

Commonwealth of Kentucky  
Before the Public Service Commission

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PUBLIC SERVICE  
COMMISSION

In the Matter of:

JOINT APPLICATION FOR APPROVAL OF A )  
STOCK PURCHASE AGREEMENT BETWEEN ) Case No. 2005-00323  
NUON GLOBAL SOLUTIONS USA B. V., AS )  
SELLER, AND HYDRO STAR, LLC AS BUYER, )  
WHEN CONSUMMATION OF TRANSFER, )  
HYDRO STAR, LLC WILL ACQUIRE INDIRECT )  
CONTROL OF WATER SERVICE CORPORATION )  
OF KENTUCKY )

ATTORNEY GENERAL'S REQUEST FOR INFORMATION  
TO AIG AND THE JOINT APPLICANTS

The Attorney General of the Commonwealth of Kentucky, by and through his Office of Rate Intervention, submits this Request for Information to the AIG and the Joint Applicants.

(1) In each case where a request seeks data provided in response to a staff request, reference to the appropriate request item will be deemed a satisfactory response.

(2) Please identify the company witness who will be prepared to answer questions concerning each request.

(3) These requests shall be deemed continuing so as to require further and supplemental responses if the company receives or generates additional information within the scope of these requests between the time of the response and the time of any hearing conducted hereon.

(4) If any request appears confusing, please request clarification directly from the Office of Attorney General.

(5) To the extent that the specific document, workpaper or information as requested does not exist, but a similar document, workpaper or information does exist, provide the similar document, workpaper, or information.

(6) To the extent that any request may be answered by way of a computer printout, please identify each variable contained in the printout which would not be self evident to a person not familiar with the printout.

(7) If the company has objections to any request on the grounds that the requested information is proprietary in nature, or for any other reason, please notify the Office of the Attorney General as soon as possible.

(8) For any document withheld on the basis of privilege, state the following: date; author; addressee; indicated or blind copies; all persons to whom distributed, shown, or explained; and, the nature and legal basis for the privilege asserted.

(9) In the event any document called for has been destroyed or transferred beyond the control of the company state: the identity of the person by whom it was destroyed or transferred, and the person authorizing the destruction or transfer; the time, place, and method of destruction or transfer; and, the reason(s) for its destruction or transfer. If destroyed or disposed of by operation of a retention policy, state the retention policy.

Respectfully submitted,

GREGORY D. STUMBO  
ATTORNEY GENERAL

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*Certificate of Service and Filing*

Counsel certifies filing of the original and ten photocopies of this Request for Information by hand delivery to Beth O'Donnell, Executive Director, Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; furthermore, service of the filing was by mailing a true and correct of the same, first class postage prepaid, to Damon R. Talley, P. O. Box 150, Hodgenville, Kentucky 42748, all on this 25<sup>th</sup> day of August 2005.

*David Edward Spenard*  
Assistant Attorney General

Attorney General's  
Request for Information

Additional Instruction regarding AIG: While Hydro Star, LLC, is a Joint Applicant, Hydro Star's "parent companies" including American International Group, Inc. ("AIG") are not Joint Applicants. The Attorney General submits certain requests for AIG and asks that AIG provide the response.

1. RE: Joint Application. With regard to Utilities, Inc., please provide the following.
  - a. Provide a schedule of jurisdictions in which Utilities, Inc., has operations.
  - b. For each jurisdiction, indicate the following:
    - (i) Whether Utilities, Inc., provides water service. If yes, please indicate whether the rates for its provision of water service are subject to the jurisdiction of a state regulatory authority such as the Kentucky Public Service Commission (and identify the authority).
    - (ii) Whether Utilities, Inc., provides sewer service. If yes, please indicate whether the rates for its provision of sewer service are subject to the jurisdiction of a state regulatory authority such as the Kentucky Public Service Commission (and identify the authority).
  - c. For the schedule in response to sub-part a, provide, by jurisdiction,
    - (i) The total number of customers in that jurisdiction as of 1 January 2005;
    - (ii) The number of water customers in that jurisdiction as of 1 January 2005;
    - (iii) The number of sewer customers in that jurisdiction as of 1 January 2005;
    - (iv) The total revenue from that jurisdiction for the twelve months ending 31 December 2004;

