

**Iberdrola S.A. Acquisition of Energy East**

**PSC Case No. 07-M-0906**

**Information Request**

**Requesting Party and No.:** (DPS-2) D' Ambrosia

**New York Response No.:** IBER-0002

**Request Date:** August 21, 2007

**Information Requested of:** Robert E. Rude

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**Reply Date:** August 31, 2007

**Responsible Witness:** Pedro Azagra / Robert E. Rude

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**QUESTION:**

Please provide the one-time incremental costs to achieve the merger that were incurred up to the filing of the Petition on August 1, 2007, and provide estimates of the costs that will be incurred upon and after completion of the merger (*i.e.*, after August 1, 2007) by year, by entity (*e.g.*, Iberdrola, Energy East, EEMC, NYSEG, RG&E, etc.), and by type (*e.g.*, change in control or retention payments, attorney/ investment banker/ advisor/ consulting fees, taxes, etc.)

**RESPONSE:**

All incremental costs borne by either Iberdrola or Energy East to consummate the Proposed Transaction will be expensed, with no cost being allocated to Energy East subsidiaries.

Iberdrola currently estimates its transaction costs at approximately \$24 million, which mainly consists of investment banking and lawyer fees (and excludes costs associated with Iberdrola's equity offering that raised the equity needed to close the Proposed Transaction in the capital markets). To date, Iberdrola has expensed \$8 million of such costs.

Energy East currently estimates its transaction costs at approximately \$20-22 million, which mainly consists of investment banking and lawyer fees. To date, Energy East has expensed \$4.4 million of such costs.

Neither Energy East nor Iberdrola has estimated the cost of potential transfer taxes or other taxes associated with the Proposed Transaction.

Neither NYSEG nor RG&E will seek to recover from their ratepayers any of the costs incurred to consummate the Proposed Transaction, or any acquisition premium.

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**Information Request**

**Requesting Party and No.:** (DPS-4) D' Ambrosia

**New York Response No.:** IBER-0004

**Request Date:** August 21, 2007

**Information Requested of:** Robert E. Rude

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**Reply Date:** August 31, 2007

**Responsible Witness:** Pedro Azagra / Robert E. Rude

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**QUESTION:**

The Testimony (pg. 9, ln. 7) states that "the Proposed Transaction will not result in the synergistic savings that sometimes accompany mergers where the operations of individual operating companies are combined."

1. Please explain why there will be no synergistic savings as a result of this merger.
2. Will there be any avoided costs at the RG&E or NYSEG level as a result of the merger in the long or short run? If so, please quantify such avoided costs.

**RESPONSE:**

1. Iberdrola does not own any regulated utilities in the United States. Therefore, the Proposed Transaction does not involve the combination or elimination of corporate or utility operating functions, which are necessary to produce such savings. Instead, the Proposed Transaction is a straightforward change in upstream ownership from Energy East to Iberdrola shareholders
2. The transacting parties do not currently anticipate that there will be any avoided costs at the RG&E or NYSEG levels as a result of the Proposed Transaction in the long or short run.

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**PSC Case No. 07-M-0906**

**Information Request**

**Requesting Party and No.:** (DPS-6) D'Ambrosia

**New York Response No.:** IBER-0006

**Request Date:** August 21, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** August 31, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

Page 4 of the June 25, 2007 Iberdrola Press Release states: "The transaction will allow IBERDROLA the tax optimization of its current position in renewable energy in the U.S."

1. Please explain what is meant by "tax optimization." Describe the types of tax savings strategies will be employed or utilized after the merger.
2. Provide a schedule of the expected tax optimization benefits by type, by year for 2008-2017.

**RESPONSE:**

1. The tax optimization referenced in the Press Release (which is an English translation of a Spanish press release), which is a result of favorable tax laws to encourage the development of wind generation in the United States, is explained below. Iberdrola has not yet determined whether it will be able to utilize the tax liability from Energy East to offset potential production tax credits from wind projects that Iberdrola may in the future develop. Furthermore, and significantly, as explained below, production tax credits are not dependent upon the Proposed Transaction, and would exist for future wind projects for Iberdrola, regardless of the Proposed Transaction.

