



STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL
TEN FRANKLIN SQUARE
NEW BRITAIN, CT 06051

**DOCKET NO. 07-08-03 JOINT APPLICATION OF IBERDROLA, S.A. AND
ENERGY EAST CORPORATION FOR APPROVAL OF A
CHANGE OF CONTROL**

November 28, 2007

By the following Commissioners:

Anne C. George
Anthony J. Palermino
Donald W. Downes

DECISION

TABLE OF CONTENTS

I. INTRODUCTION	1
A. SUMMARY	1
B. BACKGROUND OF THE PROCEEDING.....	1
C. CONDUCT OF THE PROCEEDING	1
D. PARTIES AND INTERVENORS	2
E. PUBLIC COMMENT	2
II. APPLICANTS' EVIDENCE.....	2
A. DESCRIPTION OF IBERDROLA, S.A.	2
B. DESCRIPTION OF ENERGY EAST CORPORATION	3
1. Connecticut Natural Gas Corporation.....	4
2. The Southern Connecticut Gas Company	4
C. PROPOSED TRANSACTION.....	5
III. DEPARTMENT ANALYSIS.....	6
A. FINANCIAL SUITABILITY OF IBERDROLA	7
B. TECHNOLOGICAL AND MANAGERIAL SUITABILITY OF IBERDROLA	8
C. SAFE, ADEQUATE AND RELIABLE SERVICE	9
D. PURCHASE PRICE OF ENERGY EAST CORPORATION.....	10
1. Comparably Publicly Traded Companies Analysis.....	10
2. Selected Transaction Analysis	11
3. Discounted Cash Flow Analysis.....	12
4. Iberdrola Valuation of Energy East	13
5. Summary of Purchase Price	13
E. ACCOUNTING ISSUES	14
F. REGULATORY APPROVALS	16
G. CONSUMER SERVICE ISSUES	16
IV. FINDINGS OF FACT	19
V. CONCLUSION AND ORDERS.....	24
A. CONCLUSION.....	24
B. ORDERS.....	24

DECISION

I. INTRODUCTION

A. SUMMARY

In this Decision, pursuant to § 16-47 of the General Statutes of Connecticut and Sections 16-1-65A and 16-1-65B of the Regulations of Connecticut State Agencies, the Department of Public Utility Control approves the joint application of Iberdrola, S.A. to acquire control of the Energy East Corporation. The Department finds that Iberdrola, S.A. has the financial, technological and managerial suitability and responsibility to operate a public service company. In addition, the Department finds that Iberdrola, S.A. has the ability to provide safe, adequate and reliable service to the public based on its past track record of operations of utilities.

B. BACKGROUND OF THE PROCEEDING

Energy East Corporation (Energy East) owns and operates CTG Resources, Inc. (CTG) whose main subsidiary is Connecticut Natural Gas Corporation (CNG). Energy East also owns and operates Connecticut Energy Corporation (CEC) whose main subsidiary is The Southern Connecticut Gas Company (Southern). By joint application dated August 1, 2007 (Application), filed with the Department of Public Utility Control (Department) pursuant to §16-47 of the General Statutes of Connecticut (Conn. Gen. Stat.), Iberdrola, S.A. (Iberdrola or Company), Energy East, CTG, and CEC (jointly, Applicants) requested that the Department approve the change of control of Energy East and all its subsidiaries to Iberdrola (Proposed Transaction). According to the Application, the proposed change of control is structured as a merger of Green Acquisition Capital, Inc. (Green Acquisition), which is a subsidiary of Iberdrola, and Energy East. Green Acquisition would merge with and into Energy East with Energy East being the surviving corporation. CNG and Southern would continue to conduct utility operations as direct, wholly-owned subsidiaries of CTG and CEC, respectively. Energy East would become a wholly-owned, first-tier subsidiary of Iberdrola after the merger is completed. The transaction would not be a merger of public service companies. Application, pp. 1 and 2.

C. CONDUCT OF THE PROCEEDING

By Notice of Hearing dated August 21, 2007 and pursuant to Conn. Gen. Stat. §16-47, a public hearing was held in this matter on September 13, 2007, at the Department's offices, Ten Franklin Square, New Britain, Connecticut. The hearing continued at the same location on September 17, October 2, and October 9, 2007 at which time it was closed.

The Department issued a draft Decision in this matter on November 14, 2007. All parties were provided an opportunity to file written exceptions to and present oral arguments on the draft Decision.

D. PARTIES AND INTERVENORS

The Department recognized Iberdrola, S.A., Tomás Redondo 1, 28033 Madrid, Spain; Energy East Corporation, 52 Farm View Drive, New Gloucester, Maine 04260-5116; CTG Resources, Inc. and Connecticut Energy Corporation, P.O. Box 1500, Hartford, Connecticut 06144-1500; Connecticut Natural Gas Corporation, 77 Hartland Street, East Hartford, CT 06106; The Southern Connecticut Gas Company, 855 Main Street, Bridgeport, CT 06604 and the Office of Consumer Counsel (OCC), Ten Franklin Square, New Britain, Connecticut 06051, as parties to the proceeding. The Connecticut Independent Utility Workers and the United Steel Workers requested and were granted intervenor status.

E. PUBLIC COMMENT

Department did not receive any public comment regarding the Proposed Transaction.

II. APPLICANTS' EVIDENCE

A. DESCRIPTION OF IBERDROLA, S.A.

According to Iberdrola, it was incorporated in Bilbao, Spain on July 19, 1901 with its present name being adopted by shareholders at the general shareholders' meeting held on November 1, 1992. As a result of a resolution adopted by Iberdrola's shareholders at their general meeting held on April 1, 2000, Iberdrola adapted its corporate purpose "to meet the provisions of Spanish Electricity Industry Law 54 of November 27, 1997, which requires the separation of regulated and non-regulated utility operations." Exhibit 14, p. 229. Iberdrola stated that it is incorporated under the laws of the Kingdom of Spain and its shares are publicly traded on the Spanish Stock Exchanges. Exhibit 15, p. 15. Iberdrola indicated that the total market capitalization of its outstanding common shares is approximately \$70 billion. It operates both regulated and non-regulated electric and gas utilities mostly in Europe and Latin America. Iberdrola testified that it provides services to approximately 22 million electric points of supply in Europe and the Americas and has over 100 years of experience as an electric utility. This includes extensive experience as a provider of electric transmission and distribution services, with a focus on increasing and maximizing service quality. Further, Iberdrola stated that it is also a gas supplier and developer of gas infrastructure. In 2006, Iberdrola stated that it supplied 150 billion cubic feet (bcf) of natural gas in Spain. Finally, Iberdrola stated that it is the third largest independent operator of natural gas storage in North America, with almost 95 bcf of storage capacity in the western United States and Canada. Application, pp. 7-9.

Iberdrola indicated that through its worldwide subsidiaries and affiliates, it owns about 40,000 MegaWatts (MW) of electric generation including about 6,800 MegaWatts generated from wind energy. For calendar year ended December 31, 2006, Iberdrola's consolidated operating revenues were approximately \$14.88 billion (11.02 billion Euro), with a net income of \$2.24 billion (1.66 billion Euro). Exhibit 14, p. 17. Iberdrola states that it plans to invest over \$1.32 billion on renewable technologies in 2007 and that over 20,000 MW of the 40,000 MW of renewable resources projects are in the U.S. In April

2007, Iberdrola completed the acquisition of ScottishPower, an entity engaged in the generation, transmission, distribution and supply of electricity and storage and supply of natural gas. The Company stated that PPM Energy, Inc., a subsidiary of ScottishPower operates renewable generation, gas storage and related energy management activities in the U.S. and western Canada. Application, pp. 8 and 9. Iberdrola contends that its recent acquisition of ScottishPower reinforces its commitments to shareholders, customers, employees, and society in the countries in which it has operations. Specifically, Iberdrola stated that it generates greater returns and creates more value for its shareholders; is investing to continue improving service quality to customers, and is focusing on training and developing employees and offering them new professional opportunities. Finally, Iberdrola believes that respecting the environment, promoting the use of clean energy, increasing investments in research and development and innovation will reinforce its commitments to society. Exhibit 14, p. 54.

