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DAMON R. TALLEY

ATTORNEY AT LAW

October 13, 2005

Ms. Beth O'Donnell
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

RE: Case No. 2005- 00323
Transfer Application
Proposed Transfer of Stock from
Nuon Global Solutions USA BV to
Hydro Star, LLC

RECEIVED

OCT 13 2005

PUBLIC SERVICE
COMMISSION

Dear Ms. O'Donnell:

Enclosed for filing are the original and eight (8) copies of the Joint Applicants' Response to the Attorney General's Request for Information.

Yours truly,
DAMON R. TALLEY, P.S.C.


DAMON R. TALLEY, ATTORNEY FOR
JOINT APPLICANTS

DRT:ms

Enclosures

cc: David Spenard, Attorney General's Office

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

OCT 13 2005

PUBLIC SERVICE
COMMISSION

In the Matter of:

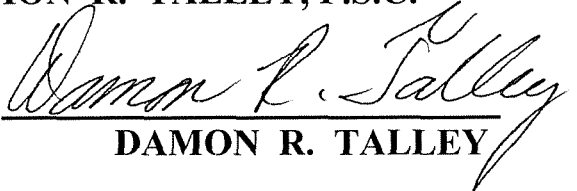
JOINT APPLICATION OF NUON GLOBAL)
SOLUTIONS USA, BV, HYDRO STAR, LLC,)
UTILITIES, INC., AND WATER SERVICE)
CORPORATION OF KENTUCKY FOR) CASE NO. 2005-00323
APPROVAL OF AN INDIRECT CHANGE IN)
CONTROL OF A CERTAIN KENTUCKY)
UTILITY PURSUANT TO THE)
PROVISIONS OF KRS 278.020(5) AND (6))
AND 807 KAR 5:001, SECTION 8)

RESPONSE OF JOINT APPLICANTS
TO ATTORNEY GENERAL'S
REQUEST FOR INFORMATION

Come the Joint Applicants, Nuon Global Solutions USA B.V. (“Nuon BV”), Nuon Global Solutions USA, Inc. (“Nuon USA”), AIG Highstar Capital II, LP (“Highstar”), Hydro Star, LLC (“Hydrostar”), Utilities, Inc. (“Utilities”), and Water Service Corporation of Kentucky (“Water Service”), (the “Joint Applicants”), and for their Response to the Attorney General’s Request for Information, state as shown on the following pages:

Respectfully submitted this 13th day of October, 2005.

DAMON R. TALLEY, P.S.C.

BY: 
DAMON R. TALLEY

DAMON R. TALLEY, P.S.C.

P.O. BOX 150

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COUNSEL FOR NUON BV, NUON

USA, HIGHSTAR, HYDRO STAR,

UTILITIES, INC. AND WATER

SERVICE

drtalley@alltel.net

CERTIFICATE OF SERVICE

This is to certify that a true copy of the foregoing pleading was served by first class U. S. Mail, postage prepaid, or hand delivered, this 13th day of October, 2005 to the following:

Honorable David E. Spenard
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204


DAMON R. TALLEY

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).

Response: Utilities, Inc., provides water service in the following jurisdictions:

Arizona – rates are subject to the jurisdiction of the Arizona Corporation Commission;

Florida – rates for the majority of systems are subject to the jurisdiction of the Florida Public Service Commission. Other systems are subject to the jurisdiction of Sarasota County, Bay County, and Hillsborough County;

Georgia – rates are not subject to the jurisdiction of a state regulatory authority;

Illinois – rates are subject to the jurisdiction of Illinois Commerce Commission;

Indiana – rates are subject to the jurisdiction of the Indiana Utility Regulatory Commission;

Kentucky – rates are subject to the jurisdiction of the Kentucky Public Service Commission;

Louisiana – rates are subject to the jurisdiction of the Louisiana Public Service Commission;

Q1

Maryland – rates are subject to the jurisdiction of the Public Service Commission of Maryland;

Mississippi – rates are subject to the jurisdiction of the Mississippi Public Service Commission;

Nevada – rates are subject to the jurisdiction of the Nevada Public Utilities Commission;

New Jersey – rates are subject to the jurisdiction of the New Jersey Board of Public Utilities;

North Carolina – rates are subject to the jurisdiction of the North Carolina Utilities Commission;

Ohio – rates are subject to the jurisdiction of the Public Utilities Commission of Ohio;

Pennsylvania – rates are subject to the jurisdiction of the Pennsylvania Public Utility Commission;

South Carolina – rates are subject to the jurisdiction of the Public Service Commission of South Carolina;

Tennessee – rates are subject to the jurisdiction of the Tennessee Regulatory Authority;

Virginia – rates are subject to the jurisdiction of the State Corporation Commission.

