

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

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

**Information Request**

**Requesting Party and No.:** (DPS-13) D'Ambrosia

**New York Response No.:** IBER-0013

**Request Date:** August 21, 2007

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

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**Reply Date:** August 31, 2007

**Responsible Witness:** Robert E. Rude

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**QUESTION:**

1. Did RG&E, NYSEG, Energy East (or its affiliates), EEMC or USSC enter into any contracts with Iberdrola or its affiliates prior to the announcement of the merger? If so, list and describe each contract.

**RESPONSE:**

The only agreement entered into between Iberdrola (or any of its affiliates or subsidiaries) and Energy East (or any of its affiliates or subsidiaries) was a standard confidentiality agreement in which each party agreed to keep confidential the information given to it by the other.

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

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

**Information Request**

**Requesting Party and No.:** (DPS-16) D'Ambrosia

**New York Response No.:** IBER-0016

**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:**

1. Is Iberdrola required to any file annual or quarterly report(s) with non-U.S. energy regulators that are analogous to the PSC Annual Reports or FERC Form 1? If so, provide the most recent annual and quarterly reports that Iberdrola has filed in any jurisdiction exercising oversight over its energy operations.

**RESPONSE:**

Under Spanish Law, companies that are engaged in electric power-related activities must comply with certain regulatory reporting obligations. Iberdrola provides the relevant Spanish regulators with periodic information to comply with these obligations.

None of these reports is analogous to either the FERC Form 1 or the PSC Annual Report. However, one regulatory report may be useful for the Staff's regulatory review in this proceeding. In particular, Iberdrola submits quarterly reports to the Spanish National Energy Commission (*Comisión Nacional de Energía*) that contains its financial statements of accounts (Balance Sheet, Profit and Loss Account and Management Report). Iberdrola is in the process of obtaining the latest such report, and will translate such report into English shortly. Once such document is obtained and translated, Iberdrola will provide such report (subject to Trade Secret and/or Confidential Commercial Information Protection). Iberdrola will do its best to send such English translation within five (5) business days.

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

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

**Information Request**

**Requesting Party and No.:** (DPS-20) D'Ambrosia

**New York Response No.:** IBER-0020

**Request Date:** September 5, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 17, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

20. Please enumerate any services that will be provided by Iberdrola to RG&E and NYSEG after the transaction is completed that were not provided by Energy East to them prior to the transaction.

**RESPONSE:**

The transacting parties have not determined whether, as a result of the Proposed Transaction, any new services will be provided by Iberdrola that are not currently being provided by Energy East for RG&E and NYSEG.

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

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

**Information Request**

**Requesting Party and No.:** (DPS-25) D'Ambrosia

**New York Response No.:** IBER-0025

**Request Date:** September 5, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 17, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

25. Please identify any intermediate holding companies or subsidiaries of Energy East that Iberdrola is considering eliminating and discuss and explain the reasons for each.

**RESPONSE:**

The context of this statement is that Iberdrola believes that some of the intermediate holding companies in the Energy East structure may be unnecessary and that the current Energy East corporate structure could be simplified (i.e., certain intermediate companies eliminated) without having any impact on service or regulation. Iberdrola has not undertaken any detailed analyses on these issues, and is not proposing any specific modifications with respect to such simplification of the holding company system. Iberdrola does not expect that it will be able to evaluate these issues fully until after closing.

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

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

**Information Request**

**Requesting Party and No.:** (MI-1) Mager

**New York Response No.:** IBER-0027

**Request Date:** September 6, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 17, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

1. Identify all quantifiable benefits likely to be realized by customers of New York State Electric & Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E") if Iberdrola, S.A. ("Iberdrola") is authorized to acquire Energy East Corporation ("Energy East").

**RESPONSE:**

Because the Proposed Transaction represents an acquisition by Iberdrola at the Energy East holding company level rather than a combination of the operations of individual operating companies, the transacting parties do not anticipate that the Proposed Transaction will result in any synergistic savings.

The Joint Petitioners believe that the acquisition of Energy East by Iberdrola provides significant benefits to consumers and the economy of New York State with no foreseeable detriments. These benefits are realized in three general areas.

