount unwinding that would take place before the decommissioning date is reached.

We have not adjusted the amounts provided by EnBW, ENEL, RWE and Suez to recognise the possibility that part of the balance sheet liability could relate to plants that have already been withdrawn from service.

Figure 7: Decommissioning nuclear power plants - Moody's adjusted comparison



** The column headed "EDF" refers to EDF's nuclear power plants in France only.*

*** EDF owns 46.07% of EnBW and the German company is proportionately consolidated in EDF's accounts. The column headed "EnBW" reflects 100% of EnBW and the decommissioning provision is taken from EnBW's accounts.*

Note 1: The estimates shown above reflect the position at 31 December 2006 except that EDF's plants are assumed to be 10 years older (on average) than they actually are. EDF's balance sheet provision, after excluding Moody's estimate of the amount (€2bn) relating to plants already withdrawn from service, has therefore been uplifted by 10 years of interest at 5.0% per annum.

Note 2: E.ON's balance sheet liability has also been reduced by Moody's estimate of the amount (€1bn) relating to plants already withdrawn from service. E.ON's nuclear capacity has been reduced by Moody's estimate of the amount (912 MW) that is not reported in the balance sheet.

Source: Company Annual Reports and Moody's estimates.

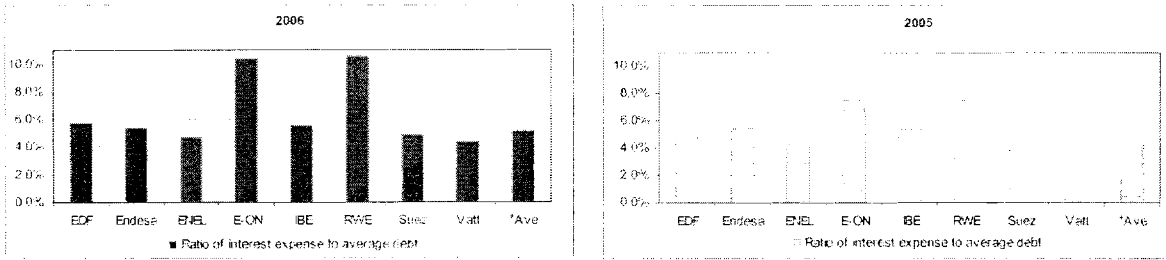
Moody's adjusted comparison of the amounts set aside for decommissioning nuclear power plants is far from precise, but it nevertheless reveals that the amounts provided by EDF (in relation to the company's plants in France), ENEL and Suez are significantly lower than those reported in the balance sheets of the three German companies (EnBW, E.ON and RWE). The latter have all provided more than €600,000 per MW compared with less than €300,000 per MW for the non-German companies. In this context, it is notable that Vatt has provided approximately €1.1m per MW for the Brunsbüttel plant in Germany of which say 50% could relate to the decommissioning of the facility – €550,000 (or thereabouts) per MW would not be entirely dissimilar to the figures reported by EnBW and RWE.

5. Other Accounting Differences

Interest expense as reported by E.ON and RWE is disconnected from the average level of their debt

Figure 8 below compares interest expense as reported by the eight companies with the average level of their debt. A more sophisticated calculation would be based on daily debt balances, but this exercise does not require that degree of precision. We have consequently used a simplistic average of the opening and closing balance sheet amounts. However, for RWE in 2006, the opening amount has been given a weighting of 11 months compared with one month for the closing amount in order to incorporate the material impact of the Thames Water disposal on 1 December 2006. In addition, for ENEL, balance sheet debt at 31 December 2004 has been reduced by €8.84bn which we have used as a proxy for debt attributable to the operations discontinued in 2005 (Terna and Wind).

Figure 8: Interest expense compared with average debt



Note 1: For the purpose of this exercise, "debt" comprises "loans and other financial liabilities" (EDF), "bank borrowings and other financial liabilities" (Endesa), "financial liabilities" (E-ON and RWE), "financial debt" (ENEL), "bank borrowings – loans" (IBE), "borrowings" (Suez) and "capital securities and interest-bearing liabilities" (Vatt).