Q1b

- (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).

RESPONSE: Utilities, Inc., provides sewer service in the following jurisdictions:

Florida – rates for the majority of systems are subject to the jurisdiction of the Florida Public Service Commission. Other systems are subject to the jurisdiction of Sarasota County, Bay County, and Hillsborough County;

Georgia – rates are not subject to the jurisdiction of a state regulatory authority;

Illinois – rates are subject to the jurisdiction of Illinois Commerce Commission;

Indiana – rates are subject to the jurisdiction of the Indiana Utility Regulatory Commission;

Louisiana – rates are subject to the jurisdiction of the Louisiana Public Service Commission;

Maryland – rates are subject to the jurisdiction of the Public Service Commission of Maryland;

Nevada – rates are subject to the jurisdiction of the Nevada Public Utilities Commission;

New Jersey – rates are subject to the jurisdiction of the New Jersey Board of Public Utilities;

North Carolina – rates are subject to the jurisdiction of the North Carolina Utilities Commission;

Q1b(ii)

Pennsylvania – rates are subject to the jurisdiction of the Pennsylvania Public Utility Commission;

South Carolina – rates are subject to the jurisdiction of the Public Service Commission of South Carolina;

Virginia – rates are subject to the jurisdiction of the State Corporation Commission.

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;

RESPONSE:	Arizona	7,465
	Florida	83,476
	Georgia	11,976
	Illinois	17,882
	Indiana	8,574
	Kentucky	7,145
	Louisiana	18,379
	Maryland	7,036
	Mississippi	2,081
	Nevada	17,977
	New Jersey	1,081
	North Carolina	64,457
	Ohio	1,146
	Pennsylvania	5,538
	South Carolina	31,688
	Tennessee	535
	Virginia	4,946

Q1c

- (ii) The number of water customers in that jurisdiction as of 1 January 2005;

RESPONSE:	Arizona	7,465
	Florida	42,072
	Georgia	6,151
	Illinois	11,659
	Indiana	5,447
	Kentucky	7,145
	Louisiana	9,538
	Maryland	4,769
	Mississippi	2,081
	Nevada	14,397
	New Jersey	789
	North Carolina	33,536
	Ohio	434
	Pennsylvania	2,329
	South Carolina	16,080
	Tennessee	535
	Virginia	2,192

Q1c(iii).

- (iii) The number of sewer customers in that jurisdiction as of 1 January 2005;

RESPONSE:	Florida	39,574
	Georgia	4,979
	Illinois	2,740
	Indiana	3,440
	Louisiana	8,841
	Maryland	2,266
	Nevada	3,580
	New Jersey	292
	North Carolina	23,789
	Pennsylvania	2,935
	South Carolina	15,608
	Virginia	2,184

Q1c

- (iv) The total revenue from that jurisdiction for the twelve months ending 31 December 2004;

RESPONSE: Utilities's operating subsidiaries generated \$85,791,370 of total operating revenues.

- (v) The water service revenue from that jurisdiction for the twelve months ending 31 December 2004;

RESPONSE: Utilities's operating subsidiaries generated \$44,048,768 of water revenues.

Q1c(vi)

- (vi) The sewer service revenue from that jurisdiction for the twelve months ending 31 December 2004; and

RESPONSE: Utilities's operating subsidiaries generated \$38,882,045 of wastewater revenues.

Q1c(vii)

- (vii) Total Assets for that jurisdiction as of 1 January 2005;

RESPONSE: As of December 31, 2004 Utilities had total net plant of \$491,595,935.

WITNESS: Steven M. Lubertozi, Director of Regulatory Accounting, Utilities, Inc.

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

- a. Please indicate whether AIG Highstar Capital II's holdings, as of 1 January 2005, include a controlling interest in any water or sewer utilities. If yes, provide the following:

RESPONSE: As of January 1, 2005, neither Highstar nor Hydro Star had any controlling interest in any water or sewer utilities.

- (i) Provide a schedule identifying the utilities and the percentage of ownership;

RESPONSE: N/A

- (ii) Provide a schedule of jurisdictions for AIG Highstar Capital II's water operations; and

RESPONSE: N/A

- (iii) Provide a schedule of jurisdictions for AIG Highstar Capital II's sewer operations.

RESPONSE: N/A

- 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).

