

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.

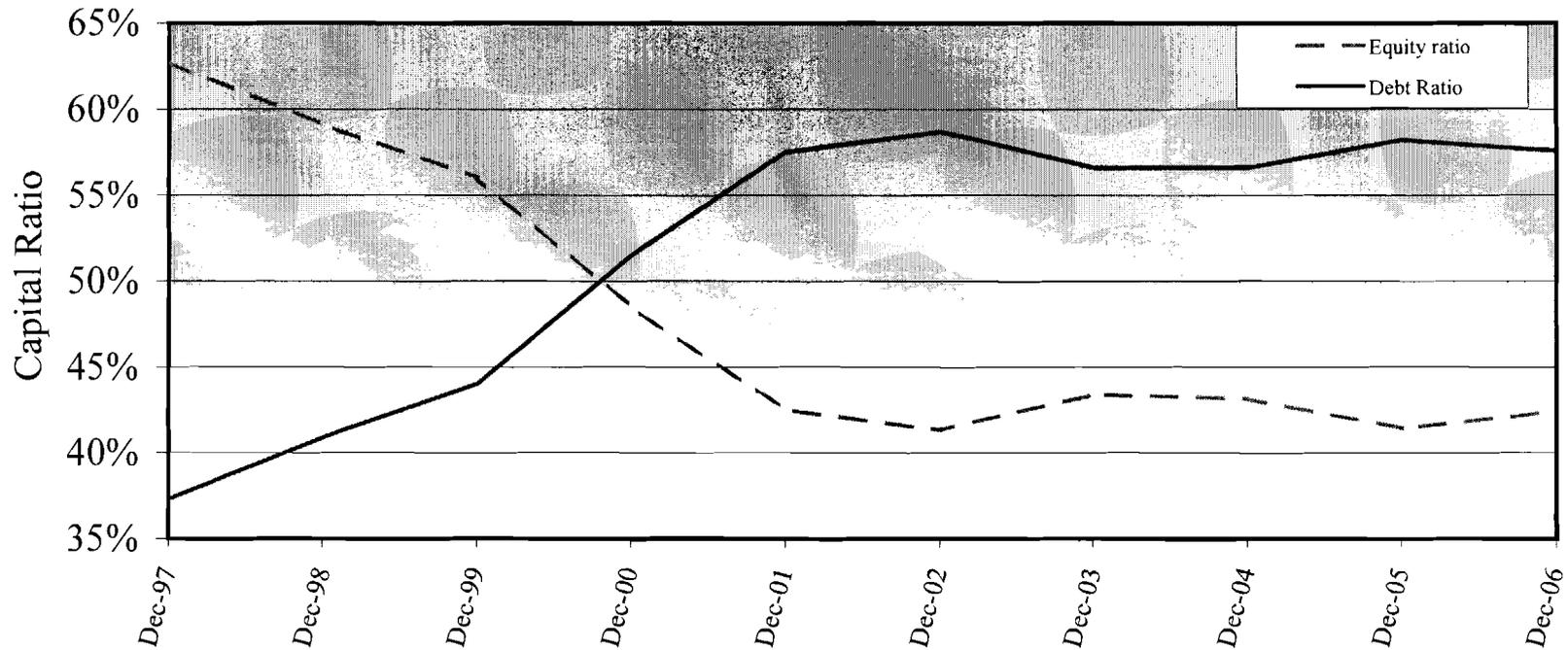
January 2008

Exhibit____(Policy Panel - 3)

10-YEAR HISTORICAL CAPITAL STRUCTURE
FOR IBERDROLA

	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-97	Dec-03	Dec-04	Dec-05	Dec-06
Equity ratio	62.70%	59.10%	56.00%	48.50%	42.50%	41.32%	62.70%	43.40%	43.14%	41.41%	42.41%
Debt Ratio	37.30%	40.90%	44.00%	51.50%	57.50%	58.68%	37.30%	56.60%	56.59%	58.20%	57.59%
Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	99.73%	99.61%	100.00%

10-YR. Historical Capital Structure for Iberdrola

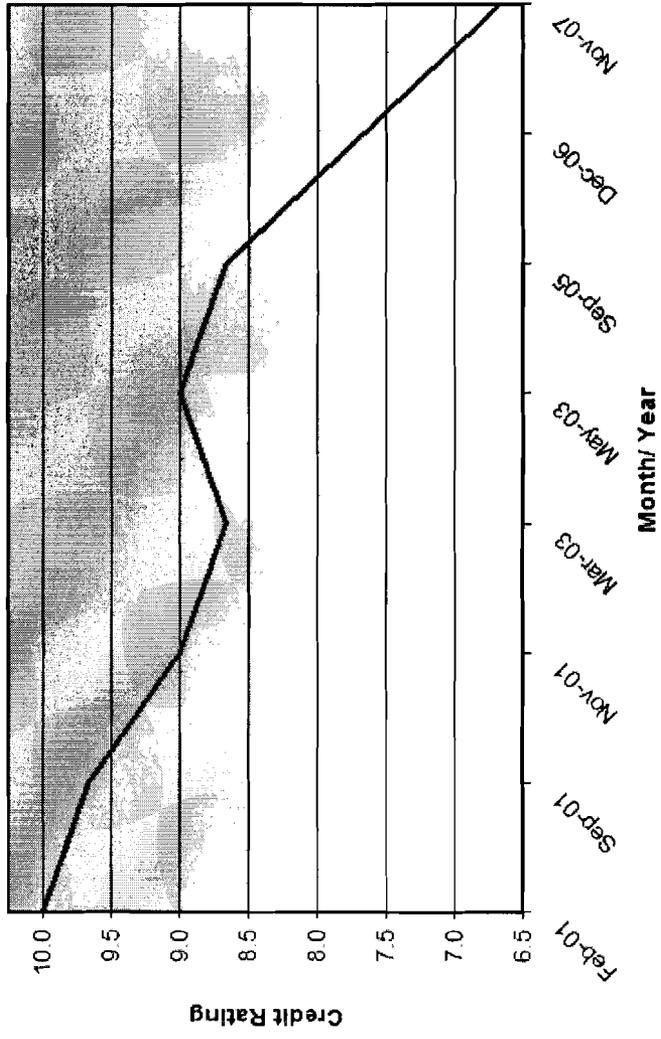


	Dec-97	Dec-98	Dec-99	Dec-00	Dec-01	Dec-02	Dec-97	Dec-03	Dec-04	Dec-05	Dec-06
Equity ratio	62.70%	59.10%	56.00%	48.50%	42.50%	41.32%	62.70%	43.40%	43.14%	41.41%	42.41%
Debt Ratio	37.30%	40.90%	44.00%	51.50%	57.50%	58.68%	37.30%	56.60%	56.59%	58.20%	57.59%