The first noteworthy area is Iberdrola's expertise in operating electric and natural gas systems in a number of diverse locations including Spain, the United Kingdom (U.K.) and Latin America with over 21 million points of supply. Iberdrola's three-year average CAIDI and SAIFI results in both Spain and the UK compare favorably to Energy East's performance and put them in the 1<sup>st</sup> or 2<sup>nd</sup> quartiles compared to U.S. utilities. In addition, Iberdrola has a strong record of focusing on efficiency. Iberdrola has addressed efficiency from a number of perspectives, including upgrading its T&D network, encouraging alternative generation options, reducing losses, introducing demand

management programs and encouraging conservation. Iberdrola's breadth of global experience will allow for the sharing of this information with Energy East's utilities following closing of the Proposed Transaction.

Second, the size and strength of Iberdrola's balance sheet, its higher bond rating, and its conservative financial philosophy should provide future benefits to customers of NYSEG and RG&E through greater access to capital than what would otherwise be the case on a standalone basis. An illustration of this conservative financial philosophy was Iberdrola's sale of \$4.5 billion of equity two days after the announcement to fund the proposed purchase. All of these financial attributes are particularly significant given the increased capital spending that NYSEG and RG&E face to ensure a safe, reliable energy infrastructure and to address consumers' growing demand for electricity and natural gas in an environmentally responsible manner. These direct tangible savings have not been quantified because they require assumptions about future capital spending and market conditions. It is clear that this stronger financial condition benefits customers in the long run.

The third area of benefit is Iberdrola's expertise in constructing and operating renewables and emerging "green" technologies, which New York needs to fulfill its stated Renewable Portfolio Standard objectives, which are in the best interests of customers. Iberdrola's global engineering and construction company has an impressive record of efficiently building transmission and distribution infrastructure, as well as power plants. They have developed over 36,000 MW over the last 10 years including nuclear, hydro, gas-fired and renewable energies.

As the world becomes more conscious of the importance of building environmentally responsible generation, Iberdrola has taken a leadership position in building renewable generation including wind and hydro power. Its 7,000 MW of installed wind capacity ranks it number one in the world. Its strong R&D efforts in generation include focusing on marine renewables, specifically wave power and tidal stream power. Projects in both these areas are currently underway in the U.K.

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

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

**Information Request**

**Requesting Party and No.:** (MI-3) Mager

**New York Response No.:** IBER-0029

**Request Date:** September 6, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 17, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

3. With respect to page 2 of the Joint Petition, do the Joint Petitioners still contend that the proposed transaction will not produce any synergy savings whatsoever?

**RESPONSE:**

See response to IBER-0027.

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

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

**Information Request**

**Requesting Party and No.:** (MI-11) Mager

**New York Response No.:** IBER-0037

**Request Date:** September 6, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 17, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

11. Starting on page 5 of the Joint Petition, there is a discussion of Iberdrola's emphasis on "using technologies that are cleaner, more efficient, and environmentally friendly." Is Iberdrola planning to construct additional renewable electric generation in New York? If yes: (a) identify and describe any future projects that already are under consideration; (b) specify whether such projects would be owned by a regulated entity (*e.g.*, NYSEG, RG&E) or an unregulated entity; and (c) specify whether the development of such projects is contingent upon the closing of the proposed transaction and, if so, explain such contingency.

**RESPONSE:**

See response to IBER-0030. (a) See the response to IBER-0040, which identifies the generation in New York currently being developed by Iberdrola affiliates. (b) None of these projects would be owned by a regulated entity (*e.g.*, NYSEG or RG&E) but rather would be owned by "lightly regulated" entities. (c) The development of these projects is not contingent upon the closing of the Proposed Transaction.



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

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

**Information Request**

**Requesting Party and No.:** (DPS-32) D'Ambrosia

**New York Response No.:** IBER-0058

**Request Date:** September 13, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 24, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

Follow up to DPS-6/IBER-0006:

“The tax optimization referenced in the Press Release...is an English translation of a Spanish press release...”

1. Does the Response to DPS-6/IBER-0006 suggest that the translation in the Press Release is inaccurate? If so, provide a more accurate translation.
2. The Response to DPS-11/IBER-0011, Attachment 1, page 6 states: “Iberdrola expects to benefit from Energy East’s taxable income to optimize its current position in renewable energies in the US” (emphasis added). Is the translation in the Response to DPS-11/IBER-0011 accurate?
3. Please provide a schedule of the expected tax optimization benefits “Iberdrola expects” by type, by year for 2008-2017.
4. Please describe and quantify any benefits other than tax optimization that Iberdrola expects to realize as a result of the Energy East transaction.