Iberdrola stated that the acquisition of Energy East will fit into its internalization objectives as well as provide it with opportunity for both operational and financial growth. For example, Energy East's taxable income will provide Iberdrola with the opportunity to optimize its position in renewable energies in the U.S. Iberdrola believes that Energy East is an integrated as well as a regulated gas and electric utility with a stable and predictable business profile. Also, Iberdrola postulates that Energy East offers it the critical platform to expand its operations into the U.S. market with more than 135 million electric customers and greater than 3,600 TeraWatts hours (TWh) of electric sales. Response to Interrogatory GA-99, pp. 13-19.

B. DESCRIPTION OF ENERGY EAST CORPORATION

Energy East states that it is a public utility holding company organized under the laws of state of New York. Exhibit 15, p. 18. It primarily operates regulated electricity transmission and distribution services plus regulated natural gas transportation, storage and distribution services. Energy East has operating subsidiaries in New York, Connecticut, Massachusetts, Maine and New Hampshire. Application, p. 10. Energy East states that its non-utility subsidiaries include: Energetix, Inc. and NYSEG Solutions, Inc., marketers of electricity and natural gas services in New York; Cayuga Energy, owner of electric generating facilities that sell power in the NYISO and PJM Interconnection wholesale markets at times of high demand; TEN Companies, owns and manages The Hartford Steam Company and has 4.87% indirect interest in the Iroquois Gas Transmission System; MaineCom Services, an owner of fiber optic lines and provider of telecommunications services in Maine; and Energy East Enterprises, Inc., owns a natural gas delivery company in Maine and a propane air delivery company in New Hampshire. Exhibit 4, p. 1; Exhibit 10, pp. 9-12. As a holding company, Energy East states it neither owns nor operates any physical properties. For calendar year ended December 31, 2006, Energy East reported consolidated operating revenues of approximately \$5.2 billion along with a net income of approximately \$260 million. Exhibit 10, p. 65. As of January 31, 2007, Energy East reported it had 5,884 employees. Exhibit 10, p. 31.

Energy East indicated that it has 1,825,000 electric points of supply, distributed 40,450 GigaWatt hours (GWh) in 2006 and has generation capacity of 555 MegaWatts (MW). It has transmission and distribution networks of 8,229 miles (13,243 kilometers)

and 78,052 miles (125,613 kilometers), respectively. Also, Energy East testified that it has 920,300 natural gas points of supply, transport and distribution networks of 183 miles (295 kilometers) and 24,642 miles (39,657 kilometers), respectively. Energy East reported it distributed approximately 184 million ccf (5.2 bcm) of natural gas in 2006. Exhibit 16, p. 10.

Energy East testifies that its principal subsidiary, New York State Electric & Gas Corporation (NYSEG), is a public utility company engaged primarily in purchasing, transmitting/transporting and distributing electricity and natural gas to western, eastern and central New York State. NYSEG serves approximately 871,000 electric and 256,000 natural gas customers. Exhibit 10, p. 9. Another New York subsidiary of Energy East, Rochester Gas and Electric Corporation (RG&E), has approximately 359,000 and 297,000 electric and natural gas supply points, respectively. Exhibit 19, pp. 14 and 15.

In the Decision dated January 19, 2000 in Docket No. 99-08-09, Joint Application of Energy East Corporation and CTG Resources, Inc. for Approval of a Change of Control, the Department approved Energy East's merger with CTG. In that merger, Energy East gained control of CNG. Also, in the Decision dated December 16, 1999 in Docket No. 99-07-20, Joint Application of Energy East Corporation and Connecticut Energy Corporation for Approval of a Change of Control, the Department approved Energy East's merger with CEC. In that merger, Energy East gained control of Southern.

1. Connecticut Natural Gas Corporation

CNG is a Connecticut public service company and a wholly-owned subsidiary of CTG. It is primarily engaged in the retail distribution of natural gas to residential, commercial, and industrial customers and the transportation of natural gas to commercial and industrial customers. CNG serves approximately 155,000 customers in Connecticut. CNG's service territory is approximately 800 square miles, which includes greater Hartford, New Britain and Greenwich. Exhibit 10, p. 10. For calendar year ended December 31, 2006, CNG's operating revenues totaled approximately \$400.7 million with a net income of approximately \$12.6 million. Exhibit 29, pp. 27-29.

2. The Southern Connecticut Gas Company

Southern is a Connecticut public service company and is a wholly-owned subsidiary of CEC. It is primarily engaged in the retail distribution of natural gas to residential, commercial, and industrial customers and the transportation of natural gas to commercial and industrial customers. Southern serves approximately 176,000 natural gas customers in southern Connecticut. Southern's service area is approximately 560 square miles and includes Bridgeport and New Haven as well as coastal towns of Westport and Old Saybrook. Exhibit 10, p. 10. For calendar year ended December 31, 2006, Southern's operating revenues totaled approximately \$395.7 million with a net income of approximately \$16.4 million. Exhibit 30, pp. 27-29.

C. PROPOSED TRANSACTION

To implement the Proposed Transaction, Iberdrola, Green Acquisition and Energy East executed an Agreement and Plan of Merger (Merger Agreement) dated June 25, 2007, which was submitted to the Department as Exhibit 1. In this agreement, the Applicants proposed a transaction whereby Energy East would merge with and into Iberdrola in a merger to be effectuated by the legal entity, Green Acquisition. The Merger Agreement calls for Iberdrola to acquire all the regulated and unregulated subsidiaries of Energy East. Green Acquisition, a New York corporation and wholly-owned subsidiary of Iberdrola, was formed in June, 2007 solely for the purpose of merging with Energy East. Application, p. 2. The Applicants filed a Preliminary Proxy Statement with the U.S. Securities and Exchange Commission (SEC). Exhibit 15. Energy East stated that the merger would be consummated in accordance with all applicable federal and state laws and regulations, including, but not limited to, Section 203 of the Federal Power Act, the Securities Act of 1933, the Securities and Exchange Act of 1934, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the Communications Act of 1934, and New York Business Corporation Law (NYBCL). The merger would become effective upon filing the certificate of merger with the Secretary of State of the State of New York or at a subsequent time specified in the certificate of merger. Exhibit 15, p. 49.

According to the Applicants, under the Merger Agreement, Green Acquisition would merge into Energy East. Energy East would be the surviving company and would become a direct, wholly-owned subsidiary of Iberdrola after the merger is completed. Application, p. 2 and Exhibit 1, p. 1. The terms of the Merger Agreement call for the shareholders of Energy East to receive \$28.50 in cash per share at closing, representing a premium of 20.2% over Energy East's average closing stock price for the 30 day period ending June 22, 2007. Iberdrola will pay Energy East's shareholders approximately \$4.5 billion, to acquire 100% of approximately 159 million shares of Energy East's common stock outstanding as of the measurement date of June 25, 2007. Application, p. 6., Exhibit 15, p. 49. As part of the Merger Agreement, Iberdrola will assume Energy East's debt of approximately \$4 billion. The Proposed Transaction values Energy East at approximately 6,400 million euros or \$8.6 billion in terms of enterprise value which is defined as market equity value plus net debt. Exhibit No. 16, p. 1. At the close of the proposed merger, Iberdrola would own 100% of Energy East common equity and Energy East would cease to be a public company.

Iberdrola states that the proposed merger would be accounted for under the purchase method in accordance with International Financial Reporting Standard (IFRS) 3, Business Combinations. The IFRS 3 requires Iberdrola to measure the acquisition costs, at the acquisition date, as the aggregate of the fair values of its equity instruments issued and liabilities assumed in exchange for the control of Energy East plus any costs directly attributable to the combination. Late Filed Exhibit No. 7, Attachment 1, p. 1. The purchase price will be allocated to Energy East's identifiable utility and non-utility plant assets and liability subsequent to the acquisition date. Response to Interrogatory GA-28. Iberdrola claims that because the merger is structured as a subsidiary merger, the Merger Agreement does not call for reallocation of liabilities to CNG and Southern. Also, CNG and Southern will not include in rates charged to their customers the acquisition premium resulting from this merger.