**10 year Historical Trend Credit Rating
for IBERDROLA**

Date	Feb-01	Sep-01	Nov-01	Mar-03	May-03	Sep-05	Dec-06	Nov-07
Value	10.00	9.66	9.00	8.66	9.00	8.66	7.66	6.66
Credit rating	AA-	A-/ Watch Neg	A+	A+/ Watch Neg	A+	A+/ Watch Neg	A/ Watch Neg	A-/ Watch Neg

Iberdrola S&P Credit Rating



S & P Credit rating	Numerical Value
AAA	13
AA+/ Watch Neg	12.66
AA+/ Watch Pos	12.33
AA+	12
AA+/ Watch Neg	11.66
AA/ Watch Pos	11.33
AA	11
AA/ Watch Neg	10.66
AA- Watch Pos	10.33
AA-	10
AA-/ Watch Neg	9.66
A+/ Watch Pos	9.33
A+	9
A+/ Watch Neg	8.66
A/ Watch Pos	8.33
A	8
A/ Watch Neg	7.66
A-/ Watch Pos	7.33
A-	7
A-/ Watch Neg	6.66

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Corporation by Iberdrola, S.A.

January 2008

Exhibit____(Policy Panel - 5)

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ELECTRONICALLY FILED ON October 17, 2007

Karen Geraghty
Administrative Director
Maine Public Utilities Commission
State House Station # 18
242 State Street
Augusta, ME 04333-0018

RE: CENTRAL MAINE POWER COMPANY AND MAINE NATURAL GAS
CORPORATION, Request for Approval of Reorganization/Acquisition of Energy
East Corporation by IBERDROLA, S.A.; Docket No. 2007-355

**THIS IS A VIRTUAL DUPLICATE OF THE ORIGINAL HARD COPY SUBMITTED TO
THE COMMISSION IN ACCORDANCE WITH ITS ELECTRONIC FILING
INSTRUCTIONS.**

Dear Karen:

In response to the Industrial Energy Consumer Group's (IECG) Motion to Dismiss, or in the Alternative to Compel and Extend Deadline for Intervenor Testimony dated October 16, 2007, Iberdrola, S.A. provides the following response.

IECG suggests that Iberdrola has some obligation to translate documents produced in response to IECG's numerous Data Requests from Spanish to English. As Iberdrola has explained before, no such obligation exists.

The Commission's Rule of Practice and Procedure, Chapter 110, does not address this issue, other than to incorporate the Maine Rules of Civil Procedure with respect to discovery. *See* Chapter 110 §§ 101, 820. Maine Rule of Civil Procedure 34 applies to the production of documents and parallels the former version of Federal Rule of Civil Procedure 34. The United States Court of Appeals for the First Circuit has considered whether that version of Federal Rule 34 imposed a duty on a party producing discovery to translate documents and held that it did not.

In *In re Puerto Rico Electric Power Authority*, the First Circuit held that there was no duty on the producing party, PREPA, to translate documents from their original Spanish to English. *In re Puerto Rico Electric Power Authority*, 687 F.2d 501, 510 (1st Cir. 1982). Although lower courts had found a translation obligation based on Federal Rule 34, the Court explained that Rule 34 only applied to certain computerized data that could only be presented through the use of a machine/"detection device." Federal Rule 34, according to the Court, had not been intended to abrogate the "well-accepted principle that each party bear the ordinary course of financing his own

suit.” *Id.* at 506. Indeed, there was “no hint of a more general principle requiring respondents to translate documents not written in the discovering party’s native tongue—nor, indeed, would there be any need to so extend the rule given the general availability of translators.” *Id.* at 508.

Similarly, Maine Rule 34 refers to “data compilations” which may require translation through “detection devices into reasonably usable form.” Like the parallel Federal Rule, Maine Rule 34 provides no hint of a more general obligation requiring Iberdrola to translate the documents it has produced from Spanish to English. Further, nothing in PUC rules or statutes contradicts the well-accepted principle that there is no obligation on the producing party to translate documents. Just like Iberdrola, IECG has access to Spanish translators and is free to translate any documents that it so chooses at its own expense.

IECG contends that the documents are relevant, therefore they must be translated. This is not a question of relevance. Iberdrola has responded to many Data Requests that it considers to be irrelevant or at best remotely relevant and burdensome. Thousands of pages of documents have been produced. Despite the absence of any legal obligation to translate documents, Iberdrola has been working in good faith with the parties and the Commission to address the translation of documents that were prioritized for translation by the parties.

IECG argues that because Iberdrola has not translated documents for IECG from their original Spanish, the Commission should dismiss the Petition because the Petitioners have failed to meet their ultimate burden of proving that the merger is “consistent with the interests of the utility’s ratepayers and investors.” 35-A M.R.S.A. § 708(2)(A). On the contrary, the Petition and its supporting prefiled testimony certainly make at least a prima facie case for Commission approval of the merger, and Iberdrola is confident that the Petitioners will also meet the ultimate burden of persuasion, proving to the Commission that the merger meets the statutory standard. In any event, the time for addressing that issue is in the Final Order at the conclusion of the case.

Finally, IECG claims it did not receive responses to some Data Requests. To the best of its knowledge, Iberdrola has provided complete responses to each and every IECG Data Request, consistent with the modifications agreed to by the parties.

For these reasons, Iberdrola respectfully requests that the Commission deny IECG’s Motion to Dismiss, and for those same reasons, deny IECG’s request to compel Iberdrola to translate any additional documents and/or to extend the deadline for intervenor testimony.

Sincerely,



William S. Harwood

WSH/lgn

cc: Service List

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January 2008

Exhibit____(Policy Panel - 6)

Alternative Energy Hurt By a Windmill Shortage

While Projects in U.S. Stall, Europe's Utilities Expand Their Reach

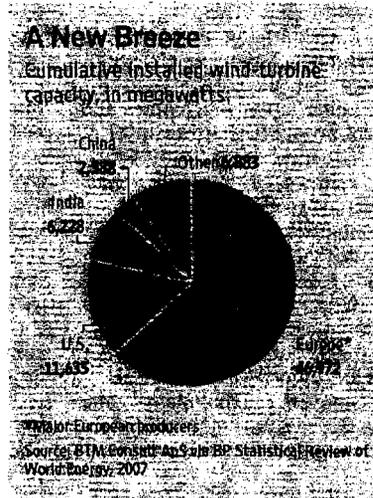
By KEITH JOHNSON

The race to build new sources of alternative energy from the wind is running into a formidable obstacle: not enough windmills.

