



IBERDROLA

IBERDROLA USA
2010 NY Rate Cases

NY CALENDAR

September 17th, 2009

Companies file petition

July 14th, 2010

Joint Proposal filed

September 16th, 2010

Rates Cases approved by the PSC

Key settlement provisions



Goal is to improve EBITDA and ...

Term

3 years, 4 months (Sept 2010 – Dec. 2013)

ROE / Equity Ratio
to set Rates

10.0% ROE / 48% Equity Ratio

Earnings Sharing
Mechanism
(Customer%/Shareholder%)

<u>Sharing</u>	<u>2011</u>	<u>2012</u>	<u>2013 and beyond</u>
0/100	Up to 10.3%	Up to 10.6%	Up to 10.9%
50/50	10.3% – 11.05%	10.6% - 11.35%	10.9% - 11.65%
85 / 15	Over 11.05%	Over 11.35%	Over 11.65%

Equity Ratio up to 50% (equivalent to 30 basis points)
If Reliability or Service Quality metric missed, then ESM is reduced (30, 40, 50 BP)

Rate Increases

	<u>Sept 2010</u>	<u>Sept 2011</u>	<u>Sept 2012</u>
w/out PBA	\$158 M	\$ 23 M	\$ 31 M
w/ PBA	\$ 53 M	\$ 59 M	\$ 63 M
% Delivery	2-8%	3-7 %	3-7%
Cumulative	\$400 M over 3 years, 4 months		

... create a path to improve credit ratings of NYSEG / RG&E

PBA utilization

Settlement provides for 83% utilization of PBA ...

Cover Make-Whole Period (Aug. 26 – Sep. 25, 2010)	\$ 4 M	1 %
Write-off Regulatory Assets	\$82	27 %
Amortize over Term of Plan to Moderate Rate Increases	\$175	56 %
Retain for Future Use	\$ 50	16 %
Total	\$ 311 M	100 %

... and discontinuance of the interest accrual effective 1/9/10

Reconciliations

Settlement provides for reconciliation of costs variations ...

**Protections
from
uncontrollable
costs variations**

Revenue decoupling

Pension / OPEB

Property taxes

Major storm costs

Net plant

Vegetation management - downward

Environmental remediation costs

Variable rate debt

Legislative, actg., regulatory and tax

Hyper inflation (>6%) – right to file new case

Economic development and low income

... and interest accrues at the pre-tax return on deferred costs

Rate year 1 rate increase drivers

Drivers	\$M	Percent
Rate of return – 10% ROE, 48% Equity Ratio	\$61	38.6%
Environmental remediation and storm	53	33.5%
Pension and OPEB costs	52	32.9%
Property taxes	30	19.0%
Vegetation management and CRO initiatives	21	13.3%
Low income program	12	7.6%
Other	9	5.7%
Excess depreciation reserve	(16)	(10.1)%
Labor savings initiatives/Productivity	(22)	(13.9)%
Transfers to NBC	(42)	(26.6)%
Total year 1 increase before PBA	\$158	100.0%
PBA impact	(105)	
Total year 1 increase after PBA	\$53	

Austerity / Productivity



Companies proactively identified and implemented these various efficiency initiatives: January layoffs, Kirkwood adjustments, Non-Union VERP and NYSEG Union VERP

Gross annual savings from efficiency initiatives built into rates at \$28.9 million

Costs to achieve savings (estimated at \$32.4 million, capped at \$35 million) built into rates over 40 months

“Traditional” 1% productivity adjustment also built into rates - \$2.6 million annually

