

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE JOINT APPLICATION OF NUON GLOBAL)	
SOLUTIONS USA, BV, NUON GLOBAL)	
SOLUTIONS USA, INC., AIG HIGHSTAR CAPITAL)	
II, LP, HYDRO STAR, LLC, UTILITIES, INC. AND)	
WATER SERVICE CORPORATION OF)	CASE NO. 2005-00433
KENTUCKY FOR APPROVAL OF AN INDIRECT)	
CHANGE IN CONTROL OF A CERTAIN)	
KENTUCKY UTILITY PURSUANT TO THE)	
PROVISIONS OF KRS 278.020(5) AND (6) AND)	
807 KAR 5:001, SECTION 8)	

O R D E R

Nuon Global Solutions USA BV (“Nuon BV”), Nuon Global Solutions USA, Inc. (“Nuon USA”), AIG Highstar Capital II, LP (“Highstar”), Hydro Star, LLC (“Hydro Star”), Utilities, Inc. (“Utilities”), and Water Service Corporation of Kentucky (“Water Service”) (collectively “Joint Applicants”) have applied for Commission approval of the transfer of control of Water Service from Nuon BV to Hydro Star and Highstar.¹

¹ Nuon BV, Hydro Star, Utilities, and Water Service have previously applied to the Commission for approval of the transfer of control of Water Service to Nuon BV and Hydro Star. See Case No. 2005-00323, (Ky. PSC filed Aug. 3, 2005). The applicants subsequently withdrew their application. On October 20, 2005, the Joint Applicants submitted their application in which they incorporated by reference the record of Case No. 2005-00323.

The Attorney General (“AG”) is the only intervening party in this proceeding. On November 22, 2005, he moved for full intervention in this proceeding. The Commission granted his motion on November 30, 2005. The AG subsequently served discovery requests on the Joint Applicants, but has not requested a hearing in this matter.

Having considered the application and the evidence of record, the Commission finds that:

1. Water Service, a Kentucky corporation organized under KRS Chapter 271B, owns and operates facilities used in the treatment, storage, transmission, and distribution of water to approximately 7,200 customers in Middlesboro and Clinton, Kentucky.²

2. Water Service operates the city of Clinton, Kentucky's ("Clinton") wastewater system.³

3. As of December 31, 2004, Water Service reported net utility plant of \$3,919,624.⁴

4. As of December 31, 2004, Water Service reported a balance of \$81,245 in Account No. 271, "Contributions in Aid of Construction," and a balance of \$3,257,757 in Account No. 211, "Other Paid in Capital."⁵

5. As of December 31, 2004, Water Service's only major liability was an account payable of \$583,574 that is owed to Water Service Corporation, an affiliate of Utilities. Water Service has no long-term indebtedness.⁶

² Application at 4.

³ Id.

⁴ Annual Report of Water Service Corporation of Kentucky to the Public Service Commission for the Year Ended December 31, 2004 ("2004 Annual Report") at 7.

⁵ Id. at 9.

⁶ Id. at 9 and 25.

6. Utilities, a corporation organized under the laws of Illinois, is one of the largest privately owned water utilities in the United States and provides water and wastewater service to more than 300,000 residential customers in 17 states.⁷

7. Nuon USA, a corporation organized under the laws of Delaware, owns all of Utilities' issued and outstanding shares.

8. Nuon BV, a private limited liability company formed under the laws of Netherlands, owns all issued and outstanding stock of Nuon USA.⁸

9. Highstar is a Delaware limited partnership whose General Partner is AIG Highstar GP II, L.P., and whose manager is AIG Global Investment Corporation.⁹

10. Highstar's stated objective is "[t]o generate current and long-term capital appreciation for the Limited Partners of the Fund by investing primarily in infrastructure business."¹⁰

11. As of December 31, 2004, Highstar reported capital commitments of \$XXXXXXXXX from its partners. Approximately 41 percent of these commitments have been called. Approximately \$XXXXXXXXX remains available to satisfy investments, management fees, and expenses over the fund's remaining life.¹¹

⁷ Application at 3.

