



Q10. Provide the financial information requested in 9(a) through 9(i) for Hydro Star.

**RESPONSE:** Hydro Star is a newly formed entity that was created to consummate the transaction currently under review. As such, no information responsive to question 10 is available.

**WITNESS:** John Stokes



Q11. a. List all regulatory and governmental approvals required for Hydro Star's acquisition of Nuon Inc.'s stock.

**RESPONSE:** Approval of Hydro Star's acquisition of Nuon Inc.'s stock is being sought from: the Florida PSC; Sarasota County, Florida; the Illinois Commerce Commission; the Kentucky PSC; the North Carolina Utilities Commission; the Pennsylvania PUC; and the Virginia State Corporation Commission.

Joint Applicants are currently preparing applications to be filed with the Nevada PUC and the New Jersey BPU.

Q11. b. For each approval listed in response to Item 8(a), provide a copy of the application, state the date an application for such approval will be or has been submitted and the expected date of approval.

**RESPONSE:** A copy of the applications filed in each of the above-referenced jurisdictions is attached as **Exhibit 11**. Joint Applicants will forward copies of the Nevada and New Jersey applications when they are filed.

Q11. c. Provide a copy of the regulatory and governmental approvals when they are issued.

**RESPONSE:** Joint Applicants will provide the Commission with copies of the regulatory approvals as they are received.

**WITNESS:** Steven M. Lubertozzi & John Stokes



Q12. Will Hydro Star's acquisition of Nuon Inc.'s stock result in an acquisition premium or discount? Applicants should provide copies of workpapers, calculations, and/or assumptions to support their response.

**RESPONSE:** Hydro Star's acquisition of Nuon Inc.'s stock will result in an acquisition premium. Hydro Star will not seek to recover this premium through rates or other charges to the customers.

**WITNESS:** John Stokes



Q13. a. If Hydro Star's acquisition of Nuon Inc.'s stock results in an acquisition premium, will Hydro Star use "push down" accounting (i.e., Utilities and Water Service are required to record a portion of the goodwill resulting from the acquisition premium that Hydro Star paid for Nuon's stock)? Explain.

**RESPONSE:** Hydro Star will not use "push down" accounting with regard to the acquisition premium paid for Nuon Inc.'s stock. Hydro Star anticipates recovering the premium through the expansion of the Utilities operating systems located in rapidly growing areas such as Nevada, Florida and the Carolinas.

Q13. b. If Hydro Star's acquisition of Nuon Inc.'s stock results in an acquisition discount, will that acquisition discount affect the financial statements of Utilities or Water Service? Explain.

**RESPONSE:** Not applicable.

**WITNESS:** John Stokes





Q14. If “push down” accounting is not used, explain how Hydro Star intends to recover its acquisition premium.

**RESPONSE:** Hydro Star anticipated recovering the premium through the expansion of the Utilities operating systems located in rapidly growing areas such as Nevada, Florida and the Carolinas.

**WITNESS:** John Stokes



Q15. Describe how the Applicants will ensure against the following occurrences:

**RESPONSE:** Applicants state as follows:

Q15. a. The cross-subsidization of non-regulated activities by Water Service.

**RESPONSE:** Utilities owns only one non-regulated entity, a sludge hauling business located outside Kentucky. Utilities will continue to segregate its non-regulated activities as it has in the past, and which have been approved by the state regulatory commissions. Upon approval, Hydro Star's sole subsidiary will be Utilities. The Fund is prohibited from utilizing any of its investments to subsidize its other investments. These controls will remain in place after consummation of the transaction.

Q15. b. The diversion of management talent away from Water Service to Highstar, Hydro Star and/or their affiliates.

**RESPONSE:** Hydro Star intends to retain and maintain the management and personnel of Utilities and Water Service in their current positions post-closing. There will be no diversion of talent away from Water Service post-closing.

Q15. c. Hydro Star's adjustment of Water Service's capital structure in a manner that could adversely affect its cost of capital and financial integrity.

**RESPONSE:** Hydro Star intends to retain the existing capital structure of Water Service post-closing. At present, Water Service is funded by equity from Utilities Water Service will continue to receive necessary capital infusions from Utilities post-closing.