In recent years, improved technology has made it possible to build bigger, more efficient windmills. That, combined with surging political support for renewable energy, has driven up demand. Now, makers can't keep up—mostly because they can't get the parts they need fast enough.

Numerous wind-power projects from Virginia to California have been stalled due to the shortage. But for some renewable-energy companies in Europe, where wind power has been in vogue for almost two decades, the logjam is a lucrative opportunity. These firms anticipated a shortage of turbines and locked in orders with makers. They're now using their considerable buying power to gobble up smaller utilities in the U.S. that couldn't otherwise get their hands on turbines.

That was the case with Community Energy Inc., a firm in Wayne, Pa. After trying for years to kick-start wind-power projects in the U.S., the company had built only two small wind farms; a third sat idle. Brent Alderfer, the founder and chief executive, said he had few problems acquiring the necessary permits and funding. But when it came to getting windmills, he faced a multiyear delay.



"We were like an airline sitting there and being told we had to wait three years to get our airplanes," he says.

In late 2005, Mr. Alderfer contacted Iberdrola SA, a Madrid-based utility that has emerged as one of the world's leaders in renewable energy. Six months later, Iberdrola purchased...
Please turn to page A13

Alternative Energy Is Hurt By a Windmill Shortage

Continued from Page One

chased Community Energy for \$40 million. Two months after that, technicians had outfitted the company's stillborn project with gleaming white turbines that started churning out enough clean electricity for about 6,500 homes.

"We couldn't have done this on our own—not then, not in five years' time," says Mr. Alderfer.

Modern wind turbines are astonishingly complicated machines, containing more than 8,000 components and requiring special transformers to turn their spinning blades into electricity. Though commonly called windmills, they're technically wind turbines. Manufacturers depend on a network of component suppliers that, in turn, need years to ramp up production. That's created a bottleneck for the turbine makers.

Iberdrola's strategic advantage stems in part from a €3 billion, or \$4.09 billion, bet it made last year to lock up most of the order book of Spanish turbine maker Gamesa SA—the world's second largest—through 2009. Iberdrola also holds a 24% equity stake in Gamesa.

In addition to Community Energy, Iberdrola snapped up two other small U.S. developers last year in Iowa and Virginia, both of which lacked the funding and the turbines to get going. Last month, it entered into a deal to buy its first regulated U.S. utility company, Energy East Corp., of Portland, Maine, for \$4.58 billion, in part to take advantage of U.S. tax credits for wind.

Though still a relatively small force on the U.S. energy grid, wind power is on the rise as oil prices and environmental concerns soar. Governments from Beijing to Sacramento are showering the sector with subsidies in an effort to boost production of clean energy and reduce emissions of greenhouse-gases like carbon dioxide. Europe now plans to produce 20% of its energy from renewable sources by 2020, up from about 6% today, with wind power playing the leading role.

In the U.S., more wind power was installed last year than in any country in the world—2,454 megawatts, or more than the equivalent of two nuclear reactors. Despite the recent action, the U.S. still lags behind other countries that have spent decades nurturing wind power with subsidies and price supports. Germany has fewer wind resources—breezy, wide-open spaces—than the state of North Dakota, for instance, but has twice as much wind power as the entire U.S. Spain, with one-seventh the population of the U.S., has the same amount of wind power. Overall, only about 1% of power in the U.S. comes from wind.

Wind Energy Leaders

Top five wind-turbine makers by 2006 production, in megawatts

Vestas (Denmark)	4,239
Gamesa (Spain)	2,346
GE Wind (U.S.)	2,326
Enron (Germany)	2,316
Suzlon + REPower (India/Germany)	1,637

Top five wind utilities in 2006 by installed capacity, in megawatts

Iberdrola + Scottish Power/PPM (Spain)	6,027
FPL (U.S.)	4,300
Acciona Windpower (Spain)	3,133
Babcock & Brown Wind Partners (Australia)	1,631
Endesa (Spain)	1,500

Source: BTM Consult ApS

The turbine shortage could have a significant impact on how quickly the industry can continue to grow in the near term, as well as on what shape it will take in the future. Just five manufacturers produce more than 80% of the world's wind turbines. A midsize, 1.5-megawatt turbine costs about \$1.2 million.

Miguel Salis, the head of the Madrid-based Eolia, a fund that supplies financing and development know-how to small wind-farm developers, says "the biggest restriction right now to wind power's growth—everywhere, not just in the U.S.—is the lack of turbines." He says that so many developers have "projects underway but can't get them completed, often because the turbine makers don't give them the time of day."

Makers need thousands of specially crafted parts, including gearboxes, blades and bearings, to build a turbine. Transformers vary depending on each country's electrical grid. And the type of turbine depends on the wind resources available: Relatively wind-poor Germany has always used larger turbines, while breezier Spain and China have based their growth on midsize turbines.

Vestas A/S of Denmark, the world's biggest turbine maker, says the supply problems are crimping its production capacity. The company produced about 880 megawatts of turbines in the first quarter, down from more than 1,000 megawatts in the fourth quarter of 2006. "We are no stronger than the last delivered component out of the 8,000 components," Ditlev Engel, Vestas chief executive told investors in May.

Turbine makers are trying to make up the difference. Vestas is hoarding components to keep production steady, at the expense of working capital. Others are buying companies that make components to bring production in-house.

Siemens Wind AG of Germany, a unit of Siemens AG, two years ago bought Winergy, the leading maker of gearboxes for turbines. Suzlon Energy Ltd. of India snapped up a series of smaller component companies. Then,

last month, it paid \$1.8 billion to buy rival turbine maker REPower Systems AG of Germany, which gave it access to a new set of component suppliers.

Because wind power was basically a cottage industry until recently, it was slow to develop a large group of professional manufacturers. Some turbine manufacturers, like Siemens Wind, are offshoots of large engineering groups. General Electric Co. bought Enron's wind division when the Houston company imploded. Gamesa started life half a century ago designing propeller blades for aircraft, and still makes most of its own blades.

In the U.S., there's another potential threat to growth—erratic government support for wind power. Even though wind power has made technical strides recently, energy firms still rely on subsidies because it costs more to generate electricity with wind turbines than other power plants such as coal, natural gas or nuclear. Wind power requires intensive capital investment in a short period of time, and has added costs like upgrading transmission systems. According to the International Energy Agency in Paris, wind farms cost between four and 14 cents to generate a kilowatt hour; coal-fired plants cost between 2.5 and six cents.

Some 20 states now have price supports for wind-generated electricity and there is a federal tax credit to encourage new wind-park development. But there is no federal requirement for utilities to buy green energy, as there is in the United Kingdom, Denmark and Germany. And the tax credit, started in 1992, depends on a biannual congressional approval. An effort to introduce federal support for wind power was shot down this month in the Senate.