- (v) The water service revenue from that jurisdiction for the twelve months ending 31 December 2004;
- (vi) The sewer service revenue from that jurisdiction for the twelve months ending 31 December 2004; and
- (vii) Total Assets for that jurisdiction as of 1 January 2005;

2. RE: Joint Application. With regard to AIG, please provide the following:

- a. Please indicate whether AIG's holdings, as of 1 January 2005, include a controlling interest in any water or sewer utilities. If yes, provide the following:
  - (i) Provide a schedule identifying the utilities and the percentage of ownership;
  - (ii) Provide a schedule of jurisdictions for AIG's water operations; and
  - (iii) Provide a schedule of jurisdictions for AIG's sewer operations.
- b. For each jurisdiction, indicate the following:
  - (i) Whether the utility provides water service. If yes, please indicate whether the rates for its provision of water service are subject to the jurisdiction of a state regulatory authority such as the Kentucky Public Service Commission (and identify the authority).
  - (ii) Whether the utility provides sewer service. If yes, please indicate whether the rates for its provision of sewer service are subject to the jurisdiction of a state regulatory authority such as the Kentucky Public Service Commission (and identify the authority).
  - (iii) Indicate whether these assets are held by Hydro Star. If not, please identify the entity holding the assets.
- c. For the schedule in response to sub-part a, provide, by jurisdiction,
  - (i) The total number of customers in that jurisdiction as of 1 January 2005;

- (ii) The number of water customers in that jurisdiction as of 1 January 2005;
  - (iii) The number of sewer customers in that jurisdiction as of 1 January 2005;
  - (iv) The total revenue from that jurisdiction for the twelve months ending 31 December 2004;
  - (v) The water service revenue from that jurisdiction for the twelve months ending 31 December 2004;
  - (vi) The sewer service revenue from that jurisdiction for the twelve months ending 31 December 2004; and
  - (vii) Total Assets for that jurisdiction as of 1 January 2005;
3. RE: Joint Application. Numbered Paragraph 3 contains the following statement. "Joint Applicant Hydro Star is a Delaware limited liability company owned by AIG Highstar Capital II, LP and certain of its affiliates (Highstar II)." Please provide the following.
- a. AIG Highstar Capital II, LP's percentage of ownership of Hydro Star;
  - b. Identify the "certain of its affiliates" and their percentage of ownership;
  - c. Explain what is meant by the phrase "Highstar II is sponsored by AIG Global Investment Group."; and
  - d. Explain how AIG Global Investment Group is an indirect subsidiary of AIG.
4. RE: Joint Application. Will the purchase price of \$192,500,000.00 result in the creation of any goodwill on the books of AIG or any of its subsidiaries or affiliates (hereinafter "AIG entities")? If yes, please provide the following:
- a. Explain how AIG or the AIG entities will account for the goodwill created in the transaction.

