

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Joint Application of _____)
Iberdrola, S.A., _____)
Energy East Corporation and _____)
New Hampshire Gas Corporation _____)
for Approval of Stock Acquisition _____)

Docket No. DG 07-083

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into this 30th day of November, 2007, by and among IBERDROLA, S.A. ("Iberdrola"), Energy East Corporation ("Energy East"), and New Hampshire Gas Corporation ("NHGC") (collectively the "Joint Petitioners") and the Staff of the New Hampshire Public Utilities Commission ("Staff"), with the intent of resolving all issues in the above-captioned proceeding. This Agreement constitutes the recommendation of the Joint Petitioners and Staff with respect to the Public Utilities Commission's ("Commission") approval of the proposed merger of a subsidiary of Iberdrola into Energy East, with Energy East as the surviving corporation that will be wholly owned by Iberdrola. NHGC will remain a wholly-owned subsidiary of Energy East and, therefore, will become a subsidiary of Iberdrola.

ARTICLE I.

Introduction

1.1 Iberdrola is a corporation (*Sociedad Anónima*) organized under the laws of the Kingdom of Spain. Iberdrola is a global utility and one of the largest energy companies in the world with a market capitalization of almost \$70 billion. Iberdrola has more than 100 years of utility experience and provides service to approximately 22 million electric points of supply and 2 million gas points of supply in Europe and the Americas.

1.2 Energy East is a New York corporation with utility subsidiary operations in New Hampshire, Connecticut, Maine, Massachusetts and New York. Energy East's utility subsidiaries provide electric service to approximately 1.8 million customers and natural gas service to 900,000 customers, 1,000 of which are NHGC propane air customers in Keene, New Hampshire. **NHGC is a public utility regulated by the Commission. The Berkshire Gas Company ("Berkshire Gas"), a Massachusetts gas company subsidiary of Energy East, provides services to NHGC pursuant to an affiliate services agreement.**

1.3 On June 25, 2007, Iberdrola and Energy East entered into an Agreement and Plan of Merger ("Merger Agreement") pursuant to which Energy East will merge with a subsidiary of Iberdrola, Green Acquisition Capital, Inc. ("Green Acquisition") with Energy East as the surviving corporation. NHGC will remain a wholly-owned subsidiary of Energy East (the "Proposed Transaction").

1.4 On August 1, 2007, pursuant to R.S.A. 369:8 and 374:33, the Joint Petitioners filed a petition ("Joint Petition") with the Commission seeking approval of the Proposed Transaction. The Joint Petition was accompanied by the "Direct Testimony of the Benefits and Public Interest Panel" consisting of Pedro Azagra Blazquez, Director of Corporate Development for Iberdrola, Karen L. Zink, President, Chief Operating Officer and Treasurer of Berkshire Gas and Treasurer of NHGC, and Robert E. Rude, Senior Vice President and Chief Regulatory Officer of Energy East.

1.5 The Joint Petitioners requested that the Commission approve the Proposed Transaction by confirming that such transaction will have no adverse effect on the "rates, terms, service or operation" of NHGC, pursuant to RSA 369:8, and requested expedited treatment of the

petition on grounds that: (1) the transaction involves a merger between holding companies that will not impact the rates, terms, service or operation of NHGC; (2) the Joint Petitioners will not seek recovery in NHGC's rates of the acquisition premium or transaction costs associated with the Proposed Transaction; and (3) no change in rates, terms or services for New Hampshire customers is contemplated as a result of the Proposed Transaction. Alternatively, the Joint Petitioners sought approval of the Proposed Transaction under RSA 374:33 on grounds that the transaction is "lawful, proper and in the public interest."

1.6 On August 21, 2007, the Commission issued an Order of Notice scheduling a pre-hearing conference which was held on September 6, 2007, followed by a technical session. On September 11, 2007, Staff filed a report of the technical session setting forth the procedural schedule agreed upon by the Joint Petitioners and Staff. The Joint Petitioners and Staff requested that the Commission defer a determination of "adverse" effect" within the meaning of RSA 369:8, II (b), pending the Commission's consideration of the Joint Petition under the proposed procedural schedule.

1.7 On September 21, 2007, the Commission issued its Prehearing Conference Order, in which it adopted the procedural schedule proposed by the Joint Petitioners and Staff. Order No. 24,788 ("Order"). Because the procedural schedule was inconsistent with the deadlines established in RSA 369:8, II(b) for a determination of "no adverse effect," the procedural schedule was deemed "a proposed waiver of certain provisions of the statute." Order, p. 5.

1.8 The Joint Petitioners and Staff conducted a technical session on October 8, 2007 and the Joint Petitioners responded to data requests issued by Staff, as well as additional requests for information that Staff made at the technical session.

1.9 On November 7, 2007, Staff submitted the testimony of Stephen P. Frink, Assistant Director of the Gas & Water Division at the Commission, in which he concluded that the Staff did not oppose the Proposed Transaction because "the merger should not have an adverse effect on the rates, terms, service or operations" of NHGC. While noting that, under Energy East, NHGC "had made substantial plant improvements and aggressively addressed system leaks," Staff was nevertheless reluctant to support the merger because the Joint Petitioners had not made a firm commitment to maintain existing levels for staffing and capital expenditures at NHGC subsequent to the Proposed Transaction.

1.10 Following a settlement conference on November 14, 2007, the Joint Petitioners and Staff reached agreement on the issues in this proceeding as set forth below.