The lack of a stable, long-term regulatory environment has created a wind power roller coaster. Developers were never sure their projects would make economic sense a few years down the road if the regulatory climate changed. Foreign turbine manufacturers were reluctant to build factories in the U.S.

Vestas scrapped plans for a U.S. factory three times because of uncertainty. This spring, it announced it would build a turbine plant in Windsor, Colo.

Today, states such as Iowa, Pennsylvania, Minnesota and Oregon have gone out of their way to lure foreign turbine makers. Suzlon is building a turbine plant in Minnesota. Siemens Wind and Acciona Energia SA of Spain both announced plans to open turbine factories in Iowa. Gamesa has three plants operating in Pennsylvania.

In a few years' time, those new factories could help ease the current bottleneck. But in the short term, the supply crunch has shaken the economics of wind power.

European utility firms, meanwhile, are buying up U.S. energy firms. They say they believe growing consensus on the need to fight climate change will lead to a more stable regulatory framework for renewable energy.

Earlier this year, Portuguese utility Energias de Portugal SA, or EDP, paid about \$2.7 billion for Horizon Wind Energy of Houston. Acciona Energia SA of Spain bought EcoEnergy LLC, a unit of the Morse Group in Freeport, Ill., last month; it plans to roll out about 1,500 megawatts of wind power in the Midwest over three years. And BP Alternative Energy, a division of U.K.-based BP PLC, snapped up Virginia-based Greenlight Energy Inc. last year for about \$100 million.

Power Spin

- ◆ **The Situation:** Interest in renewable energy, such as wind power, is surging, but the makers of wind turbine parts can't keep up with demand.
- ◆ **The Background:** The U.S. and other countries have been gaining capacity, and government support has been increasing.
- ◆ **What's Ahead:** Foreign players are moving into the U.S. market with acquisitions and wind farm projects.

European companies are estimated to own 20% of all the wind energy in the U.S., says Emerging Energy Research, a wind-power study group based in Cambridge, Mass.

American firms are now hustling to secure their own windmills to keep pace. Invenergy LLC, based in Chicago, signed a \$1 billion deal with GE in May to get its hands on turbines to supply its ambitious development plan.

In some ways, wind power is a victim of its own success. Rising fossil-fuel prices and bigger and more sophisticated turbines have brought wind power closer than ever to being competitive on price with traditional power sources. Modern machines are 10 to 20 times the size of the wind-

mills first installed in California in the 1980s. Bigger machines have exponentially changed the economics of wind power because they take better advantage of the wind and work more hours than the smaller, older machines.

That, in turn, has sparked a boom in demand for new wind-power projects world-wide. The U.S. has quadrupled its wind-power capacity since 2000. China, which had only 346 megawatts of wind power installed in 2000, now has 2,500 megawatts, and expects to catch up to the U.S. within three years. World-wide, wind capacity has increased from 17,800 megawatts in 2000 to 74,300 megawatts at the end of last year, according to the Global Wind Energy Council, a trade group.

Better technology and growing political support for clean energy should have made life easier for Community Energy's Mr. Alderfer. When he started his company in 1999, there were no commercial wind farms operating east of the Mississippi.

Instead, as wind power became more attractive, his job got tougher. After finishing their second wind farm, a modest 24-megawatt project in New Jersey, Community Energy executives realized that upcoming projects would have to be much larger in order to be economically feasible. Some would require as many as 100 new turbines. "The whole thing moved quickly beyond our ability to finance it," Mr. Alderfer says.

The U.S. wind industry was in one of its periodic booms. After two years with virtually no new wind power, federal tax credits were renewed for 2005 and 2006. Suddenly, wind farms were cropping up everywhere. Oil-rich but windswept Texas overtook California as the leading wind-power state.

Community Energy was trying to stay in the race. In late 2005, the company sought to outfit its latest wind farm, at Locust Ridge, Pa., but couldn't get the machines. Mr. Alderfer talked with GE, the biggest U.S. turbine maker, but was told he would have to pay deposits against delivery of turbines in 2008 or 2009. That would mean going back to Community Energy's private holders to ask them to stump up more money, which Mr. Alderfer was loath to do. Locust Ridge was put on hold again. "What are we going to do with this project?" he recalls thinking.

Then he decided to call Iberdrola, the Spanish utility. At the time, Iberdrola didn't yet have a beachhead in the U.S., and executives thought it was a potential gold mine. Wind energy in the U.S. "is like Europe was years ago," says Xavier Viteri, the 46-year old head of Iberdrola's renewable-energy business. "There's a lot of room for development there, and there is a lot of expertise here."

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Exhibit____(Policy Panel - 7)

**Iberdrola/Energy East Acquisition
Production Tax Credits
Staff Estimate 2006-2008**

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total Iberdrola generation MW	905.0	905.0	905.0
less: 2007-2008 vintage wind additions	<u>(604.7)</u>	<u>(414.4)</u>	<u>-</u>
MW wind generation @ 30% CF***	300.3	490.6	905.0
mWh	2,630,628	4,297,656	7,927,800
kWh (1000)	2,630,628,000	4,297,656,000	7,927,800,000
PTC/kWh	\$ 0.019	\$ 0.019	\$ 0.019
PTC annual value	<u>\$ 49,981,932</u>	<u>\$ 81,655,464</u>	<u>\$ 150,628,200</u>

So: FERC Petition Exh. J-2

***output reduced to 30% avg. capacity factor per FERC merger petition

Note: PTCs would be limited to US taxes owed, but it seems possible that PTCs may be carried back to offset prior tax year payments

Iberdrola US Generation (net capacity interest adjusted rating MW)

NYISO	81.3
PJM	76.3
ISO-NE	7.2
MISO	247.4
SPP	75.0
ERCOT	96.0
WECC	<u>421.8</u>
Total	1005.0
Klamath CT	<u>-100.0</u>
Iberdrola WT	<u>905.0</u>

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Exhibit____(Policy Panel - 8)

Iberdrola/Energy East Acquisition
Staff Estimate of Earnings Accretion Post-Energy East Acquisition

	Euros	Dollars
<u>Pre Merger</u>	<u>Iberdrola</u>	<u>Iberdrola</u>
Iberdrola Earnings	€ 1,660,300,000	\$ 2,231,028,125
Iberdrola Shares	901,549,181	901,549,181
Iberdrola EPS	€ 1.84	\$ 2.47
Book Equity		
Market Capitalization	28,859,000,000	38,779,281,250
Price/share	€ 39.70	\$ 53.60
Shares Issued to finance merger	85,000,000	85,000,000
<u>Post merger</u>	<u>Euros</u>	<u>Dollars</u>
Post Merger Earnings	1,853,663,349	2,490,860,125
Post Merger Shares	986,549,181	986,549,181
Post Merger Earnings Per Share	€ 1.88	\$ 2.52
Book Equity		
Energy East Earnings	193,363,349	259,832,000
Change in EPS	€ 0.04	\$ 0.05
EPS accretion	2.0%	2.0%
Euro	€ 6.40	€ 3.35
\$	\$ 8.60	\$ 4.50
conversion rate	1.34	1.34