**RESPONSE:**

1. The translation is accurate.

2. The translation is accurate.
3. As described in the Joint Petitioner's response to DPS-6 (IBER-0006), 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. In addition, as described in the Joint Petitioner's response to DPS-6 (IBER-0006), production tax credits are not dependent upon the Proposed Transaction and would exist for future wind projects for Iberdrola, regardless of the Proposed Transaction.
4. Iberdrola has not identified any such benefits.

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

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

**Information Request**

**Requesting Party and No.:** (DPS-34) D'Ambrosia

**New York Response No.:** IBER-0060

**Request Date:** September 13, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 24, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

Follow up to DPS-9/IBER-0009

“Iberdrola's non-Energy East related operations in the United States will be managed separately from the Energy East operating utilities.”

1. Please list and describe the entity(ies) that currently manage Iberdrola's non-Energy East related operations in the United States.
2. Please explain and provide all reasons why Iberdrola would not consolidate the management of all its United States operations into one entity.
3. Please list and describe the entity(ies) that currently provide centralized services to Iberdrola's non-Energy East related operations in the United States.
4. Please explain and provide all reasons why Iberdrola would not provide centralized services to all of its United States operations.

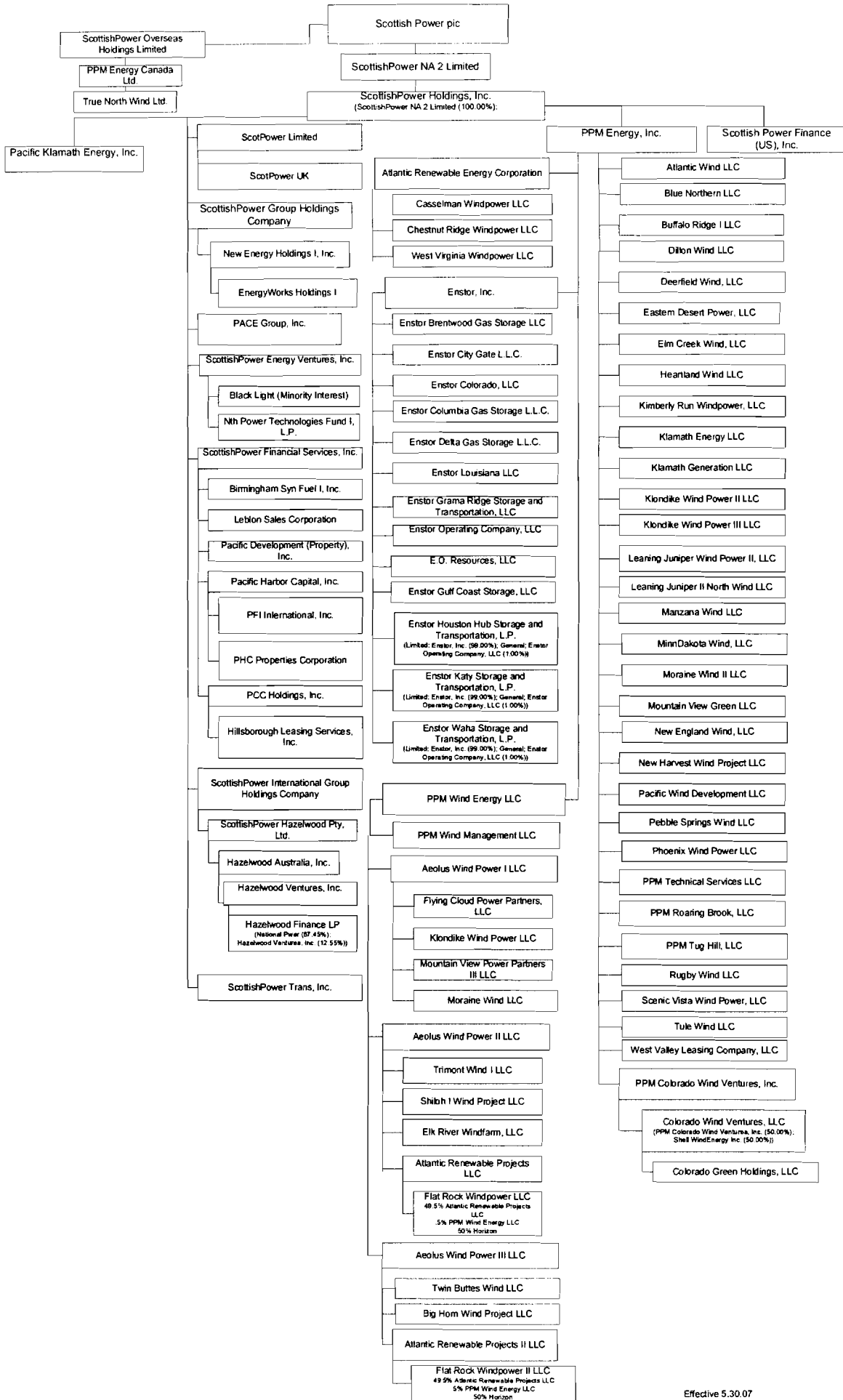
**RESPONSE:**

1. PPM Energy, Inc. (“PPM”), an indirect, wholly-owned subsidiary of Iberdrola, manages the ongoing activities of PPM and its project subsidiaries. PPM also provides certain corporate services to other affiliated entities. Pacific Klamath Energy, Inc., a sister

company of PPM, provides O&M services to Klamath Energy LLC, a wholly-owned subsidiary of PPM. PPM Technical Services, a wholly-owned subsidiary of PPM, provides and/or manages O&M services to PPM's wind project subsidiaries. Enstor Operating Company, LLC, a wholly-owned subsidiary of Enstor, Inc. ("Enstor"), which in turn is a wholly-owned subsidiary of PPM, manages the two operating gas storage facilities indirectly owned by Enstor. ScottishPower Holdings, Inc., a wholly-owned subsidiary of Iberdrola and the direct upstream owner of PPM, provides tax services to PPM and manages the activities for its subsidiary companies with assets. Iberdrola Renewables Energies USA, Ltd. ("Iberdrola USA"), a wholly-owned subsidiary of Iberdrola Renovables, S.A. which in turn is a wholly-owned subsidiary of Iberdrola, manages the ongoing activities of Iberdrola USA's wind project subsidiaries. Attached are organizational structure charts for Iberdrola's U.S. operations.

2. One of the reasons Iberdrola is not currently considering a consolidation of the management of all of Iberdrola's U.S. operations after the Proposed Transaction occurs would be to separate the utility and non-utility operations.