⁸ Id.

⁹ AIG Highstar Capital II, L.P. Financial Statements and Supplemental Information, Period from May 18, 2004 (commencement of operations) to December 31, 2004, at 7.

¹⁰ Id.

¹¹ Id. at 10.

12. Highstar created Hydro Star, a Delaware limited liability company, to acquire the stock of Nuon USA.

13. On May 14, 2005, Nuon BV and Hydro Star executed a Stock Purchase Agreement under which Hydro Star will pay \$192.5 million to Nuon BV for all of Nuon USA's issued and outstanding common stock.

14. Hydro Star has no current plans to change either Utilities' or Water Service's current senior management and officers. If the proposed transaction occurs, the current management of Utilities and Water Service will remain in place to operate and manage Water Service's operations. No reduction in the current level of service is likely to result from the proposed transaction.

15. Highstar employs persons with significant experience in water, wastewater, and other utility operations.

16. As of December 31, 2004, Highstar had approximately \$XXXXXXXX of capital available for investment. Upon completion of the transaction, Utilities and Water Service will have greater access to capital on favorable financing terms and will be in a better position to fund capital improvement projects.

17. If the proposed transaction is not approved, Nuon BV, a diversified energy company that operates in Europe and that is seeking to divest its interests in United States water and wastewater entities, will continue to own Water Service, but will not own Utilities. Utilities will cease providing operation and management services to Water Service. Water Service will be required to obtain new management services.

18. The proposed transaction will not result in any change in Water Service's current rates.

Having reviewed the evidence of record, the Commission makes the following conclusions of law:

1. Water Service is a utility that is subject to Commission jurisdiction. KRS 278.010(3)(d).

2. Highstar and Hydro Star are “persons” for purposes of KRS Chapter 278. KRS 278.010(2).

3. KRS 278.020(5) provides that “[n]o person shall acquire or transfer ownership of, or control, or the right to control, any utility under the jurisdiction of the commission . . . without prior approval by the commission.” As Highstar and Hydro Star are “persons” and are acquiring control of Water Service through Hydro Star’s purchase of Nuon USA’s issued and outstanding common stock, this statute is applicable to and requires Commission approval of the proposed transfer.

4. KRS 278.020(6) provides that “[n]o individual, group, syndicate, general or limited partnership, association, corporation, joint stock company, trust, or other entity (an “acquirer”), whether or not organized under the laws of this state, shall acquire control, either directly or indirectly, of any utility furnishing utility service in this state, without having first obtained the approval of the commission.” As Highstar and Hydro Star are “persons” and are acquiring control of Water Service through Hydro Star’s purchase of Nuon USA’s issued and outstanding common stock, this statute is applicable to and requires Commission approval of the proposed transfer.

5. Highstar and Hydro Star have the financial, technical, and managerial abilities to provide reasonable service to Water Service’s present customers.

6. Highstar and Hydro Star's proposed acquisition of Nuon USA and the proposed transfer of control of Water Service from Nuon BV to Highstar and Hydro Star are in accordance with law and for a proper purpose.

7. Provided that the proposed acquisition and transfer are conditioned upon the terms set forth in Ordering Paragraphs 2 through 13 of this Order, the proposed acquisition and transfer are consistent with the public interest.

IT IS THEREFORE ORDERED that:

1. Subject to the conditions set forth in Ordering Paragraphs 2 through 13 of this Order, the transfer of control of Water Service from Nuon BV to Hydro Star and Highstar through Hydro Star's acquisition of ownership and control of Nuon USA is approved.

2. The chief executive officer of Highstar, Hydro Star, Utilities, and Water Service shall each file with the Commission, within 7 days of the date of this Order, a written acknowledgement on behalf of his/her entity that the entity accepts and agrees to be bound by the commitments set forth in Appendix A to this Order.