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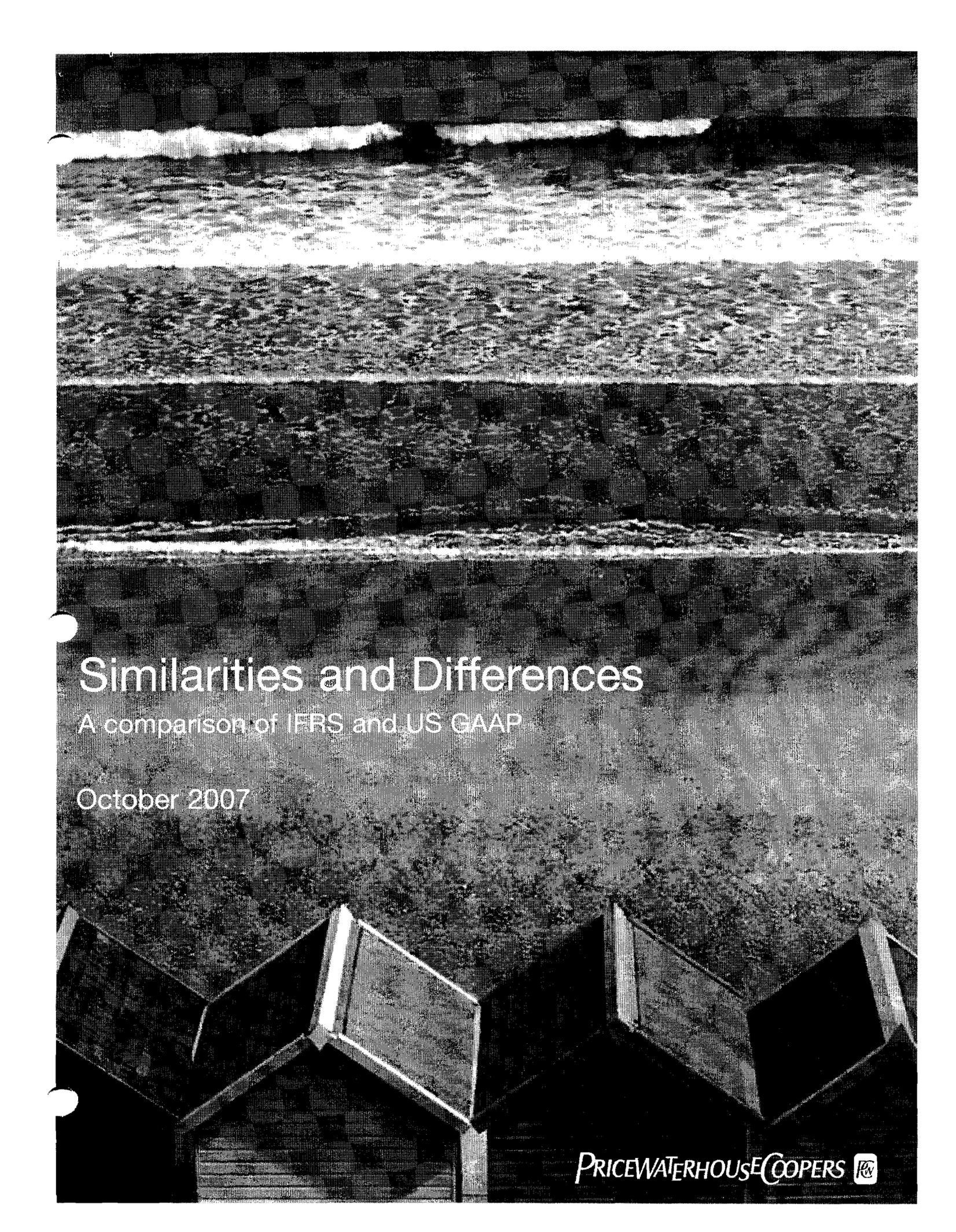
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Exhibit____(Policy Panel - 9)



Similarities and Differences

A comparison of IFRS and US GAAP

October 2007

Summary of similarities and differences

Subject	IFRS	US GAAP	Page
Accounting framework			
Historical cost or valuation	Generally uses historical cost, but intangible assets, property, plant and equipment (PPE) and investment property may be revalued to fair value. Derivatives, certain other financial instruments and biological assets are revalued to fair value.	No revaluations except for certain types of financial instrument.	12, 39
First-time adoption of accounting framework	Full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, with some optional exemptions and limited mandatory exceptions. Reconciliations of profit or loss in respect of the last period reported under previous GAAP, of equity at the end of that period and of equity at the start of the earliest period presented in comparatives must be included in an entity's first IFRS financial statements.	First-time adoption of US GAAP requires retrospective application. There is no requirement to present reconciliations of equity or profit or loss on first-time adoption of US GAAP.	12
Financial statements¹			
Components of financial statements	Two years' balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to IFRS, except three years required for SEC registrants for all statements except balance sheet. Specific accommodations in certain circumstances for foreign private issuers that may offer relief from the three-year requirement.	13
Balance sheet	Does not prescribe a particular format. A current/non-current presentation of assets and liabilities is used unless a liquidity presentation provides more relevant and reliable information. Certain minimum items are presented on the face of the balance sheet.	Entities may present either a classified or non-classified balance sheet. Items on the face of the balance sheet are generally presented in decreasing order of liquidity. SEC registrants should follow SEC regulations.	14
Income statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature). Certain minimum items are presented on the face of the income statement.	Present as either a single-step or multiple-step format. Expenditures are presented by function. SEC registrants should follow SEC regulations.	15
Exceptional (significant) items	Does not use the term but requires separate disclosure of items that are of such size, incidence or nature that their separate disclosure is necessary to explain the performance of the entity.	Similar to IFRS, but individually significant items are presented on the face of the income statement and disclosed in the notes.	16
Extraordinary items	Prohibited.	Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.	16
Statement of recognised income and expense (SoRIE)/Other comprehensive income and statement of accumulated other comprehensive income comprehensive income	A SoRIE can be presented as a primary statement, in which case a statement of changes in shareholders' equity is not presented. Alternatively, it may be disclosed separately within the primary statement of changes in shareholders' equity.	Total comprehensive income and accumulated other comprehensive income are disclosed, presented either as a separate primary statement or combined with the income statement or with the statement of changes in stockholders' equity.	16

¹ Mid-2007, the IASB voted to approve the issuance of a revised version of IAS 1, Presentation of Financial Statements. See page 13.