Note 2: Interest expense excludes interest related to the unwinding of discounted provisions, but it includes interest that has been capitalised (unless it is insignificant).

** Average excludes E.ON and RWE.*

Source: Company Annual Reports.

Neither E.ON nor RWE explains in their accounts how they have calculated the amounts reported as interest expense, although RWE points out that "the increased use of interest-rate derivatives led to a substantial rise in interest income and interest expenses." There is no detailed guidance in IFRS regarding the presentation of interest rate swaps taken out to hedge debt. In Moody's experience, it is not uncommon under IFRS for the payment leg on an interest rate swap (say 6%) to be added to the coupon paid to the bondholders (say 5%) such that interest expense appears as 11% (the total gross outflow). The incoming leg on the swap is then usually reported as "interest income". Alternatively, the net payment on the swap could be reported as an adjustment to interest expense. Comparability will consequently be affected if some companies are using the former (grossed-up) presentation and others the latter (netted-down) approach.

IFRS does not currently prescribe a single method of accounting for borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets can currently be reported as interest expense in the income statement (the benchmark treatment),[6] or capitalised as part of the cost of the relevant asset (the allowed alternative treatment). The allowed alternative treatment under IFRS is mandatory under US GAAP. Apart from E.ON (who reported under US GAAP in 2006), the companies were therefore able to select the method they regarded as most appropriate – three chose the benchmark treatment whereas four selected the allowed alternative:

Figure 9: Accounting for borrowing costs in 2006

	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Accounting method selected (note 1)	Exp	Cap	Exp	Cap	Cap	Exp	Cap	Cap

Note 1: "Cap" = borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of the relevant asset; "Exp" = these costs are expensed in full as incurred.
Source: Company Annual Reports.

Jointly controlled entities are treated differently

Under IFRS, jointly controlled entities can be included in the consolidated accounts using the equity method of accounting (the treatment prescribed for E.ON under US GAAP), or via proportionate consolidation (which is not permitted under US GAAP). When there is a choice of accounting method, there is invariably a lack of consistency in the outcome:

[6] The benchmark treatment has been abolished for accounting periods commencing in 2009.

Figure 10: Accounting for jointly controlled entities in 2006

	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Accounting method selected (note 1)	Prop	Equity	Prop	Equity	Prop	Equity	Prop	Equity

Note 1: "Prop" = proportionate consolidation; "Equity" = equity method.
Source: Company Annual Reports.

Certain assets essential to the business are leased rather than purchased outright

IFRS requires that leases deemed to be of a "financing" nature must be reported on the balance sheet. All other leased assets are excluded from the balance sheet, but the total of the future minimum lease payments under non-cancellable "operating" leases must be disclosed in a note to the accounts. Although all lease agreements involve assets being made available to the company for a specified period in return for a series of payments, they are accounted for quite differently depending on their classification as either "finance" or "operating" leases.

Off balance sheet leased assets are usually not very material in this sector. The operating lease expense is typically equivalent to about 0.5% of sales, although the ratio exceeds 1% for both ENEL and Suez in 2006. For Suez, the leased assets include LNG tankers, and miscellaneous buildings and fittings.

IFRS does not prescribe how to account for emission allowances

There are no specific rules in IFRS on how to account for greenhouse gas emission allowances. As shown in Figure 11 below, the two Spanish companies report the allowances that have been granted to them free of charge by the State at fair value (with a corresponding credit to deferred income), whereas the other five IFRS reporters effectively exclude these allowances from the balance sheet by recording them at cost (i.e. zero).

Figure 11: Accounting for emission allowances in 2006

	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Accounting method selected (note 1)	Cost	FV	Cost	Cost	FV	Cost	Cost	Cost

Note 1: "FV" = allowances allocated free of charge are recorded at market value, with a corresponding credit to deferred income. "Cost" = allowances are only recorded when acquired by the company for consideration.

Source: Company Annual Reports.