Responses to Interrogatories GA-29 and GA-39. Iberdrola testified that all subsequent adjustments to the current book values of plant assets and liabilities as well as goodwill recognized as a result of this merger will not be reported in the books of Energy East's operating subsidiaries, including CNG and Southern. The adjustments resulting from subsequent reassessments of the fair values of the acquired assets of Energy East and from the recognition of goodwill, the excess of acquisition costs over the net fair values of identifiable assets, will be recorded in the books of Iberdrola. Tr. 10/02/07, pp. 206-209.

The Applicants stated that the merger is an upstream change of control and the Applicants anticipate that day-to day operating decisions will remain with Energy East's operating subsidiaries. Response to Interrogatory GA-44. The Applicants indicated that the merger would not affect the Department's ability to regulate the operations of CNG and Southern. Iberdrola stated that it is committed to long-term global investment, and it would continue to "fully or substantially" rely on local managements in the countries where it has operations. Iberdrola has utility and energy business activities in countries that include Portugal, Brazil, Mexico, Bolivia, Guatemala, the United Kingdom, Spain and Greece. Application, pp. 5 and 8.

The Applicants stated the Merger Agreement was approved by both Iberdrola's and Energy East's Boards of Directors on June 25, 2007. Exhibit 16, pp. 1 and 8. The Applicants stated that the Merger Agreement will be voted on at a general meeting of Energy East shareholders to be held around November 20, 2007. Tr. 09/17/07, p. 92.

III. DEPARTMENT ANALYSIS

Pursuant to Conn. Gen. Stat. §§16-47(a) and 16-47(d), the Department regulates the control and acquisition of a public service company. The Department takes into consideration the following guidelines in its evaluation of a proposed buyer's suitability to own a local gas distribution company (LDC):

In each proceeding on a written application submitted under said subsection (b) or (c), the department shall, in a manner which treats all parties to the proceeding on an equal basis, take into consideration (1) the financial, technological and managerial suitability and responsibility of the applicant, (2) the ability of the gas, electric, electric distribution, water, telephone or community antenna television company or holding company which is the subject of the application to provide safe, adequate and reliable service to the public through the company's plant, equipment and manner of operation if the application were to be approved.

Conn. Gen. Stat. §16-47(d)

Specifically, the Department must determine the suitability of the proposed buyer. The buyer must have the level of experience and technological expertise to enable it to assume the ownership and management over the company to be purchased. The acquiring company must be able to provide adequate service to the customers of the purchased company.

OCC stated that while it does not actively oppose the proposed merger, it believes that there is certain vagueness in this scheme that requires an extra measure of diligence on the part of the Department in framing its decision and the orders contained therein. OCC Brief, p. 10. OCC commends Iberdrola for proposing benefits for the operating companies, consumers and the natural gas market in Connecticut. OCC Brief, pp. 5-10.

As discussed below, the Department completed an extensive review of the Proposed Transaction to ensure that the Applicants had complied with the requirements of Conn. Gen. Stat. §16-47(d).

A. FINANCIAL SUITABILITY OF IBERDROLA

With the acquisition of ScottishPower in April 2007, Iberdrola became the third largest energy company in Europe with a market capitalization of approximately 70 billion euros. In 2006, Iberdrola's net sales were over 11 billion euros with a net income (EBIT) of 2.655 billion euros. The Applicants stated that Iberdrola's shares rose 43.4% in 2006 while the market indices of Ibex-35 and Euro-Stoxx 50 gained 31.8% and 15.1% respectively. Also, since Iberdrola commenced its 2007-2009's strategic plan, its securities have outperformed those of other electricity companies. Specifically, it gained 148% while Ibex-35 managed a 55% gain and Euro-Stoxx 50 dropped 14% Exhibit 14, pp. 63-74. The Applicants asserted that Iberdrola's financial liquidity maintains its excellent rating as awarded by Moody's June 2005 review.

The Proposed Transaction strengthens the financial stability and resources accessible to Energy East, CNG and Southern. Taking into consideration the Proposed Transaction, the enterprise value of Iberdrola will be approximately \$104 billion which places its financial resources among the largest in the world. Iberdrola shows its financial strength in its ability to sell 85 million of new shares of common stock through an accelerated, fully subscribed, private placement for approximately \$4.5 billion to finance the Proposed Transaction. Application, p. 20.

Iberdrola has a long history of high ratings from the credit rating agencies being rated at an A level or higher by Standard and Poor's since 1993 and at an A2 level or higher from Moody's since 1995. Tr. 9/17/07, pp. 85 and 86. Iberdrola states that its ratios of earnings to fixed charge coverages are strong investment grade ratios. These strong ratios enable Iberdrola to obtain an A level rating standard and to fully subscribe its equity private placement that is the source of financing for this proposed merger. Response to Interrogatory GA-107. In addition, Iberdrola's strong balance sheet and cash flow are important drivers to its strong credit ratings. Exhibit Nos. 7, 8 and 9; Response to Interrogatory GA-101. Iberdrola's trend in debt and equity is strong and reflects their strategic plan from 2002 through 2006. Response to Supplemental Interrogatory GA-83; Tr. 9/17/07, pp. 47 and 48. The Department believes that this proves Iberdrola to be financially suitable to execute the Proposed Transaction.

The Department finds that Energy East, CNG and Southern will benefit from the Proposed Transaction. This is due to the financial stability of becoming subsidiaries of a multi-national widely diversified utility with a long-term Standard & Poor's A level rating. This financial stability will provide Energy East, CNG and Southern with increased access to both U.S. and global financial markets than they would have in the

absence of the Proposed Transaction. An increase in access to capital will allow CNG and Southern to provide safe, adequate and reliable service. Application, p. 20; Response to Interrogatory GA-100. The Department finds that the increased financial suitability that Iberdrola brings to the Proposed Transaction is of benefit to CNG and Southern.

B. TECHNOLOGICAL AND MANAGERIAL SUITABILITY OF IBERDROLA

Conn. Gen. Stat. §16-47(d) requires the Department to consider the technological and managerial suitability and responsibility of the applicant. The Department reviewed the technological suitability of Iberdrola. According to Mr. Azagra, Iberdrola's Director of Corporate Development, Iberdrola is a global utility that is engaged in the gas and electric business. Iberdrola has over 100 years of experience as a utility, including experience as a provider of electric transmission and distribution services. Further, it is one of the largest energy companies in the world with a market capitalization of around \$70 billion and over 20 million gas and electric points of supply. Iberdrola is engaged in a wide range of aspects of the natural gas business in Europe and the Americas as a gas supplier and developer of gas infrastructure. In Spain, Iberdrola supplied 150 bcf of natural gas in 2006, including 20 percent of Spain's liquefied natural gas supplies. Iberdrola also has significant investments in two Spanish re-gasification plants and in the MEDGAZ pipeline, transporting supplies from Algeria to Spain. In Scotland, Iberdrola supplies natural gas to 2 million gas points of supply. Iberdrola is also the third largest independent operator of natural gas storage in North America, with almost 95 bcf of storage capacity. Iberdrola believes that it brings to Connecticut a proven record of providing high-quality energy service and a demonstrated commitment to innovation, infrastructure investment, service quality, efficiency, clean energy policies, and sustainable development. Tr. 09/17/07, pp. 21-22; LF-1, p.1; Iberdrola Brief, p. 9.

In the Preliminary Proxy Statement filed with the SEC, Energy East stated the following: that between 2005 and 2007, Iberdrola invested approximately \$4 billion to improve its transmission and distribution systems; that Iberdrola owns diversified portfolio of approximately 40,000 mega watts (MW) of electric generation worldwide, which comprises mainly of low emission assets; and that Iberdrola is the largest producer of wind energy in the world with over 6,800 MW of wind capacity. Also, Energy East stated that Iberdrola invested over \$1.32 billion in renewable technologies in 2006 and has over 40,000 MW of new renewable resources in the pipeline, including over 20,000 MW in the United States. Exhibit 15, p. 18. The Department finds Iberdrola's experience and record of technological expertise of providing utility service makes it more than suitable under Conn. Gen. Stat. §16-47(d) to acquire control over Energy East.