RESPONSE: N/A

Q2b

- (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).

RESPONSE: N/A

- (iii) Indicate whether these assets are held by Hydro Star. If not, please identify the entity holding the assets.

RESPONSE: N/A

- 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;

RESPONSE: N/A

- (ii) The number of water customers in that jurisdiction as of 1 January 2005;

RESPONSE: N/A

- (iii) The number of sewer customers in that jurisdiction as of 1 January 2005;

RESPONSE: N/A

- (iv) The total revenue from that jurisdiction for the twelve months ending 31 December 2004;

RESPONSE: N/A

Q2c

- (v) The water service revenue from that jurisdiction for the twelve months ending 31 December 2004;

RESPONSE: N/A

- (vi) The sewer service revenue from that jurisdiction for the twelve months ending 31 December 2004; and

RESPONSE: N/A

- (vii) Total Assets for that jurisdiction as of 1 January 2005;

RESPONSE: N/A

WITNESS: John Stokes, Managing Director, AIG Highstar Capital II, LP (“Highstar”) and President of Hydro Star, LLC (“Hydro Star”)

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;

RESPONSE: Currently, Highstar owns 100% of Hydro Star.

- b. Identify the “certain of its affiliates” and their percentage of ownership;

RESPONSE: “Affiliates” include AIG Highstar Capital II Prism Fund, L.P. (“Highstar Prism”) and AIG Highstar Capital II Overseas Investors Fund, L.P. (“Highstar Overseas”), which are funds created for the purpose of providing investment vehicles for tax-exempt and non-U.S. limited partners, respectively, who receive different tax treatment than investors in Highstar, the U.S.-based fund.

- c. Explain what is meant by the phrase “Highstar II is sponsored by AIG Global Investment Group.”; and

RESPONSE: A fund’s sponsor is the entity that typically stands behind the general partner’s obligations with respect to the fund and is required to commit a certain percentage of capital to the fund. In the case of AIGGIG and the Fund, AIGGIG stands behind the obligations of AIG Highstar II GP, L.P., the general partner of the Fund. In addition AIGGIG, through its affiliates, has an obligation to commit not less than 10% of the aggregate

Q3c

capital commitments of the Fund (in the case of the Fund, AIGGIG's total limited partner commitments is approximately 12.5%).

- d. Explain how AIG Global Investment Group is an indirect subsidiary of AIG.

RESPONSE: "Indirect" subsidiary is used to explain the fact that while AIGGIG is a subsidiary of AIG, at least one entity exists between AIG and AIGGIG in the AIG organizational structure. AIGGIG is a generally autonomous entity that is ultimately consolidated on the balance sheet of AIG for tax and accounting purposes.

WITNESS: John Stokes

4. RE: Joint Application. Will the purchase price of \$192,500,000.00 result in the creation of any goodwill? If yes, please provide the following:

RESPONSE: The purchase price will result in the creation of goodwill on the books of Hydro Star.

- a. Explain how the acquiring Joint Applicants will account for the goodwill created in the transaction.

RESPONSE: Goodwill is expected to be an asset on the Hydro Star balance sheet, pro forma for the transaction.

- b. Explain how the acquiring Joint Applicants will amortize any goodwill created in the transaction.

RESPONSE: Under GAAP, goodwill is not amortized.

- c. Indicate whether the acquiring Joint Applicants 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?

RESPONSE: Hydro Star will not attempt to recover goodwill that results from the transaction through Kentucky jurisdictional rates. The incurrence of goodwill does not result in additional value-added service to the customers; thus, it would not be Joint Applicants' intent to recover goodwill through jurisdictional rates.

WITNESS: John Stokes & Steven M. Lubertozi

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.

RESPONSE: At the present time, neither Highstar nor Hydro Star is privy to any of the studies, reports, letters, memoranda and other documentation prepared by or on behalf of Utilities, Inc. (“Utilities”) and Water Service regarding the transaction. Neither Highstar nor Hydro Star is aware of whether such reports exist. If the Attorney General has specific concerns relating to the existence of such reports or the information contained therein, the Joint Applicants would be willing to participate in a meeting with the Attorney General or the Commission to discuss these items further. The Joint Applicants do not believe that these reports are likely to provide significant insight into Hydro Star’s fitness to own and operate Water Service; but in the interest of confidentiality during the pendency of the transaction, Highstar and Hydro Star believe that any requests for such reports should be made directly to either Nuon Global Solutions USA, BV (“Nuon BV”) or Utilities.