Although the treatment in the balance sheet of the emission allowances received by the companies is not consistent, the impact on net income should be the same. This is because the companies will ultimately have to record the cost of making good any shortfall in the allowances granted to them. However, there are likely to be differences in the presentation of the income statement, and possibly in the cash flow statement as well. For example, E.ON states that emission rights acquired are reported as inventory in the balance sheet. This suggests that the related cash outflow is reported as an "operating" activity in the cash flow statement. RWE and Vatt appear to adopt a broadly similar approach by reporting the emission rights that they have acquired as intangible assets under current, rather than non-current, assets. In contrast, EDF, Endesa, IBE and Suez report emission allowances as non-current intangible assets. This raises the possibility that the related cash outflow could be reported as an "investing" activity in the cash flow statement, with the expense being "added back" as "amortisation" in the calculation of EBITDA. There is insufficient information to determine whether measures such as EBITDA, CFO, FFO and RCF could be affected by possible inconsistencies in the accounting for emission allowances.

Gross debt is not defined and computed in the same way

Debt is a "non-GAAP" measure since it is not defined in IFRS or US GAAP. Although the eight companies use different captions when they describe liabilities typically considered to be "debt", the component parts are similar except that:

- Financial derivatives with negative carrying values are included in balance sheet "debt" by Endesa and IBE. These derivatives are reported as separate (non-debt) liabilities by EDF, ENEL, E.ON, RWE, Suez and Vatt.
- Accrued interest is reported as a separate (non-debt) liability by ENEL, E.ON and Vatt, but it appears to be included in balance sheet "debt" by the other five companies.

Different assets are deducted from debt when computing net debt

Net debt is a "non-GAAP" measure since it is not defined in IFRS or US GAAP. All eight companies deduct cash and cash equivalents from gross debt in arriving at the headline figure they report as "net debt", but this is where the similarity ends. In addition to cash and cash equivalents:

- EDF includes "liquid assets" that are managed under a liquidity-oriented policy. These comprise funds or interest rate instruments with an initial maturity over three months that are readily convertible into cash regardless of their maturity.[7]
- Endesa includes certain derivative assets.
- ENEL includes current asset securities, financial receivables due from associates, factoring receivables and other short- and long-term financial receivables.
- E.ON includes securities and funds that are reported as current assets and fixed assets in the balance sheet.
- IBE includes certain derivative assets, assets for sale and CNE settlements.
- RWE includes current and non-current marketable securities and other financial assets. The latter include collateral deposits made for trading activities (RWE includes collateral deposits received in gross debt).
- Suez includes current financial assets measured at fair value through income (mainly UCITS held for trading purposes and expected to be sold in the near term) and certain derivative assets.
- Vatt includes short-term investments (including shares) reported as current assets.

[7] EDF SA's financial assets (€6.26bn at the end of 2006) dedicated to cover long-term expenses related to nuclear plant decommissioning and end of nuclear fuel cycle expenses are not included in net debt as calculated by the company.

Appendix – Extracts from Moody's Financial Metrics

Figure A1: FFO and RCF per Moody's Financial Metrics

€ billion

2006	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
CFO as standardised (note 1)	11.80	3.88	6.76	7.19	2.38	6.78	4.86	3.87
Working capital as reported	-0.65	0.77	-0.62	1.29	0.27	0.53	0.23	0.09
Working capital adjustment (note 2)	0.12	na	-0.71	na	-0.06	na	0.12	na
FFO as standardised	**11.26**	**4.64**	**5.43**	**8.49**	**2.59**	**7.32**	**5.20**	**3.96**
Excess of pension contributions over service cost	0.06	0.03	na	na	na	na	0.12	na
Two-thirds of operating lease expense treated as capex	0.29	0.06	0.28	0.15	0.04	0.08	0.38	0.04
Hybrids (note 3)	na	na	na	na	na	na	na	0.04
Capitalised interest reallocated to operating activities	na	-0.07	na	nm	na	na	nm	nm
Unusual items (note 4)	-0.04	nm	nm	1.42	nm	-0.64	nm	-0.14
Other (note 5)	-0.01	na	na	-0.07	na	na	nm	na
FFO per Moody's Financial Metrics	**11.56**	**4.66**	**5.71**	**9.99**	**2.63**	**6.76**	**5.70**	**3.90**
Dividends paid	-1.53	-2.89	-3.96	-4.86	-0.87	-1.21	-1.72	-0.65
Hybrids (note 3)	na	na	na	na	na	na	na	-0.04
RCF per Moody's Financial Metrics	**10.03**	**1.78**	**1.75**	**5.13**	**1.76**	**5.55**	**3.97**	**3.22**