The Department also analyzed the managerial suitability of Iberdrola by reviewing the backgrounds of the key officers and management personnel. Exhibit No. 3; Responses to Interrogatories GA-111 and GA-112. Iberdrola listed the various awards it and its executives won as a measure of its managerial suitability. In 2006, Platts Global Energy Awards named Iberdrola as the Energy Company of the Year. Its chairman and CEO, Mr. Ignacio Sanchez Galán, was awarded the CEO of the Year and has been recognized as best executive among European utilities for five straight years.

Also, Iberdrola's CFO, Jose Sainz Armada, has repeatedly been named one of Europe's best CFOs. Application, p. 9; Iberdrola Brief, p. 11. The Department finds the backgrounds of these key officers and management personnel to be impressive. These officers have significant and extensive business and regulatory experience that makes them more than qualified to fulfill the statutory guidelines of being managerially suitable for the merger to be approved.

C. SAFE, ADEQUATE AND RELIABLE SERVICE

Iberdrola serves over two million gas supply points in both United Kingdom and Spain. Response to Interrogatory GA-103. Iberdrola asserts its commitment to quality by citing a goal set in its 2001-2006 Strategic Plan to provide reliable service to approximately ten million electric customers in Spain. Response to Interrogatory GA-104. Iberdrola stated that it largely exceeded this goal by bringing the Installed Capacity Equivalent Interrupt Time (ICEIT) to less than two hours. This represents a 21% improvement from the figure at the beginning of the five year period cited above. Iberdrola testified that it has put into service of more than 182 substations, almost 15,300 transformer centers and more than 16,400 kilometers of lines. Iberdrola indicated that it is a principal developer of new gas infrastructure in Spain with interests in re-gasification plants in Bilbao and Sagunto and the MEDGAZ gas pipeline. Iberdrola believes it is a world leader in the renewable energy area, with wind farms and mini-hydroelectric plants in operation as of June 30, 2007 with a combined capacity of almost 7,000 MW. Response to Interrogatory GA-104.

The Applicants stated that Iberdrola is committed to excellence in customer service and will perform needed infrastructural improvement to enhance service reliability. Iberdrola states that if its Customer Average Interruption Duration Index (CAIDI) of 1.7 hours for operations in Spain and the United Kingdom was ranked in the U.S it would rank it near the top of the second quartile in the U.S. Similarly, Iberdrola states if its System Average Interruption Frequency Index (SAIFI) was ranked in the U.S. it would rank it in the first quartile among the U.S. utilities. Application, p. 17. The Applicants also believe that the Proposed Transaction would not impact the safe, adequate and reliable services currently being provided by CNG and Southern. This was attributed to the fact that the LDCs will continue to be regulated by the Department pursuant to Title 16 of the Conn. Gen. Stat. Further, the LDCs' existing corporate headquarters and operational centers, utility operations, plant, equipment, franchises, permits and related assets will not change or be transferred as a result of this merger. Application, pp. 17 and 18; Iberdrola Brief, p. 14.

The Department reviewed the documents submitted in the Application regarding Iberdrola's natural gas operations and concluded that Iberdrola has the gas industry expertise to acquire the natural gas distribution companies of Energy East. Based on the above, the Department finds that Iberdrola has the technological and managerial suitability to ensure that CNG and Southern should be able to continue to provide safe, adequate and reliable natural gas services in Connecticut.

D. PURCHASE PRICE OF ENERGY EAST CORPORATION

The Department considered how the purchase price for Energy East of approximately \$8.6 billion or \$28.50 per share was determined as an overall determinant of the prudence of the Proposed Transaction. Energy East retained two independent companies, JPMorgan Securities, Inc. (JP Morgan) and Greenhill & Co., LLC (Greenhill; collectively Financial Advisors) to render fairness opinions in connection with the proposed merger. Exhibit 15, p. 29. Management of Energy East provided certain non-public business and financial information, which included projections for the fiscal years 2007 through 2011. These projections were prepared in April 2007 with the assumption that Energy East could successfully implement a number of investment and earnings initiatives as shown in earnings before interest and taxes (EBIT), earnings before interest, taxes, depreciation, and amortization (EBITDA) and capital expenditures. Exhibit 15, p. 28.

The Financial Advisors for this transaction performed a variety of financial and comparative analyses, which were comparable publicly traded companies' analysis, selected transaction analysis, and discounted cash flow analysis. In these analyses, the Financial Advisors determined the implied value of Energy East common stock based on two alternative cases, Case 1 and Case 2, both prepared by Energy East management. In Case 1, Energy East management assumed higher growth capital and modestly higher performance as compared to Case 2. Specifically, Case 2 included approximately \$625 million less in growth capital over the 2008-2011 period, in addition to slightly lower performance for certain utility subsidiaries and electric commodity programs in New York. Exhibit 15, p. 33.

The Financial Advisors caution that none of the selected comparable companies is either identical or directly comparable to Energy East. Any such analysis of selected companies necessarily involves complex consideration and judgement concerning financial and operating characteristics and other factors that could effect the public trading of the selected companies. Exhibit 15, p. 34.

1. Comparably Publicly Traded Companies Analysis

Using publicly available information, the Financial Advisors compared selected financial data of Energy East to similar data for selected publicly traded companies engaged in businesses which the Financial Advisors judged to be reasonably comparable to the businesses of Energy East. The comparable group for which the Financial Advisors reviewed the trading and operating statistics is Consolidated Edison, PEPCO Holdings, Northeast Utilities, NSTAR and Puget Energy. Exhibit 15, p. 33. In commenting on the comparable companies, Iberdrola's witnesses stated they are mainly regulated companies for the most part in the region of Energy East and are shown as peer companies in publications. Tr. 9/17/07, p. 64. Using these comparable companies closing stock prices on June 22, 2007, the Financial Advisors calculated the ratio of stock price to 2007 and 2008 estimated earnings per share (EPS) and the ratio of firm value (calculated as equity value, plus debt, plus minority interest, less cash and cash equivalents) to 2007 and 2008 estimated earnings before interest, taxes, depreciation and amortization (EBITDA). Exhibit 15, p. 33.

The Financial Advisors indicated the following firm value and stock price multiples:

Energy East Comparables	Stock Price as a Multiple of estimated EPS		Fair Value as a Multiple of Estimated EBITDA	
	2007E	2008E	2007E	2008E
Median	15.2x	14.0x	8.3x	7.7x
Mean	16.1x	14.4x	8.1x	7.5x

Exhibit 15, p. 33.

Using the current trading multiples of the comparable companies, the Financial Advisors applied a range of multiples of estimated 2007 and 2008 EBITA and EPS to the corresponding financial data regarding Energy East. This data was provided to the Financial Advisors by Energy East management to compute an implied range of values for shares of Energy East common stock. The Financial Advisors applied the following range of multiples to estimated 2007 and 2008 EBITA and EPS:

Metrics	Multiple Range
Firm value as a multiple of 2007 estimated EBITDA.	7.75x – 8.50x
Firm value as a multiple of 2008 estimated EBITDA.	7.25% - 8.00x
Stock price as a multiple of adjusted 2007 estimated EPS.	14.50x – 16.50x
Stock price as a multiple of adjusted 2008 estimated EPS.	13.50x – 15.00x

Exhibit 15, p. 34.

The above analysis resulted in the following implied per share range of equity values for Energy East common stock, as compared to the value of the merger consideration in the proposed merger:

	Implied per Share Valuation Range	Merger Consideration
Case 1	\$21.25 - \$27.25	\$28.50
Case 2	\$20.25 - \$25.75	\$28.50

Exhibit 15, p. 34.

The Department believes that the comparably publicly traded companies' analysis was done correctly using standard methodologies. The Department concludes that the merger consideration of \$28.50 is above each of the implied per share valuation range for both the Case 1 and Case 2 scenarios.