Subject	IFRS	US GAAP	Page
Statement of changes in share (stock) holders' equity	Statement shows capital transactions with owners, the movement in accumulated profit/loss and a reconciliation of all other components of equity. The statement is presented as a primary statement except when a SoRIE is presented. In this case, only disclosure in the notes applies.	Similar to IFRS except that US GAAP does not have a SoRIE, and SEC rules permit the statement to be presented either as a primary statement or in the notes.	17
Cash flow statements – format and method	Standard headings but limited guidance on contents. Use direct or indirect method.	Similar headings to IFRS, but more specific guidance for items included in each category. Direct or indirect method used.	17
Cash flow statements – definition of cash and cash equivalents	Cash includes cash equivalents with maturities of three months or less from the date of acquisition and may include bank overdrafts.	Similar to IFRS, except that bank overdrafts are excluded.	18
Cash flow statements – exemptions	No exemptions.	Limited exemptions for certain investment entities and defined benefit plans.	17
Changes in accounting policy	Comparatives and prior year are restated against opening retained earnings, unless specifically exempted.	Similar to IFRS.	19
Correction of errors	Comparatives are restated and, if the error occurred before the earliest prior period presented, the opening balances of assets, liabilities and equity for the earliest prior period presented are restated.	Similar to IFRS.	19
Changes in accounting estimates	Reported in income statement in the current period and future, if applicable.	Similar to IFRS.	19
Consolidated financial statements			
Consolidation model	Based on control, which is the power to govern the financial, and operating policies. Control is presumed to exist when parent owns, directly or indirectly through subsidiaries, more than one half of an entity's voting power. Control also exists when the parent owns half or less of the voting power but has legal or contractual rights to control, or de facto control (rare circumstances). The existence of currently exercisable potential voting rights is also taken into consideration.	A bipolar consolidation model is used, which distinguishes between a variable interest model and a voting interest model. The variable interest model is discussed below. Under the voting interest model, control can be direct or indirect and may exist with less than 50% ownership. 'Effective control', which is a similar notion to de facto control under IFRS, is very rare if ever employed in practice.	20
Special purpose entities (SPE)	Consolidated where the substance of the relationship indicates control.	Variable interest entities (VIEs) are consolidated when the entity has a variable interest that will absorb the majority of the expected losses, receive a majority of the expected returns, or both. A voting interest entity in which the entity holds a controlling financial interest is consolidated. If an SPE meets the definition of a qualifying SPE (QSPE), the transferor does not consolidate the QSPE.	21
Definition of associate	Based on significant influence, which is the power to participate in the financial and operating policy decisions; presumed if 20% or greater interest.	Similar to IFRS, although the term 'equity investment' is used instead of 'associate'.	21
Presentation of associate results	Equity method is used. Share of post-tax results is shown.	Similar to IFRS.	22
Disclosures about associates	Detailed information on associates' assets, liabilities, revenue and profit/loss is required.	Similar to IFRS.	22

Subject	IFRS	US GAAP	Page
Accounting policies of associate	Adjustments are made for consolidation purposes to the associate's policies to conform to those of the investor.	No adjustment to accounting policies is required if the associate follows an acceptable alternative US GAAP treatment.	22
Presentation of jointly controlled entities (joint ventures)	Both proportional consolidation and equity method permitted.	Equity method required except in specific circumstances.	23
Employee share (stock) trusts	Consolidated where substance of relationship indicates control (SIC-12 model). Entity's own shares held by an employee share trust are accounted for as treasury shares.	Similar to IFRS except where specific guidance applies for Employee Stock Ownership Plans (ESOPs) in SOP 93-6.	24
Business combinations²			
Types: acquisitions or mergers	All business combinations are acquisitions, thus the purchase method is the only method of accounting that is allowed.	Similar to IFRS.	25
Purchase method – fair values on acquisition	Assets, liabilities and contingent liabilities of acquired entity are fair valued. Goodwill is recognised as the residual between the consideration paid and the percentage of the fair value of the business acquired. In-process research and development is generally capitalised. Liabilities for restructuring activities are recognised only when acquiree has an existing liability at acquisition date. Liabilities for future losses or other costs expected to be incurred as a result of the business combination cannot be recognised.	There are specific differences to IFRS. Contingent liabilities of the acquiree are recognised if, by the end of the allocation-period: <ul style="list-style-type: none"> • their fair value can be determined, or • they are probable and can be reasonably estimated. Specific rules exist for acquired in-process research and development (generally expensed). Some restructuring liabilities relating solely to the acquired entity may be recognised if specific criteria about restructuring plans are met.	26
Purchase method – contingent consideration	Included in cost of combination at acquisition date if adjustment is probable and can be measured reliably.	Generally, not recognised until contingency is resolved and the amount is determinable.	26
Purchase method – minority interests at acquisition	Stated at minority's share of the fair value of acquired identifiable assets, liabilities and contingent liabilities.	Stated at minority's share of pre-acquisition carrying value of net assets.	27
Purchase method – intangible assets with indefinite useful lives and goodwill	Capitalised but not amortised. Goodwill and indefinite-lived intangible assets are tested for impairment at least annually at either the cash-generating unit (CGU) level or groups of CGUs, as applicable.	Similar to IFRS, although the level of impairment testing and the impairment test itself are different.	26
Purchase method – negative goodwill	The identification and measurement of acquiree's identifiable assets, liabilities and contingent liabilities are reassessed. Any excess remaining after reassessment is recognised in income statement immediately.	Any remaining excess after reassessment is used to reduce proportionately the fair values assigned to non-current assets (with certain exceptions). Any excess is recognised in the income statement immediately as an extraordinary gain.	28
Business combinations involving entities under common control	Not specifically addressed. Entities elect and consistently apply either purchase or pooling-of-interest accounting for all such transactions.	Generally recorded at predecessor cost; the use of predecessor cost or fair value depends on a number of criteria.	29
Revenue recognition			
Revenue recognition	Based on several criteria, which require the recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably.	Similar to IFRS in principle, although there is extensive detailed guidance for specific types of transactions that may lead to differences in practice.	30

² In June 2007, the IASB and FASB voted to approve the issuance of a joint standard on business combinations that will replace the current versions of IFRS 3 and FAS 141. See page 25.