2005	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
CFO as standardised (note 1)	8.44	3.36	5.69	6.54	1.21	5.30	5.35	2.69
Working capital as reported	-1.37	0.85	0.28	1.01	1.05	-0.20	-0.80	0.71
Working capital adjustment (note 2)	-1.08	na	nd	na	0.05	na	-0.10	na
FFO as standardised	**5.99**	**4.21**	**5.97**	**7.55**	**2.31**	**5.10**	**4.45**	**3.39**
Excess of pension contributions over service cost	0.03	0.01	0.08	0.52	0.00	na	0.08	na
Two-thirds of operating lease expense treated as capex	0.27	0.06	0.26	0.07	0.03	0.17	0.36	0.05
Hybrids (note 3)	na	na	na	na	na	na	na	0.02
Capitalised interest reallocated to operating activities	na	-0.05	na	nm	na	na	nm	nm
Unusual items (note 4)	3.82	-0.18	nm	-1.20	nm	na	nm	-0.45
Other (note 5)	na	na	na	-0.07	na	na	-0.01	na
FFO per Moody's Financial Metrics	**10.11**	**4.05**	**6.31**	**6.88**	**2.34**	**5.27**	**4.87**	**3.01**
Dividends paid	-0.43	-1.01	-3.47	-1.79	-0.73	-1.07	-1.52	-0.64
Hybrids (note 3)	na	na	na	na	na	na	na	-0.02
RCF per Moody's Financial Metrics	**9.68**	**3.04**	**2.84**	**5.09**	**1.62**	**4.20**	**3.35**	**2.35**

Note 1: CFO as reported by IBE and Suez has been adjusted (where appropriate) to include interest received, dividends received, interest paid and income taxes paid.

Note 2: When the change in working capital excludes timing differences between current tax expense and tax paid, and between net interest expense and net interest paid, Moody's includes these additional elements in working capital.

Note 3: For Vatt, interest expense is adjusted to be consistent with Moody's classification of the hybrid security.

Note 4: Unusual items include E.ON's mark-to-market gains (€1.2bn in 2005) and losses (€2.7bn in 2006) on derivatives, one-off tax credits in Germany in 2006 (€1.28bn for E.ON, €636m for RWE and €136m for Vatt), and EDF's payments for the dismantling of the Marcoule site (€551m in 2006 and €523m in 2005) and pension reform in 2005 (€3.30bn).

Note 5: "Other" represents interest expense (net of expected current tax relief) on other debt-like liabilities (see Figure A2).

Note 6: Amounts shown above may not add up due to rounding differences.

"na" = not applicable; "nm" = not material; "nd" = not disclosed.

Source: Moody's Financial Metrics.

Figure A2: Interest expense per Moody's Financial Metrics

€ billion

2006	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Interest expense as reported (note 1)	**1.66**	**1.07**	**0.64**	**1.41**	**0.68**	**2.82**	**1.10**	**0.36**
Pensions (note 2)	0.49	0.03	0.06	0.06	0.00	0.51	0.06	0.09
Nuclear waste management (note 2)	0.70	nm	0.03	0.48	nm	0.38	0.20	na
Operating leases (note 3)	0.15	0.03	0.14	0.07	0.02	0.04	0.19	0.02
Interest capitalised reversed	na	0.07	na	nm	0.09	na	nm	nm
Hybrids (note 4)	na	na	na	na	na	na	na	-0.04
Other (note 5)	0.02	na	na	0.11	na	na	nm	na
Interest expense per Moody's Financial Metrics	**3.02**	**1.20**	**0.87**	**2.14**	**0.78**	**3.74**	**1.55**	**0.43**