Deliveries and revenues

Electric and gas sales forecasts were not controversial

Pre-filing meetings and follow-up made staff comfortable

Forecasts reflect latest known macro projections

RDM significantly reduces the risk of forecast error

While some growth is projected, 2013 forecast below historical levels

RDM - Business impacts

Removes Utility disincentives to adopt energy efficiency

Protects against all revenue shortfalls

Eliminates earnings from organic growth

In effect, RDM is a revenue cap good/bad

Incremental earnings will need to come from improvements in cost structure

Revenue decoupling mechanism

Electric targets based on class revenues

Gas targets based on per customer revenues

Covers base delivery rates – nearly all revenues

Interim credit / Surcharge based on triggers

Variance from targets +/- 1.25%

Recovered over the longer of 4 months or the end of the rate year

Annual reconciliation recovery

Credit / Surcharge – Including interest

Over subsequent RDM period

Bill impacts



Monthly overall bill increases – Typical residential customer

	Rate Year 1		Rate Year 2		Rate Year 3	
NYSEG Electric (% Increase of Overall Bill)	\$2.02	3.0%	\$1.34	2.0%	\$1.51	2.2%
NYSEG Gas	\$6.53	6.2%	\$4.13	3.7%	\$2.95	2.5%
RG&E Electric	\$3.70	5.0%	\$1.11	1.4%	\$1.62	2.1%
RG&E Gas	\$3.51	3.8%	\$2.46	2.5%	\$2.46	2.5%

Residential bills continue to be among the lowest in New York State

Electric utilities



	2009		Year 1	
	NYSEG	RG&E	NYSEG	RG&E
Rate Base at 31 Dec 09 (MM)	\$1,672	\$1,052	\$1,566	\$923
Equity	41.6%	Lower of 45.0% or Actual	48%	48%
ROE (after taxes) to Set Rates	9.55%	10.50%	10%	10%
Earnings Sharing	None	50/50 over 12.25%	50/50 over 10.30% 85/15 over 11.05% Up to 50% Equity Ratio	