- b. Explain how AIG or the AIG entities will amortize any goodwill created in the transaction.
  - c. Indicate whether AIG and the AIG entities will agree, as a condition of obtaining approval of this transaction, to forego recovery through Kentucky jurisdictional rates for any amount of goodwill that results from this transaction. If not, why not?
5. RE: Joint Application. Please provide full and complete copies of all internal studies, reports, letters, memoranda, and any other relevant documentation prepared to date by Utilities Inc., or Water Service regarding the transaction in general and the impact of the merger on future capital and operating costs and employee levels of Water Service.
6. Transaction Cost Information. Please answer the following:
  - a. Does Hydro Star, LLC (hereinafter "Hydro Star") agree that there are costs-to-achieve the transaction (e.g., due diligence reports, SEC filings, legal counsel, etc.)?
  - b. Does Hydro Star agree that there will be, upon approval of a transfer, certain post-transaction costs for blending Utilities Inc., and Water Service into the AIG family of companies (e.g., systems' integration, etc.)?
  - c. For the costs-to-achieve the transaction, explain how AIG, Hydro Star, or any other entity of AIG will determine the costs that are allocated to or the responsibility of (i) Utilities Inc., and (ii) Water Service. Include any allocation methodologies.
  - d. For the post-transaction costs for blending, explain how AIG, Hydro Star, or any other entity of AIG will determine the costs that are allocated to or the responsibility of (i) Utilities Inc., and (ii) Water Service. Include any allocation methodologies.
  - e. Have AIG or Hydro Star identified any savings that will result from the transaction? If yes, please (i) identify the savings, (ii) summarize how the savings will be achieved including the corporate level at which the savings are expected to occur within the corporate hierarchy of AIG and the AIG entities, and (iii) identify any corresponding costs-to-achieve such savings.

- f. Does Hydro Star agree that there are certain costs associated with this merger that are attributable solely to the process of obtaining the approval of the transaction (e.g. legal counsel for the regulatory various proceedings)?
- g. With regard to the costs associated with the merger that are solely attributable to or result exclusively from the requirement that the Joint Applicants obtain the approval of the Kentucky Public Service Commission (costs of outside counsel, etc.), is it Hydro Star's intent that these costs be assigned only to Water Service or will these costs be shared by Utilities Inc., or other companies within Utilities, Inc.? If the costs will be shared by Utilities Inc., or other companies, please explain how and include any corresponding allocation methodologies.
- h. Identify the amount of expense associated with work done on behalf of the Board of Directors of AIG or any AIG entity for the purpose of assessing the transaction and serving as a basis providing an assessment of the transaction to shareholders.
- i. Please indicate whether the AIG or any of the AIG entities intend to assign any costs associated with the execution of its duty to shareholders to Water Service. If yes, please explain how and why.
- j. Please supply a schedule that shows the cost-to-achieve the transaction by year for Year 1 through Year 5. (This is a request for a schedule that shows the estimated costs by year.)
- k. For the schedule requested under sub-part j (the prior question), please identify by year for Year 1 through Year 5 the following: (i) the assignment of costs to Utilities, Inc.; and (ii) the assignment of costs to Water Service.
- l. Does Utilities, Inc., have any operations whose rates or service are not subject to the jurisdiction of a state regulatory commission? If yes, please (i) identify the entity or operations; (ii) provide a summary of its business purpose (mission); (iii) explain how the AIG is allocating costs-to-achieve the transaction to non-regulated operations; and (iv) explain how the AIG or any AIG entity will allocate post-transaction blending costs to the non-regulated operations.



- m. Please supply a schedule that shows the post-transaction blending costs by year for Year 1 through Year 5. (This is a request for a schedule that shows the estimated costs by year.)
- n. For the schedule requested under sub-part m (the prior question), please identify by year for Year 1 through Year 5 the following: (i) the assignment of costs to Utilities, Inc.; and (ii) the assignment of costs to Water Service.
- o. Does Hydro Star seek the creation of a regulatory asset for any costs-to-achieve the transaction? If yes, please supply, under the assumption that the Commission grants approval of the request, a schedule that shows the amortization of this asset.
- p. Under the assumption that Hydro Star seeks the creation of a regulatory asset for any costs-to-achieve the transaction, does Hydro Star also intend to seek the recovery of any portion of the regulatory asset through the rates of Water Service? If yes, please explain how and why.
- q. Does Hydro Star seek the creation of a regulatory asset for any post-transaction blending costs? If yes, please supply, under the assumption that the Commission grants approval of the request, a schedule that shows the amortization of this asset.
- r. Under the Assumption that Hydro Star seeks the creation of a regulatory asset for any post-transaction blending costs, does Hydro Star also intend to seek the recovery of any portion of the regulatory asset through the rates of Water Service? If yes, please explain how and why.