2005	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Interest expense as reported (note 1)	**1.56**	**1.05**	**0.69**	**1.27**	**0.56**	**2.05**	**1.08**	**0.33**
Pensions (note 2)	0.41	0.03	0.05	0.27	0.00	0.37	0.04	0.05
Nuclear waste management (note 2)	0.62	nm	na	0.39	nm	0.24	0.16	na
Operating leases (note 3)	0.14	0.03	0.13	0.03	0.02	0.08	0.18	0.02
Interest capitalised reversed	na	0.05	na	nm	0.08	na	nm	nm
Hybrids (note 4)	na	na	na	na	na	na	na	-0.02
Other (note 5)	na	na	na	0.11	na	na	0.02	na
Interest expense per Moody's Financial Metrics	**2.72**	**1.15**	**0.87**	**2.07**	**0.66**	**2.74**	**1.47**	**0.38**

Note 1: After deducting capitalised interest. Interest attributable to pensions, and the charge arising from the unwinding of provisions, are (where appropriate) both excluded from interest expense as reported.

Note 2: This represents the company's borrowing rate multiplied by Moody's adjustment to debt for pensions and nuclear waste management.

Note 3: One-third of the lease rental expense is deemed to be interest attributable to Moody's adjustment to debt for operating leases.

Note 4: For Vatt, interest expense is adjusted to be consistent with Moody's classification of the hybrid security.

Note 5: "Other" represents interest attributable to other debt-like liabilities.

Note 6: Amounts shown above may not add up due to rounding differences.

"na" = not applicable; "nm" = not material.

Source: Moody's Financial Metrics.

Figure A3: Debt per Moody's Financial Metrics

€ billion

2006	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt	TOTAL
Debt as reported (note 1)	**28.14**	**21.12**	**13.60**	**13.40**	**14.35**	**19.38**	**19.68**	**7.87**	**137.55**
Pensions (note 2)	11.68	0.75	1.43	1.53	0.02	11.84	1.44	2.03	30.72
Nuclear waste management (note 3)	16.52	nm	0.77	11.27	nm	8.83	4.68	*na	42.07
Operating leases (note 4)	2.64	0.55	2.55	1.34	0.36	0.68	3.39	0.35	11.86
Hybrids (note 5)	na	na	na	na	na	na	na	-0.74	-0.74
Accrued interest removed from debt	-0.55	nd	nd	na	nd	nd	nd	na	-0.55
Derivatives (note 6)	nm	-0.31	nm	nm	-0.11	nm	-0.02	nm	-0.44
Other (note 7)	1.63	0.21	0.62	3.23	0.06	1.94	0.30	nm	7.98
Debt per Moody's Financial Metrics	**60.06**	**22.32**	**18.97**	**30.77**	**14.68**	**42.67**	**29.47**	**9.52**	**228.45**

2005	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt	TOTAL
Debt as reported (note 1)	**29.72**	**21.04**	**13.26**	**14.36**	**13.11**	**27.83**	**25.49**	**8.65**	**153.46**
Pensions (note 2)	11.93	0.83	1.50	7.85	0.03	10.53	1.22	1.56	35.46
Nuclear waste management (note 3)	17.92	nm	na	11.28	nm	6.95	4.44	*na	40.60
Operating leases (note 4)	2.45	0.55	2.32	0.64	0.30	1.49	3.24	0.42	11.42
Hybrids (note 5)	na	na	na	na	na	na	na	-0.76	-0.76
Accrued interest removed from debt	-0.54	nd	nd	na	nd	nd	nd	na	-0.54
Derivatives (note 6)	nm	-0.14	nm	-0.16	-0.18	-1.27	-0.23	nm	-1.97
Other (note 7)	1.82	0.57	0.50	3.59	0.06	2.10	0.50	nm	9.14
Debt per Moody's Financial Metrics	**63.29**	**22.84**	**17.59**	**37.58**	**13.33**	**47.63**	**34.67**	**9.87**	**246.79**

Note 1: Debt as reported comprises "loans and other financial liabilities" (EDF), "bank borrowings and other financial liabilities" (Endesa), "financial liabilities" (E-ON and RWE), "loans" (ENEL), "bank borrowings and other financial liabilities" (IBE), "borrowings" (Suez) and "capital securities and interest-bearing liabilities" (Vatt).