Subject	IFRS	US GAAP	Page
Multiple-element arrangements	Revenue recognition criteria are applied to each separately identifiable component of a transaction to reflect the substance of the transaction – eg, to divide one transaction into the sale of goods and to the subsequent servicing of those goods. No further detailed guidance exists.	Arrangements with multiple deliverables are divided into separate units of accounting if deliverables in arrangement meet specified criteria outlined in EITF 00-21. Specific guidance exists for software vendors with multiple-element revenue arrangements.	31
Construction contracts	Accounted for using percentage-of-completion method. Completed contract method is prohibited.	Similar to IFRS; however, completed contract method is permitted in rare circumstances.	32
Expense recognition			
Interest expense	Recognised on an accruals basis using the effective interest method.	Similar to IFRS.	34
	Interest incurred on borrowings to construct an asset over a substantial period of time are capitalised as part of the cost of the asset.	Similar to IFRS with some differences in the detailed application.	44
Employee benefits: pension costs – defined benefit plans	Projected unit credit method is used to determine benefit obligation and plan assets are recorded at fair value. Actuarial gains and losses can be deferred. If actuarial gains and losses are recognised immediately, they can be recognised outside the income statement.	Similar to IFRS but with several areas of differences in the detailed application. Actuarial gains and losses cannot be deferred and are recognised in accumulated other comprehensive income with subsequent amortisation to the income statement.	34
Employee share-based payment transactions	Expense for services purchased is recognised based on the fair value of the equity awarded or the liability incurred.	Similar model to IFRS, although many areas of difference exist in application.	36
Termination benefits	Termination benefits arising from redundancies are accounted for similarly to restructuring provisions. Termination indemnity schemes are accounted for based on actuarial present value of benefits.	Four types of termination benefits with three different timing methods for recognition. Termination indemnity schemes are accounted for as pension plans; related liability is calculated as either vested benefit obligation or actuarial present value of benefits.	37
Assets			
Acquired intangible assets	Capitalised if recognition criteria are met; amortised over useful life. Intangibles assigned an indefinite useful life are not amortised but reviewed at least annually for impairment. Revaluations are permitted in rare circumstances.	Similar to IFRS, except revaluations are not permitted.	39
Internally generated intangible assets	Research costs are expensed as incurred. Development costs are capitalised and amortised only when specific criteria are met.	Unlike IFRS, both research and development costs are expensed as incurred, with the exception of some software and website development costs that are capitalised.	40
Property, plant and equipment	Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used; revaluations are not permitted.	40
Non-current assets held for sale or disposal group	Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. A non-current asset classified as held for sale is measured at the lower of its carrying amount and fair value less costs to sell. Comparative balance sheet is not restated.	Similar to IFRS.	42

Subject	IFRS	US GAAP	Page
Leases – classification	A lease is a finance lease if substantially all risks and rewards of ownership are transferred. Substance rather than form is important.	Similar to IFRS, but with more extensive form-driven requirements.	42
Leases – lessor accounting	Amounts due under finance leases are recorded as a receivable. Gross earnings allocated to give constant rate of return based on (pre-tax) net investment method.	Similar to IFRS, but with specific rules for leveraged leases.	42
Impairment of long-lived assets held for use	Impairment is a one-step approach under IFRS and is assessed on the basis of discounted cash flows. If impairment is indicated, assets are written down to higher of fair value less costs to sell and value in use. Reversal of impairment losses is required in certain circumstances, except for goodwill.	Impairment is a two-step approach under US GAAP. Firstly, impairment is assessed on the basis of undiscounted cash flows. If less than carrying amount, the impairment loss is measured as the amount by which the carrying amount exceeds fair value. Reversal of losses is prohibited.	44
Investment property	Measured at depreciated cost or fair value, with changes in fair value recognised in the income statement.	Treated the same as for other properties (depreciated cost). Industry-specific guidance applies to investor entities (for example, investment entities).	45
Inventories	Carried at lower of cost and net realisable value. FIFO or weighted average method is used to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.	Similar to IFRS; however, use of LIFO is permitted. Reversal of write-down is prohibited.	45
Biological assets	Measured at fair value less estimated point-of-sale costs, with changes in valuation recognised in the income statement.	Not specified. Generally historical cost used.	46
Financial assets – measurement	Depends on classification of investment – if held to maturity or loans and receivables, they are carried at amortised cost; otherwise at fair value. Gains/losses on fair value through profit or loss classification (including trading instruments) is recognised in income statement. Gains and losses on available-for-sale investments, whilst the investments are still held, are recognised in equity.	Similar accounting model to IFRS, with some detailed differences in application.	46
Derecognition of financial assets	Financial assets are derecognised based on risks and rewards first; control is secondary test.	Significantly different model to IFRS and derecognition is based on control. Requires legal isolation of assets even in bankruptcy.	48
Liabilities			
Provisions – general	Liabilities relating to present obligations from past events recorded if outflow of resources is probable (defined as more likely than not) and can be reliably estimated.	Similar to IFRS. However, probable is a higher threshold than 'more likely than not'.	50
Provisions – restructuring	Restructuring provisions recognised if detailed formal plan (identifying specified information) announced or implementation effectively begun.	Recognition of liability based solely on commitment to plan is prohibited. In order to recognise, restructuring plan has to meet definition of a liability, including certain criteria regarding likelihood that no changes will be made to plan or that plan will be withdrawn.	50
Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to IFRS.	51
Deferred income taxes – general approach	Full provision method is used (some exceptions) driven by balance sheet temporary differences. Deferred tax assets are recognised if recovery is probable (more likely than not).	Similar to IFRS but with many differences in application.	52

