

10. Please provide a full and complete copy of AIG's Annual Report to Shareholders for Year 2002 and Year 2003.

RESPONSE: For access to AIG's 2003 annual report, please refer to the following website :

<http://www.sec.gov/Archives/edgar/data/5272/000095012304003302/y92059e10vk.htm>.

For AIG's 2002 annual report, please refer to the following website :

<http://www.sec.gov/Archives/edgar/data/5272/000095012303003570/y65998e10vk.txt>

Given that (i) neither AIG nor AIGGIG have any direct control over Water Service, and (ii) neither AIG nor AIGGIC own a majority of the limited partnership interests in Highstar, Hydro Star believes that AIG's annual reports do not provide financial information that is material for determining Hydro Star's fitness or capability as a manager.

WITNESS: John Stokes

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.

RESPONSE: The post-transaction Hydro Star will not be required to file financial statements as it will not be subject to any regulatory authority or jurisdiction. Hydro Star will merely be the shareholder/owner of a non-jurisdictional entity, *i.e.*, Utilities, that owns regulated operating subsidiaries.

WITNESS: John Stokes

12. Will the post-transaction Hydro Star be subject to the Securities and Exchange Commission?

RESPONSE: No

WITNESS: John Stokes & Steven M. Lubertozi



RECYCLED PAPER MADE FROM 20% POST-CONSUMER CONTENT



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 the acquiring Joint Applicants agree to the following?

RESPONSE: Because Hydro Star will govern and control Utilities, which controls Water Service, Hydro Star will express its willingness to commit in response to the questions below. Notwithstanding the foregoing, we do not feel that it is either appropriate or necessary for Highstar to make these commitments based on Highstar's limited and indirect role in the control of Water Service.

- a. Will the acquiring Joint Applicants commit to not declare and pay dividends out of capital or unearned surplus without prior approval of the Kentucky PSC?

RESPONSE: Hydro Star, Utilities, and Water Service will so commit.

- b. Will the acquiring Joint Applicants commit to maintain and house Water Service's books and records in Kentucky?

RESPONSE: Currently Utilities maintains and houses a majority of Water Service's books and records at their corporate headquarters located in Northbrook, IL. Utilities, Inc. will continue to maintain and house these records in Northbrook, IL. However, certain operational data will continue to be maintained and housed in Kentucky.

Q13c

- c. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star, Utilities, and Water Service will so commit.

- d. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star, Utilities and Water Service will commit that they will comply with all applicable Kentucky statutes, regulations, and case law concerning whether a utility must obtain PSC approval prior to transferring utility assets.

- e. Will the acquiring Joint Applicants commit that neither Water Service nor its ratepayers, directly or indirectly, will incur any additional costs, liabilities, or obligations in conjunction with this transaction?

RESPONSE: Hydro Star and Utilities will so commit.

- f. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star and Utilities will so commit.

Q13

- g. Will the acquiring Joint Applicants 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.?

RESPONSE: Hydro Star and Utilities will so commit.

- h. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star, Utilities and Water Service will so commit insofar as it relates to Hydro Star or Utilities bonds (but not to AIG bonds).

- i. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star, Utilities and Water Service will commit that Water Service will not incur additional indebtedness or issue any additional securities to finance any part of the purchase price paid for Nuon USA's stock. Hydro Star, Utilities and Water Service do not intend to pledge any assets of Water Service to finance any part of the purchase price paid for Nuon USA's stock.

Q13

- j. Will the acquiring Joint Applicants commit that the payment for Utilities Inc.'s stock will not be recorded on Water Service's books?

RESPONSE: Hydro Star, Utilities and Water Service will so commit.

- k. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star, Utilities and Water Service will so commit.

- l. Will the acquiring Joint Applicants 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?

RESPONSE: Hydro Star, Utilities and Water Service will so commit.

WITNESS: John Stokes & Steven M. Lubertozzi

14. Do the acquiring Joint Applicants plan to create any additional corporations as part of this transaction? In answering this question, include any new corporations that the acquiring Joint Applicants 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.

RESPONSE: Hydro Star is the only entity formed by the Fund as part of this transaction. Currently, the Fund does not plan to create additional Hydro Star subsidiaries as part of this transaction.

WITNESS: John Stokes

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.

RESPONSE: Water Service entered into an affiliate agreement with Water Service Corporation. Water Service Corporation is an operating subsidiary of Utilities, Inc. and provides all billing, accounting, administration, regulatory and operational services to Utilities, Inc.'s group of companies.

WITNESS: Steven M. Lubertozi

16. Are there 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.

RESPONSE: Neither the Fund nor Hydro Star intend to terminate or alter any of Utilities's or Water Services existing affiliate agreements or contracts as part of the transaction.

WITNESS: John Stokes & Steven M. Lubertozi

17. Will Utilities, Inc. or Water Service be 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.

RESPONSE: No

WITNESS: John Stokes & Steven M. Lubertozi