3. There are no centralized corporate services currently provided to Iberdrola's non-Energy East related operations in the U.S.
4. Iberdrola has not considered providing centralized services to all its U.S. operations, and has not evaluated the impacts of doing so.





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

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

**Information Request**

**Requesting Party and No.:** (DPS-37) D'Ambrosia

**New York Response No.:** IBER-0063

**Request Date:** September 13, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 24, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

Panel Testimony page 9, lines 18-21 states:

“IBERDROLA brings to New York a proven record of providing high-quality electric distribution service and a demonstrated commitment to innovation, infrastructure investment, service quality, efficiency, clean energy policies, and sustainable development.”

1. Please quantify the value of the “efficiency” Iberdrola will achieve over the value of the efficiencies NYSEG and RG&E currently achieve.

**RESPONSE:**

1. Because the Proposed Transaction represents an acquisition by Iberdrola at the Energy East holding company level rather than a combination of the operations of individual operating companies, the transacting parties do not anticipate that the Proposed Transaction will result in any synergistic savings.

*See response to DPS-31 (IBER-0057).*

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

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

**Information Request**

**Requesting Party and No.:** (DPS-39) D'Ambrosia

**New York Response No.:** IBER-0065

**Request Date:** September 13, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 24, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

The Response to DPS-11/IBER-0011, Attachment 1, page 16 states: "The valuation has not taken into account the analysis of companies' best practices...Energy East's subsidiaries show low/medium best practice levels compared to U.S. peers."

1. Please provide any report, study or written analysis that supports the above statement that "Energy East's subsidiaries show low/medium best practice levels compared to U.S. peers."
2. Please provide a schedule that forecasts the times of the implementation of the "best practice" at NYSEG and RG&E, and quantifies their value at those times.

**RESPONSE:**

1. Iberdrola has not performed any such analyses. Iberdrola's financial advisor reviewed certain publicly available data from certain data sources relating to non-fuel operations and maintenance costs per customer and Administrative & General costs per employee that were benchmarked against more than 100 electric and gas utilities in the U.S. (in different jurisdictions with different regulatory requirements), and reported that these data showed Energy East's electric and gas subsidiaries fit within low/medium best practice levels taken as a whole when compared to more than 100 electric and gas utilities. Iberdrola has not relied upon these data for its decision to move forward with the Proposed Transaction.