7. RE: Costs relating to the transaction.

- a. Indicate whether AIG and the AIG entities will agree, as a condition of obtaining approval of this transaction, to forego recovery through Kentucky jurisdictional rates for any amount of costs-to-achieve the transaction. If not, why not?
- b. Indicate whether AIG and the AIG entities will agree, as a condition of obtaining approval of this transaction, to forego recovery through Kentucky jurisdictional rates for any amount of post-transaction costs for blending. If not, why not?

8. Has AIG completed a due diligence review? If yes, indicate whether the review identifies any facts or circumstances that would have a material adverse effect on AIG, any AIG entity, the post-transaction Utilities, Inc., or the post-transaction Water Service and supply a summary of the review for the effect. If not, please provide an estimate of when the review will be complete and provide the response when available.
9. Please provide a full and complete copy of all media releases (including AIG website postings) by AIG regarding the proposed merger.
10. Please provide a full and complete copy of AIG's Annual Report to Shareholders for Year 2002 and Year 2003.
11. For the post-transaction Hydro Star, please identify the regulatory authorities (or entities – such as the Federal Energy Regulatory Commission, Securities and Exchange Commission, state utility commission, etc.) for which Hydro Star will have to file financial statements as a consequence of being subject to its regulatory authority or jurisdiction. For each regulatory authority, provide a summary of the financial information filings that Hydro Star will have to submit during the course of a year.
12. Will the post-transaction Hydro Star be subject to the Securities and Exchange Commission?
13. The following items represent conditions imposed by the Kentucky PSC in other proceedings pertaining to a utility acquisition or transfer of ownership or control. Consistent with Kentucky PSC precedent, as a condition to the approval of this Joint Application, will AIG and the AIG entities agree to the following?
  - a. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit to not declare and pay dividends out of capital or unearned surplus without prior approval of the Kentucky PSC?
  - b. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit to maintain and house Water Service's books and records in Kentucky?
  - c. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit that it will not assert in any judicial or administrative proceeding that the Kentucky PSC lacks for rate-

making purposes jurisdiction over Water Service's capital structure, financing, and cost of capital?

- d. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit that it will obtain Kentucky PSC approval prior to the transfer of any Water Service asset with an original book value in excess of \$1 million or real property or real estate with a net original book value in excess of \$200,000?
- e. Will AIG, and the AIG entities including Hydro Star, and Utilities Inc., commit that neither Water Service nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with AIG's or Hydro Star's acquisition of Utilities, Inc.?
- f. Will AIG, and the AIG entities including Hydro Star, and Utilities Inc., commit to adequately fund and maintain Water Service's treatment, transmission, and distribution systems; comply with all applicable Kentucky statutes and administrative regulations; and supply the service needs of Water Service customers?
- g. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit to obtaining Kentucky PSC approval prior to Water Service's payment of any dividend or transfers of any funds within a calendar year that collectively represent more than 5 percent of Water Service's retained earnings as of December 31 of the prior calendar year to AIG or any AIG entity including Hydro Star and Utilities Inc.?
- h. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit to notifying the Kentucky PSC in writing within 30 days of any downgrading of the bonds of AIG, Hydro Star, Utilities Inc., or any subsidiary of Hydro Star or Utilities Inc., and will include with such notice the complete report of the issuing bonding agency?
- i. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit that Water Service will not incur any additional indebtedness, issue any additional securities, or pledge any assets to finance any part of the purchase price paid for Utilities Inc.'s stock?