Iberdrola is a significant participant in the wind generation development area. The production tax credit mechanism was created as a subsidy for wind power developers to expand wind generation development in the U.S. As background, the amount of the federal production tax credit for qualifying wind facilities is currently 2.0 cents per kWh

of electricity produced in the U.S. from wind and sold to unrelated persons. These tax credits are a creation of U.S. federal law, and are not costs or benefits that are relevant to any particular electric utilities or their customers.

If Iberdrola's affiliates are successful in developing certain wind facilities in the United States, they would have a number of avenues to utilize the resulting production tax credits. In order to utilize federal production tax credits, the recipient of the federal production tax credits must have sufficient U.S. taxes to fully use these federal production tax credits. Iberdrola's subsidiaries and affiliates could bring in another entity to be a "tax equity" owner of the wind facilities, which entity could contribute its ownership and cash in exchange for the use of the production tax credits produced (most, if not all, of the operating wind generation facilities in the United States acquired by Iberdrola already have this kind of "tax equity" structure in place). Alternatively, if there were other tax liabilities in the relevant and applicable consolidated Iberdrola entity that are eligible for offset, then the production tax credits for these new development projects could be utilized by that consolidated entity.

Iberdrola Renovables, S.A., formerly known as Iberdrola Energias Renovables, S.A., ("Iberdrola Renewables"), an affiliate of Iberdrola that will own and control most (if not all) of Iberdrola's indirectly owned wind development projects, is in the process of conducting an initial offering pursuant to which up to 25% of the share capital of Iberdrola Renewables will be offered to the public. Iberdrola Renewables has not yet determined how it would utilize its production tax credits for new wind generation development projects, if and when Iberdrola Renewables' wind projects are developed and operating, and Iberdrola Renewables may not be consolidated with Iberdrola for tax purposes. If the consolidated tax group for Iberdrola Renewables does not have sufficient tax liability to utilize all of its future PTCs, then Iberdrola Renewables may need to bring in "tax equity" investors. It is expected that Iberdrola Renewables will retain 100% ownership of at least some of the wind farms to offset U.S. tax liabilities from all sources of businesses for the entities in the consolidated tax group.

2. There are no "tax optimization benefits" that are dependent upon this Proposed Transaction. See response to 1. above.

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**Information Request**

**Requesting Party and No.:** (DPS-8) D' Ambrosia

**New York Response No.:** IBER-0008

**Request Date:** August 21, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** August 31, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

Pg. 4 of the June 25, 2007 Iberdrola Press Release states: "The operation gives IBERDROLA an excellent opportunity to acquire a vertically integrated company with complementary capacities in the U.S. market and significant scope for future investment in generating capacity and in new networks."

1. Provide the amount of planned amounts of future investments in generating capacity, by type and geographic location for the years 2008-2017. Specify the level of investments, if any in generating capacity in the service territories of NYSEG or RG&E.
2. Please explain the assumed ratemaking and regulatory treatment of generation located in New York State and outside the NYSEG and RG&E service territories.
3. Please explain the assumed ratemaking and regulatory treatment of generation located within the NYSEG and RG&E service territories.
4. Provide the amount of planned amounts of future investments in new networks, by type (electric or gas, transmission or distribution) and geographic location for the years 2008-2017. Specify the level of investments, if any, in electric or gas transmission or distribution capacity in the service territories of NYSEG or RG&E.
5. Please explain the assumed ratemaking and regulatory treatment of transmission located in New York State and outside the NYSEG and RG&E service territories.