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2. The Joint Petitioners have not conducted any analysis of their respective “best practices” that could be incorporated by the other entities subsequent to the Proposed Transaction.

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

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

**Information Request**

**Requesting Party and No.:** (DPS-40) D'Ambrosia

**New York Response No.:** IBER-0066

**Request Date:** September 13, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 24, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

The Response to DPS-11/IBER-0011, Attachment 1, page 4 states: "The transaction...[is]...accretive to EPS and CPS."

1. Please provide any report, study or written analysis that that supports the above statement.

**RESPONSE:**

1. See Presentation to the Iberdrola Board of Directors, which was provided in response to DPS-12 (IBER-0012), subject to trade secret protection

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

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

**Information Request**

**Requesting Party and No.:** (DPS-43) D'Ambrosia

**New York Response No.:** IBER-0069

**Request Date:** September 13, 2007

**Information Requested of:** Pedro Azagra

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**Reply Date:** September 24, 2007

**Responsible Witness:** Pedro Azagra

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**QUESTION:**

On page 158 of Iberdrola's 2006 Sustainability Report, in the section titled "Penalties Found," it is stated that:

"In fiscal year 2006 various types of complaints and infringement proceedings were brought against the Group's companies in connection with quality of service, regulation and other administrative issues in Spain, Bolivia, Chile and Brazil.... Some of these proceedings, those considered to be significant, have resulted in financial penalties which, in 2006, have entailed payment, in consolidated terms for the Group, of 1,276,418 euros, of which 1,053,382 euros were paid in Spain, 123,591 euros in Bolivia, 4,440 euros in Chile and 95,005 euros in Brazil."

1. Please explain and describe the improper practices that resulted in the financial penalties Iberdrola paid in 2006.

**RESPONSE:**

1. See the attached, which is being provided subject to Trade Secret Protection.

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

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

**Information Request**

**Requesting Party and No.:** (DPS-45) DPS Staff

**New York Response No.:** IBER-0071S

**Request Date:** October 10, 2007

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

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**Reply Date:** January 2, 2008

**Responsible Witness:** Robert E. Rude

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**QUESTION:**

Follow up to DPS-13/IBER-0013:

According to RG&E and NYSEG (NY OPCOs) websites, "in partnership with Community Energy," NYSEG [RG&E] offers NewWind Energy® to customers who want to help our environment. According to a press release dated February 5, 2006 on Iberdrola's website, "IBERDROLA has entered the U.S. wind energy market after signing an agreement to acquire full ownership of Community Energy, Inc. (CEI)."

The response to DPS-13 stated: "the only agreement entered into between Iberdrola (or any of its affiliates or subsidiaries) and Energy East (or any of its affiliates or subsidiaries) was a standard confidentiality agreement..."

1. Was the "partnership" arrangement between Community Energy and the NY OPCOs described above reduced to writing? If so, provide the document(s).
2. If not, describe and explain the "partnership" arrangement and how it functions.

**Sources:**

<http://www.rge.com/YourHome/newwindenergy/newwindenergy.html>

<http://www.nyseg.com/YourHome/newwindenergy/newwindenergy.html>

[http://www.iberdrola.es/wcorp/corporativa/iberdrola?IDPAG=ENMODULOPRENSA&URLPA G=/gc/en/comunicacion/notasprensa/060502\\_NP\\_empresaEEUU.html](http://www.iberdrola.es/wcorp/corporativa/iberdrola?IDPAG=ENMODULOPRENSA&URLPA G=/gc/en/comunicacion/notasprensa/060502_NP_empresaEEUU.html)

**RESPONSE:**

1. Community Energy, Inc., an indirect, wholly-owned subsidiary of Iberdrola, has entered into agreements to market NewWind Energy® to the customers of NYSEG and RG&E. When a customer of NYSEG or RG&E purchases NewWind Energy®, they are purchasing wind energy certificates, which indicate that wind-generated electricity has been delivered to the New York power grid, reducing the need for energy produced from other resources. *See the attached redacted public versions of the relevant agreements.* The complete un-redacted versions of the agreements are subject to Highly Sensitive Trade Secret Protection.
2. See response above.