

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NUMBER S-32297

UTILITIES INC. OF LOUISIANA AND LOUISIANA WATER SERVICE, INC. EX PARTE

Docket Number S-32297 In re: Utilities Inc. of Louisiana and Louisiana Water Service, Inc., ex parte. In re: Request for a Letter of Non-Opposition regarding the indirect change of control of UIL and LWS.

(Decided at the June 28, 2012 Business and Executive Session)

Overview

On April 16, 2012, Utilities Inc. of Louisiana (“UIL”) and Louisiana Water Service, Inc. (“LWS”) (collectively referred to as “the Companies”), filed a request with the Louisiana Public Service Commission (“the Commission”) seeking the Commission’s approval or non-opposition to a proposed change of control of the Companies as a result of the change of control of 100% of the membership interests of Hydro Star LLC (“Hydro Star”) to Corix Utilities (Illinois) LLC (“Corix”). Notice of the parties’ request was published in the April 27, 2012 edition of the Commission’s Official Bulletin with an intervention period of 15 days. No interventions or protests were received during the intervention period.

Utilities, Inc. is the sole stockholder of UIL and LWS. Both UIL and LWS are subject to the Commission’s regulatory jurisdiction. For the last several years, Utilities, Inc.’s stock has been owned by Hydro Star Holdings Corporation (“HSHC”), which is in turn wholly owned by Hydro Star. Hydro Star’s membership interests are currently held by Highstar Capital Fund II, L.P., and certain affiliates and co-investors (collectively, “the Sellers”).

The Sellers have agreed to sell 100% of the membership interests in Hydro Star to Corix. The proposed sale of membership interests contemplated by the PSA will result in an indirect change in the ownership of Utilities, Inc. and its subsidiaries, including LWS and UIL. Even after consummation of the sale, Utilities, Inc. will continue to own all of the stock of LWS and UIL. Further, Utilities, Inc. will continue to be wholly owned by HSHC. In turn HSHC will be owned either by Hydro Star, or indirectly by Corix. Stated differently, the change of control will be several levels up from LWS and UIL. The number of employees and the day-to-day operations of LWS and UIL will not be affected by the proposed sale.

Applicable Law

The Commission exercises jurisdiction over public utilities in Louisiana pursuant to Article IV, Section 21(B) of the Louisiana Constitution, which states:

The commission shall regulate all common carriers and public utilities and have such other regulatory authority as provided by law. It shall adopt and enforce reasonable rules, regulations and procedures necessary for the discharge of its duties, and shall have other powers and perform other duties as provided by law.

In the Commission's March 18, 1994 General Order, the Commission established a list of eighteen factors to be considered when determining whether or not to approve the transfer of ownership or control of property belonging to public utilities and common carriers subject to the Commission's jurisdiction if the value of the property transferred would exceed one percent (1%) of the gross assets of the regulated utility or common carrier. These standards are designed to ensure that all mergers and acquisitions are in the best interest of the ratepayers, and require the Commission to consider:

- 1) Whether the transfer is in the public interest;
- 2) Whether the purchaser is ready, willing and able to continue providing safe, reliable and adequate service to the utility's ratepayers;
- 3) Whether the transfer will maintain or improve the financial condition of the resulting public utility or common carrier;
- 4) Whether the proposed transfer will maintain or improve the quality of service to public utility or common carrier ratepayers;
- 5) Whether the transfer will provide net benefits to ratepayers in both the short term and the long term and provide a ratemaking method that will ensure, to the fullest extent possible, that ratepayers will receive the forecasted short and long term benefit;
- 6) Whether the transfer will adversely affect competition;
- 7) Whether the transfer will maintain or improve the quality of management of the resulting public utility or common carrier doing business in the State;
- 8) Whether the transfer will be fair and reasonable to the affected public utility's or common carrier's employees;
- 9) Whether the transfer would be fair and reasonable to the majority of all affected public utility or common carrier shareholders;
- 10) Whether the transfer will be beneficial on an overall basis to State and local economies and to the communities in the area served by the public utility or common carrier;

- 11) Whether the transfer will preserve the jurisdiction of the Commission and the ability of the Commission to effectively regulate and audit the public utility's or common carrier's operations in the State;
- 12) Whether conditions are necessary to prevent adverse consequences which may result from the transfer;
- 13) The history of compliance or noncompliance that the proposed acquiring entity or principals or affiliates have had with regulatory authorities in this State or other jurisdictions;
- 14) Whether the acquiring entity, persons, or corporations have the financial ability to operate the public utility or common carrier system and maintain or upgrade the quality of the physical system;
- 15) Whether any repairs and/or improvements are required and the ability of the acquiring entity to make those repairs and/or improvements;
- 16) The ability of the acquiring entity to obtain all necessary health, safety and other permits;
- 17) The manner of financing the transfer and any impact that may have on encumbering the assets of the entity and the potential impact on rates; and
- 18) Whether there are any conditions which should be attached to the proposed acquisition.