2. Selected Transaction Analysis

The Financial Advisors, using publicly available information, examined selected transactions in which they judged the target business to be reasonably comparable with Energy East's business. The comparable transactions considered in this analysis were

WPS Resources/Peoples Energy; Macquarie/Duquesne Light Holdings; Babcock and Brown/Northwestern Corp.; National Grid/Keyspan Corp.; FPL Group/Constellation Energy; MidAmerican/PacifiCorp.; Duke Energy/Cinergy; PNM Resources/TNP Enterprises; and Ameren/Illinois Power. Exhibit 15, p. 34. In commenting on the comparable companies, the witnesses stated that these transactions involve utility companies or holding companies with several operating companies. Tr. 9/18/07, p. 66. The dates of the transactions are fairly recent with a range from 2004 to 2006 which make them comparable to the instant proceeding. Late Filed Exhibit No. 4.

The Financial Advisors reviewed each of the transactions and calculated the firm value as a multiple of estimated EBITDA for the trailing twelve-months prior to the transaction announcement. The product of this calculation is identified in the median and means of such multiples for all of the comparable transactions:

Transaction Comparables	FV/LTM EBITDA
Median	8.9x
Mean	9.1x

Exhibit 15, p. 34.

Based on these precedent transactions, the Financial Advisors applied a range of 8.25x to 9.25x EBITDA multiple to Energy East's adjusted EBITDA for the twelve months ended March 31, 2007 adjusted down to \$94 million to reflect the impact of the August 2006 NYSEG electric rate order, to derive an implied range of values for shares of Energy East common stock. This analysis resulted in the following implied per share range of equity values for Energy East common stock, as compared to the value of the merger consideration:

Multiple Range	Implied per Share Valuation Range	Merger Consideration
8.25x – 9.25x	\$23.75 - \$29.50	\$28.50

Exhibit 15, p. 35.

The Department finds that the selected transaction analysis was done correctly using standard methodologies. The Department concludes that the merger consideration is at the upper end of the range of the implied per share valuation.

3. Discounted Cash Flow Analysis

The Financial Advisors conducted a discounted cash flow (DCF) analysis for Energy East for the purpose of calculating the fully diluted equity value for each share of their common stock based on the expected cash flows to be generated by Energy East. A DCF analysis is a traditional method of evaluating an asset by estimating the future cash flows of an asset and taking into consideration the time value of money with respect to those future cash flows by calculating the present value of the estimated cash flows of the asset. The term present value refers to the current value of one or more future cash payments or cash flows from an asset. It is obtained by discounting those future cash flows or amounts by a discount rate that reflects macro-economic

assumptions, estimates of risk, the opportunity cost of capital, expected returns and other appropriate factors. A DCF analysis contains a terminal value, which is the value of all future cash flows from an asset at a particular point in time and unlevered free cash flow. It is defined as the calculation of the future cash flows of an asset without including in such calculation any debt servicing costs. Exhibit 15, p. 35.

The Financial Advisors calculated the unlevered free cash flows of Energy East, for the fiscal years 2007 through 2011 based on management's Case 1 and Case 2 financial projections. Unlevered free cash flow represents the amount of cash generated and available for principal, interest and dividend payments after providing for ongoing business operations. In addition, the Financial Advisors calculated a range of terminal asset values of Energy East at the end of the five-year period ending 2011. They applied a terminal exit multiple ranging from 8.0x to 8.5x to the projected terminal unlevered free cash flows. The range of terminal asset values were then discounted to present values using a weighted average discount rate ranging from 6.25% to 6.75%. This discount rate was chosen by the Financial Advisors based upon an analysis of the weighted average cost of capital of Energy East. The value of Energy East common stock was derived from the discounted cash flow range by subtracting Energy East's debt and adding cash and cash equivalents outstanding as of March 31, 2007 and using the Energy East share information as of May 29, 2007 as provided by management. This analysis produced the following value of Energy East common stock for two forecast scenarios, as compared to the merger consideration of \$28.50 per share in the proposed merger.

	Case 1	Case 2
Value per share.	\$26.00 - \$30.25	\$22.75 - \$26.50

Exhibit 15, p. 35.

The Department accepts the Financial Advisor's DCF analysis as it was done appropriately using standard methodologies. The Department concludes that the merger consideration is at the upper end of the range of the value per share valuation for Case 1 and above the range for Case 2.

4. Iberdrola Valuation of Energy East

The Department also reviewed valuation documents from Iberdrola, granted protective status by the Department, which included a presentation to the Iberdrola Board of Directors as well as a Bank of America Securities opinion letter. Response to Protected Interrogatory GA-51 and Protected Tr.9/17/07, pp.166-175. The Department analyzed these documents and finds the purchase price to be paid by Iberdrola stockholders to Energy East to be fair and reasonable.

5. Summary of Purchase Price

The Department takes note of the Financial Advisor's comments. Specifically, JP Morgan's opinion is that the consideration to be paid to the holders of Energy East common stock in the Proposed Transaction is fair, from a financial point of view, to such

holders. Exhibit 15, p. B-3. In addition, Greenhill's opinion is that the consideration to be received by the holders of Energy East common stock in the Proposed Transaction is fair, from a financial point of view, to such holders. Exhibit 15, p. C-3. The Department also analyzed the confidential valuation discussions contained in the Energy East Board of Directors meeting minutes and quantitative analysis of these discussions. Response to Protected Interrogatory GA-53, Protected Late Filed Exhibit No. 10, Protected Tr. 9/17/07, pp. 155-160 and Protected Tr. 10/2/07, pp. 248-252.

The Department finds that the purchase price of \$8.6 billion or \$28.50 per share to be in a range of reasonableness as established by these three methodologies, comparable publicly traded companies' analysis, selected transaction analysis, and discounted cash flow analysis, which produces an incentive to the shareholders of Energy East to take part in the merger. A summary of these methodologies is as follows:

1. Based on a comparably publicly traded company analysis, the implied per share value, for Energy East, under Case 1 is \$21.25 to \$27.25 and for Case 2 is \$20.25 to \$25.75.
2. Based on a selected transaction analysis, the implied per share valuation range, for Energy East, is \$23.75 to \$29.50.
3. Based on a discounted cash flow analysis, the value per share, for Energy East, under Case 1 is \$26.00 to \$30.25 and under Case 2 is \$22.75 to \$26.50.

Based on the above, the Department concludes that the purchase price is fair and reasonable.

E. ACCOUNTING ISSUES

1. Acquisition Transaction Related Costs

The Applicants estimate that the total transaction costs to be incurred by Iberdrola and Energy East for the proposed merger are as follows:

Iberdrola's Underwriter Fees (\$4.5 billion @ 1.6%)	\$ 72,000,000
Iberdrola's Investment banking and lawyer fees	24,000,000
Energy East's Investment banking and lawyer fees	22,000,000
Total	\$118,000,000

Response to Interrogatory GA-50; Tr. 9/17/07, pp. 191-192.

Iberdrola estimates that it will incur costs at the rate of 1.6% of the total \$4.5 billion equity privately placed to fund the purchase of Energy East. Neither Energy East nor Iberdrola has an estimate for the possible transfer taxes or for any other taxes resulting from the Proposed Transaction. Both Iberdrola and Energy East will not seek to recover any of the costs incurred to complete this merger from CNG and Southern ratepayers. Response to Interrogatory GA-50; Tr. 09/17/07, pp. 191 and 192. The Department concurs with the Applicants' commitment that these costs should not be

recovered from ratepayers. The Department will review CNG's and Southern's next rate cases and will exclude any acquisition related costs inadvertently included.

2. Affiliate Transactions

The Applicants stated that they are not proposing any joint ventures or operational agreements between Energy East's subsidiaries and Iberdrola's affiliated entities as a result of this merger. Response to Interrogatory GA-30. Iberdrola indicated that it plans to use Energy East's cost allocation methodology (CAM) and procedures for affiliate transaction following the close of the merger. Responses to Interrogatories GA-60 and GA-88. Iberdrola provided its internal rules and regulations and "Code of Professional Conduct." Response to Interrogatory GA-87, Attachment 1.