3. The Joint Applicants shall file with the Commission a copy of the final decision or order or other forms of regulatory notification regarding the proposed transaction issued by each state regulatory authority with jurisdiction over the proposed transaction within 20 days of the issuance of such order or notification.

4. Water Service shall not record any portion of the payment for Nuon USA stock on its books.

5. Neither Highstar, Hydro Star, nor Utilities shall “push down” to Water Service any transaction-related costs or any premium that Hydro Star may pay for Nuon USA stock.

6. Water Service shall not seek recovery from its ratepayers any transaction-related costs or any premium that Hydro Star may pay for Nuon USA stock.

7. Neither Highstar, Hydro Star, nor Utilities shall allocate to Water Service any early termination costs related to the transfer of any senior management of Nuon USA or Utilities.

8. Representatives of Hydro Star and Utilities shall meet at least once annually with representatives of the Commission at the Commission’s offices in Frankfort, Kentucky.

9. Highstar and Hydro Star shall notify the Commission subsequent to their board approval and as soon as practicable following any public announcement of any acquisition of a regulated or non-regulated business representing 5 percent or more of Highstar’s or Hydro Star’s market capitalization.

10. Highstar, Hydro Star, Utilities, and Water Service shall adequately fund, construct, operate, and maintain Water Service’s treatment, transmission, and distribution systems; comply with all applicable Kentucky statutes and administrative regulations; and supply the needs of Water Service’s customers.

11. Water Service shall, for calendar year 2006 and for the next 5 years thereafter, include with its annual report to the Commission a table that shows each water quality standard imposed by law, the number of water service interruptions, the

average employee response time to water service interruptions, the number of customer complaints, and the customer inquiry response time for each calendar year from 2006.

12. Water Service shall annually file with the Commission its current 2-year capital and operation and maintenance budgets and an explanation for any reduction in a budgeted item.

13. Water Service shall make no change to its current method for accounting for deferred income taxes.

14. Within 10 days of the completion of the proposed transaction, Highstar, Hydro Star, Utilities, and Water Service shall file a written notice setting forth the date of completion of the proposed transaction.

Done at Frankfort, Kentucky, this 8th day of March, 2006.

By the Commission

ATTEST:



Executive Director

APPENDIX A
APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2005-00433 DATED March 8, 2006.

1. The accounting and rate-making treatments of Water Service's excess deferred income taxes will not be affected by the merger.
2. The payment for Nuon USA stock will not be recorded on Water Service's books.
3. The premium that Hydro Star pays for Nuon USA stock, as well as all transaction-related costs, will not be "pushed down" to Water Service and will not be recovered from Water Service's ratepayers.
4. Early termination costs related to the transfer incurred for any senior management of Nuon USA or Utilities will not be allocated to Water Service.
5. Hydro Star and Utilities will take an active and ongoing role in managing and operating Water Service in the interests of customers, employees, and the Commonwealth of Kentucky, and take the lead in enhancing Water Service's relationship with the Commission, with state and local governments, and with other community interests. Representatives of Hydro Star and Utilities will meet at least annually with representatives of the Commission.
6. Highstar and Hydro Star will notify the Commission subsequent to its board approval and as soon as practicable following any public announcement of any acquisition of a regulated or non-regulated business representing 5 percent or more of Highstar's or Hydro Star's market capitalization.

7. The customers of Water Service will experience no change in utility service due to the stock purchase.

8. Highstar, Hydro Star, Utilities, and Water Service will adequately fund, construct, operate, and maintain Water Service's treatment, transmission, and distribution systems; comply with all applicable Kentucky statutes and administrative regulations; and supply the service needs Water Service customers.

9. Water Service will, for calendar year 2006 and for the next 5 years thereafter, include with its annual report to the Commission a table that shows each water quality standard imposed by law, the number of water service interruptions, the average employee response time to water service interruptions, the number of customer complaints, and the customer inquiry response time for each calendar year from 2006.

10. Water Service will annually file with the Commission its current 2-year capital and operation and maintenance budgets and an explanation for any reduction in a budgeted item.