Note 2: The pension adjustment is after deducting "equity credits" totalling €1.94bn (2005, €2.58bn) for EDF, nil (2005, €2.42bn) for RWE and €129m (2005, €787m) for Vattenfall.

Note 3: The nuclear waste management adjustment is after deducting "equity credits" totalling €1.29bn (2005, €1.59bn) for EDF, €1.95bn (2004, €1.68bn) for E-ON, €1.15bn for ENEL (2005, not applicable) and nil (2005, €1.72bn) for RWE.

Note 4: Operating leases are capitalised by multiplying the lease rental expense by six. However, when the present value of the minimum lease payments is higher, the latter figure is used instead.

Note 5: For Vatt, the balance sheet liability is adjusted to be consistent with Moody's classification of the hybrid security.

Note 6: Moody's generally includes derivatives in debt only when this (i) helps to adjust foreign-currency-denominated debt that has been converted into local currency via an effective hedging strategy and (ii) removes the distortion caused when fixed-rate debt is swapped into floating rates via interest rate swaps accounted for as fair value hedges.

Note 7: "Other" represents debt-like liabilities such as guarantees and put options (or similar rights held by minority, or former, shareholders in subsidiaries).

Note 8: Amounts shown above may not add up due to rounding differences.

"na" = not applicable; "nm" = not material; "nd" = not disclosed.

**na = not applicable because Vatt's liability for nuclear waste management in Sweden is covered by the company's share of assets in the Swedish Nuclear Waste Fund, and the liability in Germany is factored in via the loans payable to the power plant-owning companies.*

Source: Moody's Financial Metrics.

Figure A4: Net debt per Moody's Financial Metrics

€ billion

2006	EDF	Endesa	ENEL	E-ON	IBE	RWE	Suez	Vatt
Debt per Moody's Financial Metrics (see Figure A3)	**60.06**	**22.32**	**18.97**	**30.77**	**14.68**	**42.67**	**29.47**	**9.52**
Cash and cash equivalents	-3.32	-0.97	-0.55	-1.15	-0.70	-2.79	-7.95	-1.61
Additional cash-like current assets	-10.34	na	-0.03	-4.45	-0.09	-16.79	-0.83	-0.83
Less: Restricted cash included above	na	na	0.03	0.57	na	na	0.14	0.34
Earmarked financial assets (note 1)	-2.40	na	na	-5.78	na	na	na	na
Net debt per Moody's Financial Metrics	**44.01**	**21.35**	**18.42**	**19.96**	**13.88**	**23.09**	**20.83**	**7.43**

2005								
Debt per Moody's Financial Metrics (see Figure A3)	**63.29**	**22.84**	**17.59**	**37.58**	**13.33**	**47.63**	**34.67**	**9.87**
Cash and cash equivalents	-7.25	-2.61	-0.48	-4.35	-0.21	-1.43	-10.37	-0.67
Additional cash-like current assets	-4.34	na	-0.03	-5.45	-0.55	-10.34	-0.89	-0.88
Less: Restricted cash included above	na	na	0.02	na	na	na	0.27	0.60
Earmarked financial assets (note 1)	-2.28	na	na	-6.38	na	na	na	na
Net debt per Moody's Financial Metrics	**49.42**	**20.22**	**17.11**	**21.39**	**12.57**	**35.86**	**23.68**	**8.92**

Note 1: Non-current investment securities are included in net debt by Moody's only when they are formally earmarked for the unfunded pension and nuclear waste management liabilities that we have included in gross debt.

Note 2: Amounts shown above may not add up due to rounding differences.

"na" = not applicable.

Source: Moody's Financial Metrics.

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