The Department finds that the Applicants' assertions would not preclude inter-affiliate transactions and shared services between Energy East's public utilities and Iberdrola's operating affiliates nor provide assurance that cross-subsidization of costs between utility and non-utility affiliates will be prevented subsequent to the close of the merger. The Department believes that CNG's and Southern's customers may be harmed by transactions between the LDCs and Iberdrola's affiliated energy companies. Therefore, the Department finds it appropriate to review in the companies' purchased gas adjustments (PGA) and rate case proceedings all transactions involving gas commodity procurements, such as natural gas storage contracts and liquified natural gas projects between CNG and Southern and Iberdrola's affiliated energy companies. CNG and Southern will be required to detail all such transactions and provide the information to the Department in those proceedings. Also, upon request, Iberdrola and its affiliates will make available to the Department's staff all books, accounts, records, memoranda and other records with respect to any transactions between CNG and Southern and Iberdrola's affiliated entities that the Department determines are relevant to costs incurred by CNG and Southern and for which a review is appropriate for the protection of Connecticut natural gas customers. In the same regard, Iberdrola shall not remove CTG's, CEC's, CNG's and Southern's original books and records from Connecticut without prior Department approval. All records authorized to be removed from Connecticut must be made available to the Department within fifteen business days. In addition, CNG and Southern will be required to file with the Department any revisions to their cost allocation manuals resulting from this merger.

3. Acquisition Premium/Goodwill

The acquisition of Energy East by Iberdrola may result in the recognition of goodwill. The Applicants stated that Iberdrola has not completed the analysis to allocate the purchase premium between goodwill, intangible assets other than goodwill and net fair values of the acquired tangible assets. The extent of goodwill to be recorded in Iberdrola's books has not been determined. Responses to Interrogatories GA-39, GA-45 and GA-123. The revaluation of Energy East's assets to be acquired in this merger, the final allocation of the purchase price and the amount of goodwill to be recognized will be determined subsequent to the closing date. The Applicants reiterated their commitments not to seek recovery of any of the acquisition premium and acquisition costs incurred that are associated with this merger in the rates CNG and Southern charge their respective customers. The purchase premium and goodwill

resulting from this Proposed Transaction will not be recorded on the books of CNG and Southern. Application, p. 6; Response to Interrogatory GA-29.

The Department agrees with the Applicants' position and concludes that CNG and Southern should not be allowed to utilize goodwill and other acquisition related expenses in determining the rates charged to ratepayers. The Department recognizes the fact that purchase premium, intangibles assets and acquisition related costs resulting from this merger are not ordinary costs of CNG and Southern. This merger was not entered into to provide synergistic cost savings to ratepayers. The Department will direct that CNG and Southern file any subsequent adjustments to their books and records and provide detailed explanation for such adjustments made as a result of this merger.

F. REGULATORY APPROVALS

The Proposed Transaction is subject to several state and federal regulatory reviews. Energy East owns indirect minority interest in three companies holding Nuclear Regulatory Commission (NRC) licenses. According to Energy East, Section 103(d) of the Atomic Energy Act places limitation on foreign ownership of NRC license while Section 184 requires NRC prior approval of any direct or indirect transfer of control of any NRC license. The Applicants wrote the NRC to explain why the acquisition of Energy East by Iberdrola will not raise any issues under Sections 103(d) and 184. However, the Applicants cannot guarantee that the NRC will accept their explanations. Exhibit 15, p. 45. Thus, the Department will direct the Applicants to provide an update regarding the NRC's determination as to whether its prior approval of the merger is required. The Proposed Transaction is also subject to the pending review or approval by other federal agencies, including the Federal Energy Regulatory Commission (FERC), the Department of Justice's Antitrust Division (DOJ), and the Federal Trade Commission (FTC).

G. CONSUMER SERVICE ISSUES

1. Customer Service Operations

Iberdrola claimed that the proposed transaction would not have any adverse impact on Connecticut customers. Specifically, there would be no changes in the rates or terms and conditions of service provided to CNG or Southern customers. Iberdrola stated that the proposed transaction would not cause any changes to CNG's or Southern's headquarters or local service centers. Application, p. 6. Further, Iberdrola has also stated that there are no plans to change the call center operations at either Southern or CNG. Response to Interrogatory CSU-5.

Iberdrola believes that a number of beneficial aspects would be provided to customers. Those benefits include its global experience in the utility industry, its focus on efficiency and the environment, its financial strength, its commitment to customer service and reliability, and its commitment to local communities. Response to Interrogatory CSU-1. However, Iberdrola provided no specific examples of how customers would benefit. Tr. 9/17/07, p. 27. This was a point of concern with OCC, as stated in its Brief. OCC noted Iberdrola's inability to quantify specific customer service

benefits. Accordingly OCC recommended to the Department to insure that Iberdrola's Connecticut customers, the marketplace and the general public policy goals are best served as a result of the Proposed Transaction. OCC Brief, pp. 2-6.

Iberdrola affirmed that the Proposed Transaction would not result in any plans to change Southern's or CNG's customer service organization, policies or procedures. Further, no changes are planned for the complaint resolution procedures that currently exist between Southern, CNG and the Department's Consumer Services Unit staff. Response to Interrogatory CSU-3. Neither Iberdrola, Southern nor CNG anticipated any changes to customer service, credit and collections or billing activities as a result of the proposed transaction. In addition, there are no current plans to use outside contractors for these activities. Response to Interrogatory CSU-6. Iberdrola stated that its decision to use outside contractors varies from country to country as it relies on what local management deems is necessary or prudent. Tr. 9/17/07, pp. 29 and 30.

Iberdrola had no proposals to change the existing customer service workforce and operations, nor did Iberdrola have proposals to change customer service management, employees and operating headquarters. Response to CSU-7. Iberdrola believed that any changes to the customer service workforce or operations for CNG or Southern would only be implemented to improve efficiency and enhance customer services. Id. Neither Iberdrola, CNG nor Southern anticipate that there will be any changes in the present Connecticut based managers currently responsible for customer service decisions, customer service philosophies, missions and goals. Response to Interrogatory CSU-8. Iberdrola testified that it is committed to retaining Connecticut based management as well as having no plans to make changes to local management. Tr. 9/17/07, pp. 30 and 31. Furthermore, Iberdrola stated that for its operations in the United Kingdom, there is only 1 Spaniard out of nearly 9,000 employees. Id.

Iberdrola disclosed that it had two fines levied against it in 2006 by Spanish regulatory officials for alleged violations of consumer protection regulations. However, Iberdrola maintains that it did not violate any consumer protection laws or regulations. Presently, both matters have yet to be resolved and the proposed fines are not yet final and binding. Response to Interrogatory CSU-10. The Department, however, has an interest in the disposition of these cases and will order Iberdrola to submit a report on them once they are finalized.

Based on the review of the broad and general representations made by Iberdrola, Southern and CNG, it appears that there will not be any negative impact upon the customer service operations for Connecticut consumers as a result of the Proposed Transaction. More importantly, the Department will continue to monitor CNG's and Southern's customer service functions and maintain all of our existing regulatory authority over CNG and Southern.

2. Customer Notification

Neither Southern nor CNG provided its customers with a notice, letter or bill insert regarding the Proposed Transaction. According to both companies, the only information that has been provided to date to their customers regarding the Proposed Transaction has been indirect communication by the means of press releases to the

media. Response to Interrogatory CSU-2; Application, Exhibit 16. Also to date, neither Southern nor CNG has developed any written materials that would be used to inform customers about the Proposed Transaction. It has been the intention of both CNG and Southern to provide notice of the Proposed Transaction once it has been consummated; however, overall communication plan has yet to be determined. Response to Interrogatory CSU-2, Tr. 9/17/07, pp. 28 and 29.

Both Southern and CNG were asked if either company had been receiving questions or concerns from its customers regarding the Proposed Transaction. To date, both Southern and CNG admitted that customers' comment and curiosity about the Proposed Transaction has been very limited. Tr. 9/17/07, p. 28. Since CNG and Southern have not directly informed their respective customers of the Proposed Transaction, it is not surprising to the Department that direct customer comment has been very limited. Whether or not customers perceive the Proposed Transaction as a transparent process is a conclusion that only they can make. Direct notification of the Proposed Transaction should be disseminated to customers of Southern and CNG. Accordingly, Southern and CNG will be ordered to submit for the Department's review and approval a proposed customer communication plan as to how customers will be informed of the Proposed Transaction. This plan will include a copy of any notification letters or inserts that will be provided to customers, and details regarding how and when Southern and CNG intend to inform its customers.