- j. Will AIG, and the AIG entities including Hydro Star, Utilities, Inc., and Water Service commit that the payment for Utilities Inc.'s stock will not be recorded on Water Service's books?
  - k. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit that any premium paid for Utilities Inc. stock, as well as all transaction-related costs including post-transaction costs for blending will not be "pushed down" to Water Service and will not be recovered from Water Service's ratepayers?
  - l. Will AIG, and the AIG entities including Hydro Star, Utilities Inc., and Water Service commit that the acquisition of Utilities Inc., will not affect the accounting and rate-making treatments of any of Water Service's excess deferred income taxes?
14. Do AIG and the AIG entities plan to create any additional corporations that will be subsidiaries or otherwise new corporations within AIG as part of this transaction? In answering this question, include any new corporations that AIG and the AIG entities currently plan to create within the twelve (12) month period following final approval of the transaction. If yes, identify the corporation(s) and provide a brief description of its function or purpose.
15. Provide a list of Water Service's current affiliate agreements or contracts. Include in the listing a brief description of the function or purpose of each agreement or contract.
16. Do AIG and the AIG entities have any plans to terminate or alter any of Utilities Inc.'s or Water Service's existing affiliate agreements or contracts as part of this transaction? In answering this question, include any plans to terminate or alter affiliate agreements or contracts within the twelve (12) month period following final approval of the transaction. If yes, identify the agreement or contract and provide a summary of the change.
17. Do AIG and the AIG entities anticipate Utilities Inc., or Water Service entering into any new affiliate agreements or contracts as part of this transaction? In answering this question, include any plans for Utilities Inc. or Water Service to enter into new affiliate agreements or contracts within the twelve (12) month period following final approval of the transaction. If yes, identify the agreement or contract and provide a description of the function or purpose of each agreement or contract.

18. Will the merger result in any changes in accounting principles for either Utilities, Inc., or Water Service? (For example, does AIG have the same accounting policy regarding the use of estimates, etc.?) If yes, please summarize the change(s).
19. Please provide the current estimate of the total transaction costs for the merger.
20. Provide the Hydro Star annual report to shareholders for Year 2001, Year 2002, Year 2003, and Year 2004.
21. Utilities, Inc. is identified as the "direct parent" of Water Service Corporation of Kentucky ("Water Service"). With regard to this statement, please provide the following:
  - a. Provide a diagram showing the present corporate structure that contains Water Service including all parents, subsidiaries, and affiliates.
  - b. For each entity identified in sub-part a, provide a schedule that, by entity, shows the entity type (e.g. partnership, limited liability corporation), jurisdiction for the entity's organization (e.g. state or country of incorporation), and percentage of ownership. Provide, for any applicable entity, the identity of any minority ownership interests in excess of 5%.
  - c. Provide a diagram showing the post-transaction corporate structure that contains Water Service including all parents within AIG as well as all subsidiaries and affiliates within the AIG Asset Management business segment.
  - d. For each entity identified in sub-part c, provide a schedule that, by entity, shows the entity type (e.g. partnership, limited liability corporation), jurisdiction for the entity's organization (e.g. state or country of incorporation), and percentage of ownership. Provide, for any applicable entity, the identity of any minority ownership interests in excess of 5%.
22. Does this transaction require the approval of any other regulatory authority of the Commonwealth of Kentucky, any other state or federal regulatory authority, of any other national or multi-national regulatory? If yes, please provide a schedule that shows, for other approval that is necessary, the following:

- a. The regulatory authority;
  - b. A summary of the filing requirement;
  - c. The date or anticipated date of filing with that authority;
  - d. The date or anticipated date of action of that authority; and
  - e. When available, any final order or final statement concerning action by that authority.
23. RE: AIG 2004 Annual Report, Letter to Shareholder, page 1. For AIG, please provide a discussion that summarizes the identified weaknesses in internal controls.
24. RE: AIG 2004 Annual Report, Letter to Shareholder, page 1. For AIG, please provide a discussion that summarizes the decision to restate financial results.
25. Are AIG's Asset Management operations wholly-owned subsidiaries of AIG? If no, please provide a schedule that shows AIG's percentage of ownership and identify any owners who have a 5% or greater stake in ownership.