**RESPONSE:**

1. The following is a list of wind projects that are currently being developed by affiliates of Iberdrola within New York that may be in operation within the next five years. Completion of any such project depends on a number of factors, including changes in regulation, wind conditions, market prices, and price of turbines. Iberdrola's affiliates do not currently have any plans to add any generation capacity in the service territories of NYSEG or RG&E.
  - 80 MW Hardscrabble Project: Fairfield, Herkimer County;
  - 98 MW Jordanville Project: Jordanville, Herkimer County;
  - 126 MW Horse Creek Project: Clayton, Jefferson County;
  - 80 MW Roaring Brook Project: Martinsburg, Lewis County; and
  - 250 MW Dutch Gap Project: Jefferson County.
2. Iberdrola's interest in unregulated generation in New York is small. As described in the Joint Petition, Iberdrola only has an indirect, partial ownership interest in Flat Rock Windpower LLC and Flat Rock Windpower II, LLC, which own and operate a 231 MW wind facility and 90.75 MW wind facility, respectively. Iberdrola does not have an "assumed" ratemaking and regulatory treatment for this unregulated generation in New York. Iberdrola's existing unregulated generation in New York makes market-based sales, including sales into the NYISO markets.
3. Iberdrola does not have any current plans to alter Energy East's current and proposed regulatory treatment of generation in the service territories of NYSEG or RG&E.
4. Iberdrola does not have any current plans to alter Energy East's planned future investments.
5. The ratemaking and regulatory treatment of transmission located in New York State and outside NYSEG and RG&E service territories will be in accordance with the applicable jurisdictional rules and regulations.

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**PSC Case No. 07-M-0906**

**Information Request**

**Requesting Party and No.:** (DPS-9) D'Ambrosia

**New York Response No.:** IBER-0009

**Request Date:** August 21, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** August 31, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

Pg. 4 of the June 25, 2007 Iberdrola Press Release states: "The operation gives IBERDROLA an excellent opportunity to acquire a vertically integrated company with complementary capacities in the U.S. market and significant scope for future investment in generating capacity and in new networks."

1. Please state whether Iberdrola plans on establishing a new entity or use an existing entity to manage its consolidated operations in the United States, and describe that entity, including budgets, headcounts, structure, organizational charts, etc.

**RESPONSE:**

1. Iberdrola has not proposed and currently has no plans to create any new entities to manage the operations of NYSEG or RG&E. Iberdrola typically relies on local management to make day-to-day operational decisions. Iberdrola's non-Energy East-related operations in the United States will be managed separately from the Energy East operating utilities.

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**Information Request**

**Requesting Party and No.:** (DPS-11) D'Ambrosia

**New York Response No.:** IBER-0011

**Request Date:** August 21, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** August 31, 2007

**Responsible Witness:** Pedro Azagra / Robert E. Rude

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**QUESTION:**

Iberdrola's First half Results 2007 Quarterly Report page 26 states "Bank of America Securities and ABN AMRO acted as advisor banks to IBERDROLA" in the matter of the agreement between IBERDROLA and Energy East.

1. Please provide all due diligence, valuation, opinions, reports etc. prepared by the respective advisor banks on the Iberdrola - Energy East transaction that have been or will be disseminated to shareholders.
2. Did Iberdrola or Energy East engage any other advisors or outside experts to assist it in the due diligence, valuation, of the Energy East transaction? If so, provide all due diligence, valuation, opinions, reports etc. prepared on the Iberdrola - Energy East transaction that have been or will be disseminated to shareholders.

**RESPONSE:**

1. **For Iberdrola:**

See attached (1) June 26, 2007 Iberdrola report for presentation to the media, investors and analysts; and (2) June 25, 2007 Significant Event filing by Iberdrola with the Spanish National Securities Market Commission (*Comisión Nacional del Mercado de Valores*).

**For Energy East:**

Please see the attached Preliminary Proxy Statement – Schedule 14A filed with the SEC on August 16, 2007. Pursuant to engagement letters, Energy East retained JPMorgan and Greenhill (the “Financial Advisors”), to serve as co-financial advisors and deliver fairness opinions in connection with the proposed merger

2. Iberdrola and Energy East engaged other advisors. The information provided to the respective shareholders is provided in response to 1, above.