3. Southern's Customer Call Center

In its December 28, 2005 Decision in Docket No. 05-03-17 PH01, Application of The Southern Connecticut Gas Company for a Rate Increase – Revenue Requirement, the Department consented to Southern's request to retain service quality measures (SQM) at the 2005 levels. Included in the SQM was the metric for the average speed of answer (ASA) of 35 seconds at Southern's customer call center. For calendar year 2006, Southern's ASA averaged 66.7 seconds.¹ At the time of the hearings in September of 2007, Southern's ASA was averaging just under 70 seconds. Tr. 9/17/07, p. 32. Furthermore, Southern did not believe that it would be able to improve upon its 2007 performance so as to meet the present 35 second ASA requirement. Tr. 9/17/07, p. 33. Iberdrola stated it was not aware of the problems Southern was experiencing with its ASA times in its customer service call center and that it has not had the necessary access that would allow it to assist Southern on this problem. Iberdrola stated that this would be an issue it would look into immediately following consummation of the Proposed Transaction. Tr. 9/17/07, pp. 34 and 35. It must be noted that Iberdrola's call center performance statistics were submitted under a protective order and were deemed proprietary information by the Department.

Southern responded that it has implemented a number of short and long term actions to alleviate this problem with its ASA. The short term actions included the hiring of a permanent replacement for the vacant call center manager position, filling four call center vacancies, and using staff from other departments during periods of high call volumes. In addition, Southern has increased call center employee work hours to 40

¹ Reference Southern's February 28, 2007, correspondence to the Department in Docket No. 05-03-17 PH 01.

hours per week and installed an operation workforce management system. Response to Interrogatory CSU-12., Tr. 9/17/07, p. 40. This workforce management tool gives Southern the ability to better monitor incoming workloads and deploy available resources. Southern stated that this will allow its management to more effectively allocate those resources so as to better respond to its customers. Tr. 9/17/07, pp. 31 and 32.

Despite these efforts, Southern's ASA at its customer call center continues to go up. Accordingly, Southern will be ordered to file monthly status reports providing information on the total number of calls received; the number of calls handled by live customer service representatives and the number of calls handled by an automated answering system; the total number of calls abandoned; the percent of calls abandoned; the average speed of answer (in seconds); the average number of customer service representatives assigned during normal business hours; and the ratio of total calls received to customer service representative. Southern's ASA figures and abandoned call rate figures will be reported separately for calls handled by live customer service representatives and those calls handled by any automated telephone answering system. Southern's monthly report will also include details on any actions or steps that will be taken to address the problem, as well as updating any previous actions or steps taken. These monthly reports will continue until Southern has demonstrated twelve consecutive months of compliance with the 35 second ASA metric as established in the 2005 SQM. Failure by Southern to improve upon its customer call center performance will result in the Department's consideration of more stringent measures, including but not limited to fines or other sanctions.

IV. FINDINGS OF FACT

1. Iberdrola is incorporated under the laws of the Kingdom of Spain and its shares are publicly traded on the Spanish Stock Exchanges.
2. Iberdrola operates both regulated and non-regulated electric and gas utilities mostly in Europe and Latin America.
3. Iberdrola provides services to approximately 22 million electric points of supply in Europe and the Americas and has over 100 years of experience as an electric utility.
4. In 2006, Iberdrola, supplied 150 billion cubic feet of natural gas in Spain.
5. Iberdrola is the third largest independent operator of natural gas storage in North America, with almost 95 bcf of storage capacity in the western United States and Canada
6. In 2006, Iberdrola's consolidated operating revenues were approximately \$14.88 billion with a net income of \$2.24 billion.
7. Energy East is a public utility holding company organized under the laws of the state of New York.

8. Energy East primarily operates regulated electricity transmission and distribution services plus regulated natural gas transportation, storage and distribution services and has operating subsidiaries in New York, Connecticut, Massachusetts, Maine and New Hampshire.
9. As a holding company, Energy East, neither owns nor operates any physical properties.
10. In 2006, Energy East reported consolidated operating revenues of approximately \$5.2 billion along with a net income of approximately \$260 million and has 5,884 employees.
11. Energy East has 1,825,000 electric points of supply, distributed 40,450 gigawatt hours in 2006, generation capacity of 555 megawatts and transmission and distribution networks of 8,229 miles and 78,052 miles, respectively.
12. Energy East has 920,300 natural gas points of supply, transport and distribution networks of 183 miles and 24,642 miles, respectively.
13. Energy East reported it distributed approximately 184 million ccf of natural gas in 2006.
14. CNG is a Connecticut public service company and a wholly-owned subsidiary of CTG.
15. CNG is primarily engaged in the retail distribution of natural gas to residential, commercial, and industrial customers and the transportation of natural gas to commercial and industrial customers and serves approximately 155,000 customers in Connecticut.
16. Southern is a Connecticut public service company and is a wholly-owned subsidiary of CEC.
17. Southern is primarily engaged in the retail distribution of natural gas to residential, commercial, and industrial customers and the transportation of natural gas to commercial and industrial customers and serves approximately 176,000 natural gas customers in southern Connecticut.
18. On June 25, 2007, Iberdrola, Green Acquisition and Energy East executed an Agreement and Plan of Merger.
19. The Merger Agreement calls for Energy East to merge with and into Iberdrola in a merger to be effectuated by the legal entity, Green Acquisition.
20. The Merger Agreement calls for Iberdrola to acquire all the regulated and unregulated subsidiaries of Energy East.

21. Green Acquisition, a New York corporation and wholly-owned subsidiary of Iberdrola, was formed in June, 2007 solely for the purpose of merging with Energy East.
22. The Applicants filed a Preliminary Proxy Statement with the SEC.
23. The merger would be consummated in accordance with all applicable federal and state laws and regulations, including Section 203 of the Federal Power Act, the Securities Act of 1933, the Securities and Exchange Act of 1934, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, the Communications Act of 1934, and NYBCL.
24. The merger would become effective upon filing the certificate of merger with the Secretary of State of the State of New York or at a subsequent time specified in the certificate of merger.
25. Under the Merger Agreement, Green Acquisition would merge into Energy East which would be the surviving company and would become a direct, wholly-owned subsidiary of Iberdrola.
26. The terms of the Merger Agreement call for the shareholders of Energy East to receive \$28.50 in cash per share at closing.
27. Iberdrola will pay Energy East's shareholders approximately \$4.5 billion, to acquire 100% of approximately 159 million shares of Energy East's common stock outstanding as of the measurement date of June 25, 2007.
28. As part of the Merger Agreement, Iberdrola will assume Energy East's debt of approximately \$4 billion.
29. The Proposed Transaction values Energy East at approximately \$8.6 billion in terms of enterprise.
30. Under the Merger Agreement, Iberdrola would own 100% of Energy East common equity and Energy East would cease to be a public company.
31. CNG and Southern will not include in rates charged to their customers the acquisition premium resulting from this merger.
32. All subsequent adjustments to the current book values of plant assets and liabilities as well as goodwill recognized as a result of this merger will not be reported in the books of Energy East's operating subsidiaries, including CNG and Southern.
33. The merger is an upstream change of control and the Applicants anticipate that day-to-day operating decisions will remain with Energy East's operating subsidiaries.