Staff's Recommendation

After reviewing the parties' application, Staff believes that the proposed acquisition of UIL and LWS by Corix meets the criteria of the March 1994 General Order and that it is in the public interest, primarily because the daily operations of the Companies will not be affected. The acquisition of Hydro Star by Corix will not result in any change in management of UIL and LWS, and local management of the Companies is due to remain in place. The Companies have further represented that Corix is ready, willing and able to ensure that UIL and LWS continue to provide safe, reliable and adequate service to their respective customers.

The proposed sale of the membership interests in Hydro Star should also maintain the financial condition of Utilities, Inc., thereby preserving the financial condition of UIL and LWS. Corix's ultimate parent is Corix Infrastructure Inc. and its affiliates, which currently manage over \$750 million in assets. Moreover, the proposed change of control should be seamless and transparent to the Companies' respective customers, who should receive net benefits in the form of enhanced technical and industrial expertise in all facets of sustainable water, wastewater and energy systems. The Companies' respective rates will also remain unchanged. Since the

proposed transaction does not involve the merger or elimination of any Louisiana water and/or sewer systems, competition should not be adversely affected.

The Companies have also represented that the proposed transaction will not change the direct control or ownership of UIL or LWS, and that it is not contemplated that positions will be eliminated at either company. Thus, the proposed sale should maintain quality of management, and be fair and reasonable to both the Companies' respective employees and to the parties to the transaction. UIL and LWS have further represented that the sale of Hydro Star's membership interests will not adversely affect the State or local economies, and since the proposed transaction does not involve a transfer of facilities or land owned or occupied by either company, this Commission's jurisdiction should not be affected.

According to the Companies, there are no conditions present in the proposed transaction that will result in adverse consequences. The Companies also have a history of compliance with Commission Orders and with regulatory authorities, and Corix's management of assets suggests that it will be financially able to operate Utilities, Inc., to maintain and/or upgrade the quality of the Companies' respective facilities, and to make any repairs to those systems that may become necessary. Because the proposed transaction should not affect the operation or management of the Companies, there is no reason to believe that UIL or LWS will need to obtain new health, safety or other permits. Finally, because Corix will pay cash for the outstanding membership interests of Hydro Star, the proposed sale should not encumber the assets of UIL and LWS, and indeed the Companies have represented that there shall be no impact on rates.

Accordingly, Staff filed a Memorandum into the official record for this Docket on May 18, 2012. In said Memorandum, Staff recommended that the proposed letter of approval/non-opposition be issued, subject to the following conditions:

1. Corix shall provide the Commission's Staff with a signed copy of all the purchase documentation within 30 days from the acquisition date.
2. The value of Utilities Inc. of Louisiana and Louisiana Water Service shall be recorded on Corix's books and records at the lower of the net book value or acquisition cost at the time of the transfer, and Corix shall maintain all accounting records to verify the sale.

Commission Consideration

The proposed transaction was considered by the Commission at its June 28, 2012 Business and Executive Session. On motion of Commissioner Skrmetta, seconded by Commissioner Field, and unanimously adopted, the Commission voted to accept the Staff Recommendation and approved the proposed change of control transaction, and authorized Staff to issue a letter of approval and/or non-opposition accordingly.

IT IS THEREFORE ORDERED THAT:

1. The Commission expresses its approval of and non-opposition to the acquisition of Hydro Star LLC by Corix Utilities (Illinois) LLC;
2. The Commission Staff shall accordingly issue to Utilities Inc. of Louisiana and Louisiana Water Service, Inc. a letter of non-opposition to the acquisition and change of control; and
3. Within 30 days from the acquisition date, Corix Utilities (Illinois) LLC shall provide the Commission's Staff with a signed copy of all purchase documentation;
4. The value of Utilities Inc. of Louisiana and Louisiana Water Service, Inc. shall be recorded on books and records of Corix Utilities (Illinois) LLC at the lower of the net book value or acquisition cost at the time of the transfer, and Corix Utilities (Illinois) LLC shall maintain all accounting records to verify the sale; and
5. This Order shall be effective immediately.

**BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA**

July 5, 2012

/s/ Foster L. Campbell
District V
Chairman Foster L. Campbell

/s/ James M. Field
District II
Vice-Chairman James M. Field

/s/ Lambert C. Boissiere, III
District III
Commissioner Lambert C. Boissiere, III

/s/ Eric F. Skrmetta
District I
Commissioner Eric F. Skrmetta

/s/ Clyde C. Holloway
District IV
Commissioner Clyde C. Holloway


Eve Kahao Gonzalez
Secretary