ARTICLE II.

Settlement Provisions

2.1 The Joint Petitioners and Staff agree that Iberdrola and Energy East are authorized to consummate the Proposed Transaction pursuant to the terms of the Merger Agreement provided as Exhibit 1 to the Joint Petition, subject to the terms of this Agreement and further agree and recommend that the Commission find that the Proposed Transaction: a) is "lawful, proper and in the public interest"; and b) will "not have an adverse effect on rates, terms, service or operation" of NHGC and approve the Proposed Transaction pursuant to R.S.A. 369:8, II and 374.33. The Joint Petitioners and the Staff agree that this joint submission to the Commission shall resolve all issues in this docket.

2.2 The Joint Petitioners agree that NHGC will maintain the current level of 8 full time employees for a period of not less than five years, i.e. through December 31, 2012, subject to the provisions of Article 2.7.

2.3 The Joint Petitioners agree that NHGC will maintain its operations and service center in Keene, New Hampshire, for a period of not less than five years, i.e. through December 31, 2012, subject to the provisions of Article 2.7.

2.4 The Joint Petitioners agree that NHGC shall maintain average annual capital expenditures for the next five years, i.e. through December 31, 2012, at no less than \$275,000, adjusted for inflation, subject to the provisions of Article 2.7.

2.5 The Joint Petitioners agree to provide a feasibility study for siting a liquefied natural gas facility in NHGC's service territory as part of NHGC's next base rate filing with the Commission.

2.6 The Joint Petitioners agree that they will not seek to recover through rates of NHGC any of the transaction costs or acquisition premium associated with the Proposed Transaction.

2.7 Notwithstanding the provisions of Article 2.2 through 2.5, the continuation of Joint Petitioners' commitments in those Articles will be subject to reevaluation in NHGC's next base rate case. Upon filing for new base rates, NHGC shall have the burden of demonstrating the reasonableness of any departure from the commitments agreed to in Articles 2.2 through 2.5.

2.8 NHGC will identify in its annual reports to the Commission any accounting changes or impacts resulting from the Proposed Transaction. The reports will confirm that the Joint Petitioners' commitment set forth in 2.6 has been fulfilled.

ARTICLE III.

General Provisions

3.1 This Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept the Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Agreement, and any of the Joint Petitioners or Staff is unable to agree with said changes, conditions or findings, the Agreement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

3.2 Under this Agreement, the Joint Petitioners and Staff agree to this joint submission to the Commission as resolution of the issues specified herein only.

3.3 The Joint Petitioners and Staff agree that the Commission's acceptance of the Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein. Acceptance of this Agreement by the Commission shall not be deemed to restrain the Commission's exercise of its authority to promulgate future orders, regulations or rules that resolve similar matters affecting other parties in a different fashion, nor shall this Agreement be deemed to restrain the authority of the Legislature to enact any law that would resolve the matters covered by this Agreement in a different fashion.

3.4 This Agreement shall not be deemed an admission by any of the Joint Petitioners or Staff that any allegation or contention in this proceeding by any of the Joint Petitioners or by Staff, other than those specifically agreed to herein, is true and valid. This Agreement shall not

be deemed to foreclose any of the Joint Petitioners or Staff from, in the future, taking any position in any subsequent proceedings.

3.5 The Joint Petitioners and Staff agree that all pre-filed testimony and supporting documentation should be admitted as full exhibits for the purpose of consideration of this Agreement, and be given whatever weight the Commission deems appropriate. Agreement by all parties to admit all pre-filed testimony without challenge does not constitute agreement by any of the Joint Petitioners or Staff that the content of the pre-filed testimony is accurate or that the views of the witnesses should be assigned any particular weight by the Commission. In addition, the resolution of any specific issue in this Agreement does not indicate the Joint Petitioners' or Staff's agreement to such resolution for purposes of any future proceedings.

3.6 The rights conferred and obligations imposed on the Joint Petitioners by this Agreement shall be binding on or inure to the benefit of their successors in interest or assignees as if such successor or assignee was itself a signatory hereto.

3.7 This Agreement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during such negotiations for the purpose of reaching a settlement, shall be privileged and all offers of settlement shall be without prejudice to the position of any party presenting such offer.

3.8 This Agreement may be executed in multiple counterparts, which together shall constitute one agreement.

ARTICLE IV

Conclusion

4.1 The Joint Petitioners and Staff affirm that the terms of the Agreement are appropriate, just and reasonable and should be approved.

IN WITNESS WHEREOF, the signatories below have executed this Settlement Agreement, each being duly authorized to do so, as of the day and year written above.

IBERDROLA, S.A.

By: _____
Its: Counsel

ENERGY EAST CORPORATION

By: _____
Its: Counsel

NEW HAMPSHIRE GAS CORPORATION

By: _____
Its: Counsel

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

By: Edward N. Daman
Its: Staff Attorney

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IBERDROLA. S.A.

By: James M. Avery
Its: Counsel

ENERGY EAST CORPORATION

By: _____
Its: Counsel

NEW HAMPSHIRE GAS CORPORATION

By: _____
Its: Counsel

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

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IBERDROLA, S.A.

By: _____
Its: Counsel

ENERGY EAST CORPORATION

By: Scott J. Mueller
Its: Counsel

NEW HAMPSHIRE GAS CORPORATION

By: Scott J. Mueller
Its: Counsel

STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

By: _____
Its: Staff Attorney