34. The Merger Agreement was approved by both Iberdrola's and Energy East's Boards of Directors on June 25, 2007.
35. The Merger Agreement will be voted on at a general meeting of Energy East shareholders to be held on November 20, 2007.
36. With the acquisition of ScottishPower in April 2007, Iberdrola became the third largest energy company in Europe with a market capitalization of approximately 70 billion euros.
37. Energy East, CNG and Southern will have increased access to both U.S. and global financial markets.
38. Iberdrola has a record of providing high-quality energy service and a demonstrated commitment to innovation, infrastructure investment, service quality, efficiency, clean energy policies, and sustainable development.
39. Iberdrola has experience and record of technological expertise of providing utility service.
40. The backgrounds of Iberdrola's key officers and management personnel show that these officers have significant and extensive business and regulatory experience.
41. Iberdrola has gas industry expertise.
42. The Financial Advisors for this transaction performed a variety of financial and comparative analyses; comparable publicly traded companies' analysis, selected transaction analysis, and discounted cash flow analysis.
43. The Financial Advisors determined the implied value of Energy East common stock based on two alternative cases, Case 1 and Case 2, both prepared by Energy East management.
44. The comparably publicly traded companies' analysis was done correctly using standard methodologies.
45. The merger consideration of \$28.50 is above each of the implied per share valuation range for both the Case 1 and Case 2 scenarios.
46. The merger consideration is at the upper end of the range of the implied per share valuation.
47. The Financial Advisors conducted a DCF analysis for Energy East for the purpose of calculating the fully diluted equity value for each share of their common stock based on the expected cash flows to be generated by Energy East.

48. The Financial Advisors' DCF analysis was done appropriately using standard methodologies.
49. The merger consideration is at the upper end of the range of the value per share valuation for Case 1 and above the range for Case 2.
50. The Applicants are not proposing any joint ventures or operational agreements between Energy East's subsidiaries and Iberdrola's affiliated entities as a result of this merger.
51. Iberdrola plans to use Energy East's CAM and procedures for affiliate transactions following the close of the merger.
52. CNG's and Southern's customers may be harmed by transactions between the LDCs and Iberdrola's affiliated energy companies.
53. The acquisition of Energy East by Iberdrola may result in the recognition of goodwill.
54. The extent of goodwill to be recorded in Iberdrola's books has not been determined.
55. The Applicants committed not to seek recovery of any of the acquisition premium and acquisition costs incurred that are associated with this merger in the rates CNG and Southern charge their respective customers.
56. Purchase premium, intangibles assets and acquisition related costs resulting from this merger are not ordinary costs of CNG and Southern.
57. This merger was not entered into to provide synergistic cost savings to ratepayers.
58. The Proposed Transaction is subject to several state and federal regulatory reviews.
59. The Applicants will need to obtain the required approvals from the FERC, DOJ, and FTC, and NRC, if the NRC determines that such prior approval is warranted.
60. Iberdrola was unable to quantify any specific benefits to customer service as a result of the Proposed Transaction.
61. Iberdrola had no proposals to change the existing customer service workforce and operations.
62. Iberdrola had no proposals to change customer service management, employees and operating headquarters.

63. Neither Iberdrola, CNG nor Southern anticipate that there will be any changes in the present Connecticut based managers currently responsible for customer service decisions, customer service philosophies, missions and goals.
64. The Department will continue to monitor CNG's and Southern's customer service operations and functions and maintain all of its existing regulatory authority over CNG and Southern.
65. Neither Southern nor CNG provided its customers with a notice, letter or bill insert regarding the Proposed Transaction.
66. Southern's SQM metric for the ASA in its customer call center is 35 seconds.
67. Southern's average ASA for calendar years 2006 and 2007 have not met the required ASA metric.
68. Southern implemented a number of short and long term actions to alleviate the ASA problem.

V. CONCLUSION AND ORDERS

A. CONCLUSION

Based on the record in this proceeding, the Department hereby approves the acquisition of control of Energy East by Iberdrola subject to the orders cited below. The Department finds that this acquisition is in the public interest. The Department concludes that the merged entity, Iberdrola, will: 1) have the financial, technological, and managerial suitability and responsibility to provide service; 2) possess the ability to provide safe, adequate and reliable service to the public through the public service company's plant, equipment and manner of operations; and 3) maintain the adequate and local accessibility to management and operations. This approval is granted subject to the approval of the Merger Agreement by Energy East's shareholders and the Applicants' receipt of all required approvals from federal regulatory agencies. The terms and conditions under which the Department approved the Merger Agreement shall be substantially as specified by the Applicants. No further written material or oral supplements to or material modifications of those terms and conditions shall be executed without prior approval of the Department.

B. ORDERS

For the following Orders, submit an original and 12 copies of the requested material identified by Docket number, Title, and Order Number to the Executive Secretary. Compliance with orders shall commence and continue as indicated or until the Company requests and the Department approves that the Company's compliance is no longer required after a certain date.

1. No later than five business days following the filing of 10-Ks or equivalent annual reports with the SEC or with FERC, Iberdrola shall file with the Department a copy of these reports.

2. No later than five business days subsequent to the completion of all regulatory reviews regarding the Proposed Transaction, Iberdrola shall file a notification of such completion with the Department, including written decisions from the FERC, DOJ, SEC, FTC and the NRC, if the NRC determines that its approval of the Proposed Transaction is required.
3. No later than ten business days following the effective day of the merger, CNG and Southern shall file with the Department any adjustments to their financial statements resulting from this merger.
4. No later than ten business days following a Department's request, Iberdrola, Energy East and their affiliates shall make available all accounts, books and records determined to be relevant for the Department to carry out its regulatory obligations.
5. No later than ten business days following the votes the General Meeting of Energy East shareholders, Energy East shall file with the Department the result of the votes of its shareholders to approve the Merger Agreement.
6. No later than ten business days prior to implementation, except as required by state statutes or regulations, CNG and Southern shall each submit to the Department any changes to their customer billing and complaint procedures.
7. No later than 30 days following the completion of accounting for the merger, Iberdrola shall file with the Department all journal entries resulting from the proposed merger.
8. No later than January 1, 2008, CNG and Southern shall submit to the Department for approval a proposed customer communication plan as described in Section III.G.2 above.
9. No later than January 31, 2008, the Applicants shall provide the Department with an update regarding the NRC's determination as to whether its prior approval of the merger is required.
10. No later than January 31, 2008 and monthly thereafter, Southern shall submit to the Department a report on its customer call center as detailed in Section III.G.3 above. Southern shall continue filing the monthly report until it has demonstrated compliance with the ASA metric of 35 seconds for twelve consecutive months.
11. No later than March 31, 2008, Iberdrola shall report to the Department as the disposition of the two fines as detailed in Section III, G.I above.
12. No later than August 1, 2008, the Applicants shall notify the Department that no material modifications were made to the terms and conditions of the Merger Agreement and whether the merger has or has not taken place.

13. No later than September 1, 2008, Iberdrola shall provide the Department with a copy of the Certificate of Merger filed with the Secretary of the State, or otherwise provide a status report with explanation for any delays.
14. No later than July 1, 2009, CNG and Southern shall each submit a report or plan on customer benefits achieved or expected to be achieved by the merger including expense savings, debt restructuring and infrastructure investments.
15. No later than August 15, 2009 and quarterly thereafter, CNG and Southern shall each file with the Department a report showing the amount of dividends remitted directly and/or indirectly to Iberdrola and the resulting dividend payout ratios.
16. In CNG's and Southern's respective rate case, each company shall file with the Department any changes to their current cost allocation methods due to the merger.
17. Iberdrola shall not divest, sell or spin off or combined CNG and Southern without prior Department approval.
18. For CNG and Southern, any goodwill or other acquisition related expenses that may result from this merger shall not be recorded as a reduction of income for regulatory accounting purpose or included rates charged to ratepayers.
19. All transactions involving gas commodity procurements such as natural gas storage contracts and liquified natural gas projects between CNG and Southern and Iberdrola's affiliated utility and energy companies shall be reviewed by the Department during LDCs' respective PGA and rate case proceedings.
20. CNG and Southern shall not record on their respective books and records any valuation adjustments resulting from this merger.
21. Iberdrola shall not remove CTG's, CEC's, CNG's and Southern's original books and records from Connecticut without prior Department approval.
22. All records authorized to be removed from Connecticut must be made available to the Department within fifteen business days.

DOCKET NO. 07-08-03 JOINT APPLICATION OF IBERDROLA, S.A. AND ENERGY EAST CORPORATION FOR APPROVAL OF A CHANGE OF CONTROL

This Decision is adopted by the following Commissioners:

Anne C. George

Anthony J. Palermino

Donald W. Downes

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.



Louise E. Rickard
Acting Executive Secretary
Department of Public Utility Control

November 28, 2007

Date