Q15. d. Hydro Star's adjustment of Water Service's dividend policy in a manner that could adversely affect its financing requirements, financing capabilities, and financial integrity.

**RESPONSE:** Dividends will be paid out of retained earnings or earned income. Therefore, payment of dividends will not adversely affect Water Service's financing requirements, financing capabilities, or financial integrity.

Q15. e. Hydro Star's refusal to provide necessary capital to Water Service that could severely impair its ability to provide utility services.

**RESPONSE:** As it has in the past, Water Service will continue to receive necessary capital from Utilities. Utilities will continue to provide necessary capital such that Water Service's ability to provide utility services will not be impaired.

Q15. f. Water Service's guaranteeing of the debt of Highstar, Hydro Star, and their affiliates that could unnecessarily place in jeopardy its financial position and resources.

**RESPONSE:** Water Service is not expected to be required to guarantee any debt of the Fund, Hydro Star or their affiliates.

Q15. g. Use of Water Service as a “dumping ground” for employees, assets, and products associated with failed or troubled affiliate ventures, causing it to be viewed by Highstar, Hydro Star, and the non-utility affiliates as the employer or purchaser of last resort.

**RESPONSE:** Hydro Star will not use Water Service as a “dumping ground” for employees, assets or products associated with failed or troubled affiliate ventures. Hydro Star intends to retain and maintain the current management and operational staff of Water Service as the management and operational staff of Water Service post-closing.

Q15. h. A failed or failing unregulated affiliate adversely affecting Water Service’s operating and financial condition.

**RESPONSE:** Please see the answer to 15a. above.

Q15. i. Restrictions or limitations upon the Commission’s access in Kentucky to the books and records of Highstar, Hydro Star, and its other affiliates and subsidiaries.

**RESPONSE:** There will be no change in the Commission’s access in Kentucky to the books and records of the Fund and Hydro Star with regard to Water Service.

Q15. j. Restrictions or limitations upon the Commission's ability to monitor significant transfers of utility assets, business ventures of Highstar, Hydro Star, and other major transactions.

**RESPONSE:** The Commission will retain its ability to monitor significant transfers of utility assets of the Fund and Hydro Star.

Q15. k. Restrictions or limitations upon the Commission's ability to obtain periodic and special reports from the Applicants and Utilities to assist the Commission with its monitoring activities.

**RESPONSE:** The Commission will retain its ability to obtain periodic and special reports from the Joint Applicants to assist the Commission with its monitoring activities.

**WITNESS:** Steven M. Lubertozi & John Stokes





Q16. Provide all reports related to the merger that financial advisors submitted to Hydro Star or Utilities.

**RESPONSE:** The Fund and Hydro Star have not provided the reports requested by this question. We have elected not to provide these reports for the following reasons: (i) The due diligence conducted by Highstar and Hydro Star relates to the acquisition of the stock of the parent of Utilities, and does not contain information illustrating the effects of the acquisition on Water Service specifically. Instead, such information represents Highstar's and Hydro Star's evaluation of the entire Utilities system in all 17 states in which it operates. (ii) Due to the nature of the diligence conducted by the Fund, many of the reports completed were supplemented by discussions and other verbal updates. As a result, the Fund does not believe that the reports in their current form would properly address the specific questions posed by the Commission. (iii) These reports do not provide insight into the Fund's fitness to own and operate Water Service, and as such will be of limited value to the Commission in conducting its review of such matters. (iv) The reports prepared by or on behalf of the Fund and Hydro Star are proprietary and confidential documents, which in some cases may contain trade secrets. As result, releasing such documents could place the Fund at a marked disadvantage in the marketplace.

The Fund recognizes the importance of the Commission receiving all of the information it deems necessary to effectively conduct its review of this acquisition, and as such, if the Commission has specific concerns that it feels information may address, the Fund believes that an informal conference to discuss such items would be a more productive setting to consider such concerns and information; and the Fund would be happy to participate in such a forum.

**WITNESS:** John Stokes