WITNESS: John Stokes & Steven M. Lubertozzi

6. Transaction Cost Information. Do the acquiring Joint Applicants intend to seek the creation of any regulatory asset as a result of this transaction? (For example, do the acquiring Joint Applicants intend to seek the creation of a regulatory asset for the cost-to-achieve the transaction?) If yes, provide a narrative of what the Joint Applicants seek including a discussion of any rate base treatment, amortization, and rate recovery for any regulatory asset resulting from this transaction.

RESPONSE: No

WITNESS: John Stokes & Steven M. Lubertozi

7. RE: Costs relating to the transaction.

- a. Indicate whether the acquiring Joint Applicants 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?

RESPONSE: Yes. The Joint Applicants agree that they will not seek recovery through Kentucky jurisdictional rates for any amount of cost-to-achieve the transaction. Transaction costs are not related to the operations of Water Service.

- b. Indicate whether the acquiring Joint Applicants 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?

RESPONSE: Yes. The Joint Applicants agree that they will not seek recovery through Kentucky jurisdictional rates for any amount of post-transactional costs for blending.

WITNESS: John Stokes & Steven M. Lubertozi

8. Have the acquiring Joint Applicants completed a due diligence review? If yes, indicate whether the review identifies any facts or circumstances that would have a material adverse effect on 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.

RESPONSE: Highstar has completed its due diligence review. Highstar has not identified any facts or circumstances that would have a material adverse effect on Highstar, Hydro Star, Utilities or Water Service.

WITNESS: John Stokes

9. Please provide a full and complete copy of all media releases (including AIG website postings) by AIG regarding the proposed transaction.

RESPONSE: Please see the press release attached as **Exhibit 9**.

WITNESS: John Stokes

Press Release

Source: American International Group, Inc.

AIG Highstar Capital Announces the Acquisition of Utilities, Inc. from Nuon
Wednesday May 18, 10:05 am ET

NEW YORK--(BUSINESS WIRE)--May 18, 2005--Hydro Star, LLC, a subsidiary of AIG Highstar Capital II, L.P. and certain of its affiliates (Highstar II), has signed a definitive agreement to acquire 100% of the stock of Utilities, Inc. from a subsidiary of n.v. Nuon (Nuon). Hydro Star and Nuon entered into a stock purchase agreement dated May 14, 2005.

Utilities, Inc. is a water and wastewater utility holding company based in Northbrook, Illinois. It has almost 300,000 customers located in 17 states, with a principal focus in the high growth areas of the Sunbelt.

Highstar II is a group of private equity funds that invest in infrastructure related assets and businesses. Highstar II is sponsored by AIG Global Investment Group (AIGGIG). AIGGIG member companies are subsidiaries of American International Group, Inc. (AIG).

Nuon is a large energy company based in the Netherlands, active in the generation, marketing, sale and distribution of electricity, gas, and heat, as well as related products and services. The divestment is in line with Nuon's strategy to concentrate its energy business in The Netherlands, Belgium and Germany.

AIGGIG Chairman and CEO Win J. Neuger stated, "We have long considered water infrastructure as an attractive investment opportunity and an excellent complement to Highstar II's existing energy infrastructure portfolio. Utilities, Inc. is a leader in this industry and we are pleased that Highstar II has the opportunity to acquire this business from Nuon."

The transaction for the purchase of Utilities, Inc. is expected to close in early 2006 and is subject to customary conditions, including the receipt of Hart Scott Rodino approval and other regulatory approvals.

AIG Global Investment Group comprises a group of international companies which provide investment advice and market asset management products and services to clients around the world. AIGGIG member companies are subsidiaries of American International Group, Inc. (AIG).

American International Group, Inc. (AIG) is the world's leading international insurance and financial services organization, with operations in approximately 130 countries and jurisdictions. AIG member companies serve commercial, institutional and individual customers through the most extensive worldwide property-casualty and life insurance networks of any insurer. In the United States, AIG companies are the largest underwriters of commercial and industrial insurance and AIG American General is a top-ranked life insurer. AIG's global businesses also include financial services, retirement services and asset management. AIG's financial services businesses include aircraft leasing, financial products, trading and market making. AIG's growing global consumer finance business is led in the United States by American General Finance. AIG also has one of the largest U.S. retirement services businesses through AIG SunAmerica and AIG VALIC, and is a leader in asset management for the individual and institutional markets, with specialized investment management capabilities in equities, fixed income, alternative investments and real estate. AIG's common stock is listed on the New York Stock Exchange, as well as the stock exchanges in London, Paris, Switzerland and Tokyo.