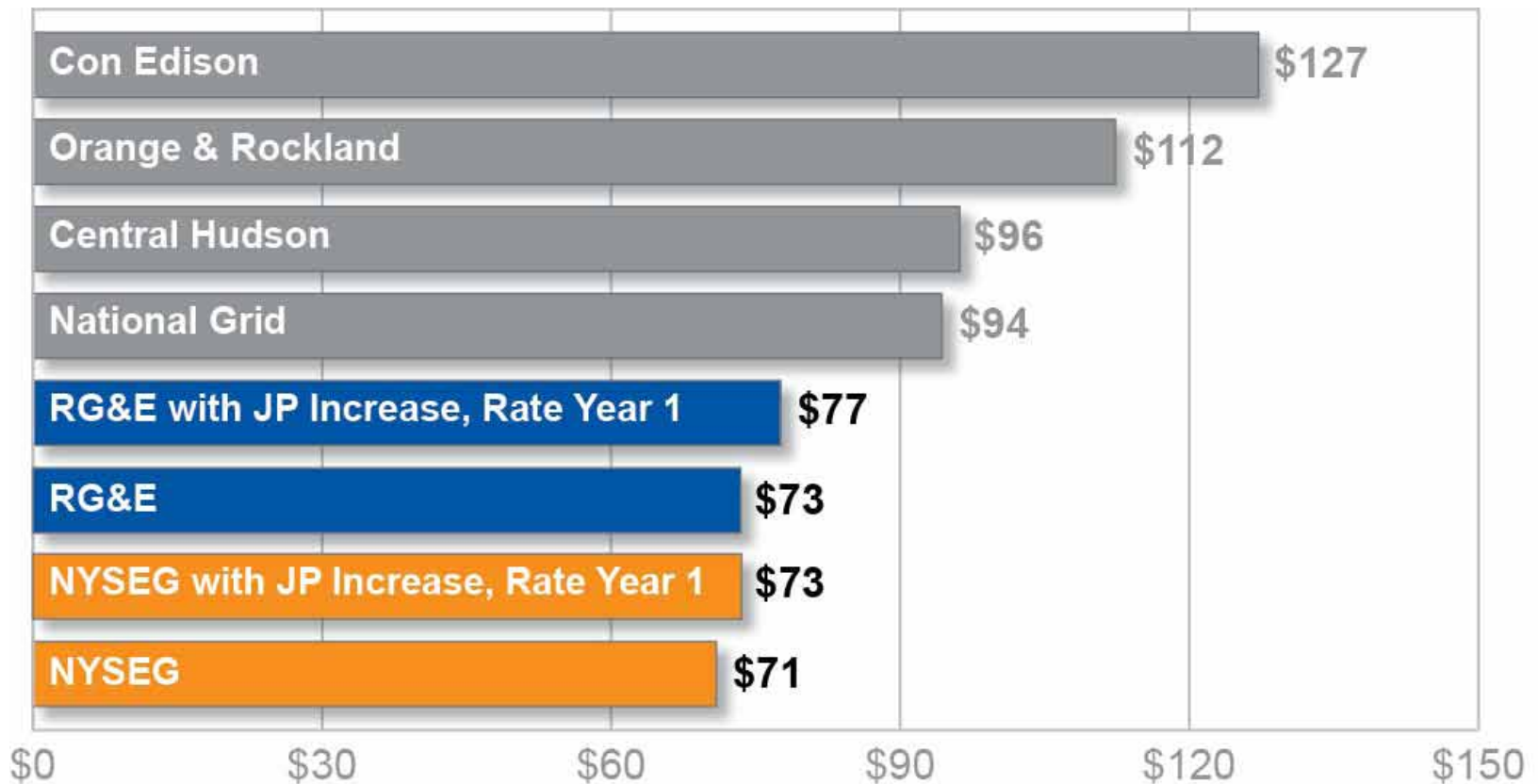
Gas utilities



	2009		Year 1	
	NYSEG	RG&E	NYSEG	RG&E
Rate Base at 31 Dec 09 (MM)	\$583	\$445	\$511	\$448
Equity	Lower of 45.0% or Actual	Lower of 45.0% or Actual	48%	48%
ROE (after taxes) to Set Rates	10.50%	10.50%	10%	10%
Earnings Sharing	50/50 over 12.50%	50/50 over 12.00%	50/50 over 10.30% 85/15 over 11.05% Up to 50% Equity Ratio	

Residential electric bill comparison

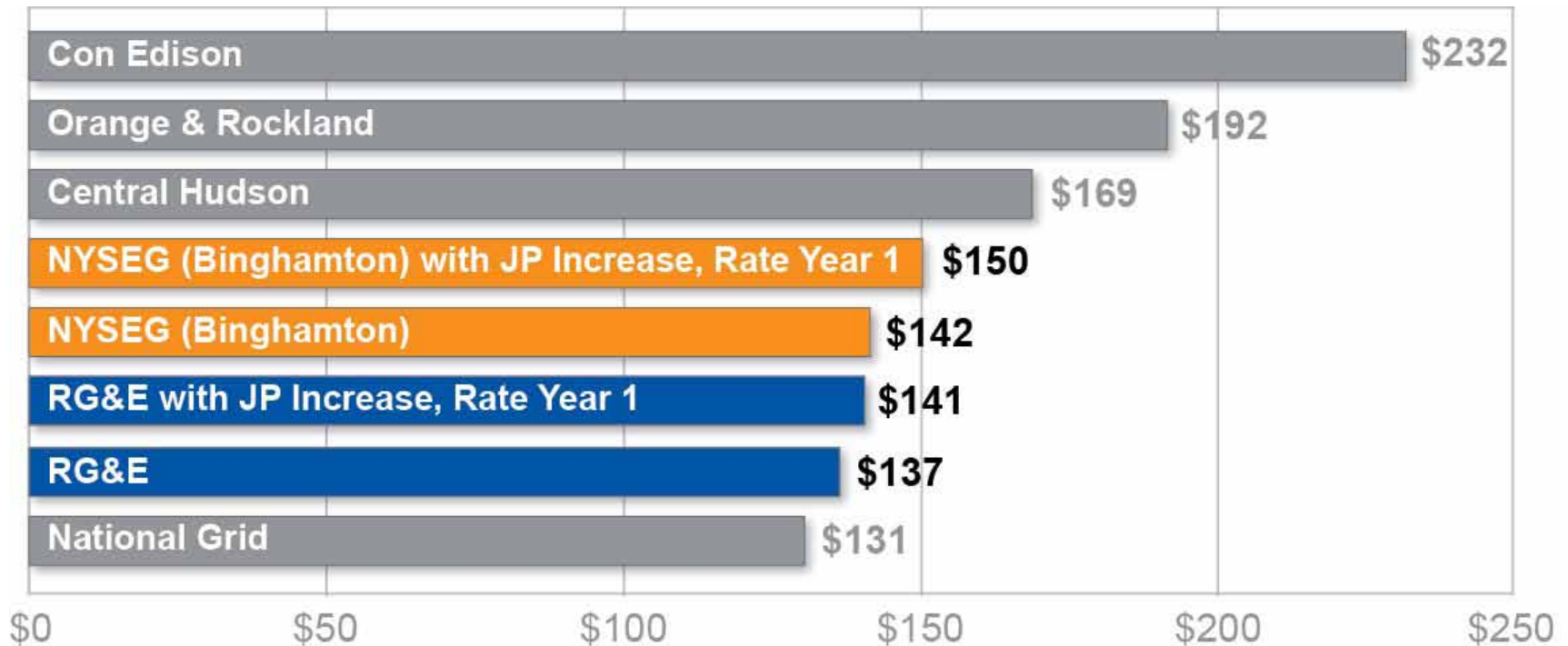
Residential electric bills still lowest in New York