Subject	IFRS	US GAAP	Page
Government grants	Recognised as deferred income and amortised when there is reasonable assurance that the entity will comply with the conditions attached to them and the grants will be received. Entities may offset capital grants against asset values.	Similar to IFRS, except when conditions are attached to grant. In this case, revenue recognition is delayed until such conditions are met. Long-lived asset contributions are recorded as revenue in the period received.	54
Leases – lessee accounting	Finance leases are recorded as asset and obligation for future rentals. Depreciated over useful life of asset. Rental payments are apportioned to give constant interest rate on outstanding obligation. Operating lease rentals are charged on straight-line basis.	Similar to IFRS. Specific rules should be met to record operating or capital lease.	54
Leases – lessee accounting: sale and leaseback transactions	Profit arising on sale and finance leaseback is deferred and amortised. If an operating lease arises, profit recognition depends on whether the transaction is at fair value. Substance/linkage of transactions is considered.	Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Losses are immediately recognised. Specific strict criteria should be considered if the transaction involves real estate.	54
Financial liabilities versus equity classification	Capital instruments are classified, depending on substance of issuer's contractual obligations, as either liability or equity. Mandatorily redeemable preference shares are classified as liabilities.	Application of the US GAAP guidance may result in significant differences to IFRS, for example, certain redeemable instruments are permitted to be classified as 'mezzanine equity' (ie, outside of permanent equity but also separate from debt).	55
Convertible debt	Convertible debt (fixed number of shares for a fixed amount of cash) is accounted for on split basis, with proceeds allocated between equity and debt.	Conventional convertible debt is usually recognised entirely as liability, unless there is beneficial conversion feature.	56
Derecognition of financial liabilities	Liabilities are derecognised when extinguished. Difference between carrying amount and amount paid is recognised in income statement.	Similar to IFRS.	57
Equity instruments			
Capital instruments – purchase of own shares	Show as deduction from equity.	Similar to IFRS.	58
Derivatives and hedging			
Derivatives	Derivatives not qualifying for hedge accounting are measured at fair value with changes in fair value recognised in the income statement. Hedge accounting is permitted provided that certain stringent qualifying criteria are met.	Similar to IFRS. However, differences can arise in the detailed application.	59
Other accounting and reporting topics			
Functional currency definition	Currency of primary economic environment in which entity operates.	Similar to IFRS.	62
Functional currency – determination	If indicators are mixed and functional currency is not obvious, judgment is used to determine functional currency that most faithfully represents economic results of entity's operations by giving priority to currency that mainly influences sales prices and currency that mainly influences direct costs of providing the goods and services before considering the other factors.	Similar to IFRS. However, no specific hierarchy of factors to consider. In practice, currency in which cash flows are settled is often key consideration.	62

Subject	IFRS	US GAAP	Page
Presentation currency	When financial statements are presented in a currency other than the functional currency, assets and liabilities are translated at exchange rate at balance sheet date. Income statement items are translated at exchange rate at dates of transactions, or average rates if rates do not fluctuate significantly.	Similar to IFRS.	63
Earnings per share – diluted	IAS 33 is prescriptive about the procedure and methods used to determine whether potential shares are dilutive. 'Treasury share' method is used for share options/warrants.	Similar in principle to IFRS, although there are differences in application.	63
Related-party transactions – definition	Determined by level of direct or indirect control, joint control and significant influence of one party over another or common control with another entity.	Similar to IFRS.	64
Related-party transactions – disclosures	Name of the parent entity is disclosed and, if different, the ultimate controlling party, regardless of whether transactions occur. For related-party transactions, nature of relationship (seven categories), amount of transactions, outstanding balances, terms and types of transactions are disclosed. Disclosure of compensation of key management personnel is required within the financial statements.	Similar to IFRS except that disclosure of compensation of key management personnel is not required within the financial statements.	64
Segment reporting – scope and basis of disclosures	Applies to public entities and entities that file, or are in the process of filing, financial statements with a regulator for the purposes of issuing any instrument in a public market. Reporting of operating segments is based on those segments reported internally to entity's chief operating decision-maker for purposes of allocating resources and assessing performance.	Applies to SEC registrants. Basis of reporting is similar to IFRS.	65
Segment reporting – disclosures	Disclosures for operating segments are profit or loss, total assets and, if regularly reported internally, liabilities. Other items, such as external revenues, intra-segment revenues, depreciation and amortisation, tax, interest income, interest expense and various material items, are disclosed by segment where such items are included in the segment profit/loss or are reported internally. For geographical areas in which the entity operates, revenues and non-current assets are reported. Disclosure of factors used to identify segments and about major customers is required.	Similar disclosures to IFRS.	65
Discontinued operations – definition	Operations and cash flows that can be clearly distinguished for financial reporting and represent a separate major line of business or geographical area of operations, or a subsidiary acquired exclusively with a view to resale.	Wider definition than IFRS. Component that is clearly distinguishable operationally and for financial reporting can be a reportable segment, operating segment, reporting unit, subsidiary or asset group.	66
Discontinued operations – presentation and main disclosures	At a minimum, a single amount is disclosed on face of income statement, and further analysis disclosed in notes, for current and prior periods.	Similar to IFRS. Discontinued operations are reported as separate line items on face of income statement before extraordinary items.	67
Post-balance-sheet events	Financial statements are adjusted for subsequent events providing evidence of conditions that existed at the balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.	Similar to IFRS.	67

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Interim financial reporting	Contents are prescribed and basis should be consistent with full-year statements. Frequency of reporting (eg, quarterly, half-year) is imposed by local regulator or is at discretion of entity.	Similar to IFRS. Additional quarterly reporting requirements apply for SEC registrants (domestic US entities only). Interim reporting requirements for foreign private issuers are based on local law and stock exchange requirements.	67

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 - 10)

**Moody's Investors Service****Global Credit Research****Announcement**

30 OCT 2007

Save as PDF **Announcement: Endesa S.A.****Moody's reports: European Electricity Producers' financials lack key data**

London, 30 October 2007 -- The usefulness of Europe's Electricity Producers' financial statements would be significantly enhanced if the companies provided more information about their electricity generation activities and power plants, says Moody's Investors Service in the fifth of seven planned Special Comments on the comparability of EU companies' reporting methods.

The companies covered in the latest report are Electricite de France S.A. (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), E.ON AG (A2/P-1/stable), Iberdrola, S.A. (A2/P-1, both ratings on review for possible downgrade), RWE AG (A1/P-1/stable), Suez (A2, under review for possible upgrade) and Vattenfall AB (A2/stable).

Moody's report -- entitled "Europe's Electricity Producers -- Is Comparability Compromised by Different Accounting Practices?" -- notes that only two of the eight companies disclose the profit they derive from producing electricity. "Electricity generation is a significant activity for these companies, but it is difficult to compare performance when they adopt different approaches to segment reporting," says Trevor Pijper, a Moody's Vice President/Senior Credit Officer and author of the report. The rating agency observes that the fairly limited information available points to profits ranging from EUR43,000 to EUR83,000 per MW of average installed capacity in 2006. For the eight companies combined (with 440,496 MW installed at the end of 2006), the operating profit from electricity generation could therefore range from EUR20 billion to EUR35 billion (out of a total operating profit from all activities of EUR45 billion). However, Mr Pijper points out that profits would probably be reduced significantly if the depreciation expense were uplifted to reflect the current, rather than the historical, cost of the capacity consumed in the production of electricity. The report also highlights inconsistencies and anomalies in the way that installed generation capacity is measured and accounted for, as well as large variations in the amounts set aside for decommissioning nuclear power plants.

Moody's report sets out in detail how the companies' key figures are adjusted for use in standard ratios by analysts, and now made available to subscribers in Moody's Financial Metrics database product.

Moody's has already published commentaries on the comparability of the financial reporting methods used by Europe's telecoms operators, automobile manufacturers, oil & gas companies and pulp and paper producers. Retailers and suppliers of building material will be covered in future Special Comments.

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