



**Q17.** Provide all materials that Hydro Star or Utilities provided to employees of Utilities or its affiliates about changes in employee benefits plans due to the proposed merger.

**RESPONSE:** No changes to employee benefits plans are expected due to the proposed stock transfer.

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



Q18. a. Provide a schedule showing the excess deferred income taxes for Water Service as of December 31, 2004 and the date of this Order.

**RESPONSE:** None

Q18. b. Describe all effects of the merger of stock purchase will have on Water Service's excess deferred income taxes.

**RESPONSE:** None

**WITNESS:** Steven M. Lubertozi



Q19. a. Provide the total costs related to the proposed merger that Highstar, Hydro Star, and/or Nuon has incurred as of the date of this Order.

**RESPONSE:** At the date of this Order, the Fund has incurred approximately \$5 million in costs related to the proposed stock purchase. At the present time, the Fund is not privy to any information regarding transaction costs incurred by Nuon BV. In the interest of confidentiality during the pendency of the transaction, the Fund believes that any requests for such information be made directly to Nuon, BV.

Q19 b. Provide the total costs related to the proposed merger that Highstar, Hydro Star, and/or Nuon Inc. expect to bear.

**RESPONSE:** The total cost to the Fund related to the stock purchase is estimated to be approximately \$10 million.

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



Q20. a. State whether Water Service will bear any merger costs.

b. If yes, provide the estimated annual merger costs that Water Service will bear for each year through 2010.

**RESPONSE:** Water Service will not bear any of the costs of the stock purchase.

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





- Q21. a. State whether Hydro Star's acquisition of Nuon Inc. will result in any change of control payments to any individual or employee of Utilities or Water Service.
- b. If yes, list each employee entitled to a payment and the total amount of his or her payments.

**RESPONSE:** Hydro Star's acquisition of Nuon Inc. will not result in any change of control payments to any individual or employee of Utilities or Water Service.

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



Q22. Provide all letters, analyses, notes, memoranda, studies, and related documents that Nuon Inc., Utilities, or Water Service prepared that discuss the price to be paid by Hydro Star for Nuon Inc. stock.

**RESPONSE:** At the present time, the Fund is not privy to any of the due diligence reports prepared by or on behalf of Nuon BV; nor is the Fund aware of whether such reports exist. If the Commission has specific concerns relating to the existence of such reports or the information contained therein, Applicant would be willing to participate in a meeting with the Commission to discuss these items further. Applicant does not believe that these reports are likely to provide significant insight into Applicant's fitness to own and operate Water Service, but in the interest of confidentiality during the pendency of the transaction, Applicant believes that any requests for such reports be made directly to either Nuon, BV or Utilities.

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



Q23. Provide all letters, analyses, notes, memoranda, studies, and related documents that Highstar or Hydro Star prepared or commissioned to be prepared and that discuss the price to be paid for the Nuon stock.

**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





Q24. a. Describe the internal standards and policies of Highstar and Hydro Star (including their subsidiaries and affiliates) regarding service reliability and quality of its water utility operations.

**RESPONSE:** Neither the Fund nor Hydro Star currently owns or operates water or wastewater facilities. Therefore, neither the Fund nor Hydro Star have promulgated internal standards and policies regarding service reliability and quality of water utility operations. Water Service will continue to operate the facilities within the State of Kentucky. Water Service will continue to operate the system to assure the same level of reliability and service quality currently provided to its customers.

Q24. b. Provide all written standards or policies related to service quality and reliability of water utility operations.

**RESPONSE:** Please see answer to 24a. above.

**WITNESS:** John Stokes



- Q25. a. Describe the internal standards and policies of Nuon Inc., Utilities, and Water Service regarding service reliability and quality of its water utility operations.
- b. Provide all written standards or policies related to service quality and reliability of water utility operations

**RESPONSE:** Nuon BV, the current owner of the stock of Utilities, adopted the internal standards and policies of Utilities and Water Service. A copy of the written standards or policies of Utilities and Water Service is attached as **Exhibit 25.**

**WITNESS:** Steven M. Lubertozi



Q26. a. State whether the Applicants are willing to establish minimum service quality standards to assure the same level of reliability and service quality currently provided to Water Service's customers. Explain.

**RESPONSE:** Water Service will continue to operate its facilities as it has in the past with the continued support of Utilities Water Service intends to provide the same level of reliability and service quality that it currently provides its customers. Accordingly, Applicants feel it is not necessary to establish minimum standards to meet these service benchmarks.

Q26. b. If no, what assurances will Highstar, Hydro Star, Utilities, and Water Service provide to ensure that Water Service's water operations will be adequately funded and maintained?

**RESPONSE:** Utilities will continue to ensure, as it has in the past, that Water Service's water operations will be adequately funded and maintained. Should extraordinary capital become necessary, Hydro Star and Highstar can provide necessary capital to Water Service.

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



Q27. Provide a list and detailed description of each product or service that the merged Hydro Star/Nuon Inc. can offer that Nuon Inc. is currently unable to provide.

**RESPONSE:** As a result of the pending transaction, there is only an ownership change of the grandparent of Water Service – Hydro Star will replace Nuon BV as the 100% equity owner of Nuon Inc. With the financial and human capital of the Highstar team, Hydro will work with Utilities management to ensure that Water Service continues to operate its facilities as it has in the past. Water Service intends to provide the same level of reliability and service quality that it currently provides its customers.

**WITNESS:** John Stokes





Q28. For each jurisdiction in which Highstar, Hydro Star, Nuon Inc., or Utilities operates, describe the utility regulatory commission's policy regarding the recovery of plant acquisition adjustment. Refer in the response to any relevant statute, administrative regulation, or agency order that expressly addresses this issue.

**RESPONSE:** Neither the Fund, Hydro Star, Nuon Inc., nor Utilities will seek an acquisition adjustment for the proposed stock transfer. Nuon Inc. and Utilities operate in 17 states. Hydro Star will not have operations in any state until all approvals are received for the subject stock transfer. The Fund does not operate any water or wastewater utilities. While no acquisition adjustments will be sought, should the commission wish to review the relevant statutes for the other 16 jurisdictions, Applicants will supply them as an after-filed exhibit.

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



Q29. Provide a detailed narrative chronology of the history of the Hydro Star/Nuon Inc. merger beginning when Hydro Star's management first recommended to Hydro Star's shareholders that the merger or acquisition of Nuon Inc. be pursued.

**RESPONSE:** Hydro Star was formed for the purpose of acquiring the interests of Nuon BV. Hydro Star's parent company, the Fund, approached Nuon BV in December 2004 regarding a potential transaction. The management of Nuon Inc., which is currently owned by Nuon BV, an Amsterdam company, was in the process of selling Nuon Inc. through a competitive auction process. Hydro Star submitted a bid in the second round of the auction process in April 7, 2005. In early May, Hydro Star was selected as the preferred bidder for negotiation of the final stock purchase agreement. On May 14, 2005, Hydro Star management and Nuon BV management completed negotiation and signed the final stock purchase agreement for the transaction.

**WITNESS:** John Stokes