Per month based on 600 kilowatt-hours of use; January 2010 data.

Residential gas bill comparison

Residential gas Bills still among the lowest in New York



Per month based on 120 therms of use; January 2010 data.

Conclusions

The conclusion of the Rates Cases provides visibility for Iberdrola USA NY companies for the coming years ...

Stability until 01/01/2014

Economic incentives to improve efficiency

Reduction of volatility
(protection against demand evolution, storm costs, pensions, taxes,...)

... what should lead to a path of growth in results
and a stronger financial and credit profile

APPENDIX



Key dates

Effective dates – Vary depending on provision

Aug. 26 – Sept. 25, 2010

Make-whole period

September 26, 2010

New rates

October 1, 2010

RDM implemented

Sept. 1, 2011 and 2012

Rate year 2 and 3 rate increases

Reporting dates

October 15, 2010

Monthly CAPEX Variance report

January 31, 2011

Merger CAPEX filing

January 15, 2012

SAIFI CAIDI audit

March 15, 2012

Vegetation management filing

March 31, 2012

Annual ESM report

Electric reliability

Penalties double if metric missed

		Target	Rev adjustment	ESM adjustment	At Risk Total
NYSEG	SAIFI	Min 1.20 Max 1.26	\$3.5 M \$7.0 M	Any Miss 2011 \$3.8 M 2012 \$5.2 M 2013 \$6.7 M	2011 \$0 - 17.8 2012 \$0 - 33.2 2013 \$0 - 62.7
	CAIDI	Min 2.08 Max 2.18	\$3.5 M \$7.0 M		
RG&E	SAIFI	0.90	\$5.0 M	Any Miss 2011 \$2.2 M 2012 \$3.0 M 2013 \$4.3 M	2011 \$0 - 12.2 2012 \$0 - 23.0 2013 \$0 - 44.3
	CAIDI	1.90	\$5.0 M		

Independent audit of SAIFI / CAIDI performance in 2011

Customer service quality – Key points



Companies are eliminating existing contact satisfaction surveys

Companies are on track to exceed PSC complaints measure –
Additional emphasis on this measure due to impact on earnings sharing

Review of all calls associated with PSC contacts and provide additional training

At risk metric: Calls answered in 30 seconds

Can not close walk-in offices – Except upon PSC petition

Must institute a “Service Guarantee” credit of \$20 for missed appointments

Customer service quality

Effective in 2010

	NYSEG		RG&E	
	Metric	Penalty (\$M)	Metric	Penalty (\$M)
PSC complaints	≤ 1.0	\$0.8 – 3.2	< 1.8	\$0.5 – 2.0
Overall customer sat. (NYSEG) Contact satisfaction (RG&E)	$> 73\%$	\$0.8 – 3.2	TBD	\$0.5 – 2.0
Calls answered in 30 seconds	$> 63\%$	\$0.6 – 2.3	$\geq 77\%$	\$0.3 – 1.2
Estimated meter reads	$< 6.1\%$	\$0.4 – 1.6	$< 6.0\%$	\$0.3 – 1.2
Total		\$2.6 – 10.3		\$1.6 – 6.4

Penalties double and redouble if missed in consecutive years

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