

Water Service Corporation of Kentucky
Case No. 2012-00133
Commission Staff's First Set of Information Requests

24. Describe how the Joint Applicants will ensure against:
- a. The cross-subsidization of non-regulated activities by Water Service.
 - b. The diversion of management talent away from Utilities to Corix, and/or its affiliates.
 - c. Corix's adjustment of Utilities' or Water Service's capital structure in a manner that could adversely affect Water Service's cost of capital and financial integrity.
 - d. Corix's adjustment of Utilities' or Water Service's dividend policy in a manner that could adversely affect Water Service's financing requirements, financing capabilities, and financial integrity.
 - e. Corix's refusal to provide necessary capital to Utilities or Water Service that could severely impair Water Service's ability to provide utility services.
 - f. Water Service's guaranteeing of the debt of Corix or its affiliates that could unnecessarily place in jeopardy Water Service's financial position and resources.
 - g. A failed or failing unregulated affiliate adversely affecting Utilities' and/or Water Service's operating and financial condition.
 - h. Restrictions or limitations upon the Commission's access to the books and records of Corix, Utilities, and its other affiliates and subsidiaries.
 - i. Restrictions or limitations upon the Commission's ability to monitor significant transfers of utility assets, business ventures of Corix and its affiliates, and other major transactions.
 - j. Restrictions or limitations upon the Commission's ability to obtain periodic and special reports from Corix, Utilities, and its other affiliates and subsidiaries to assist the Commission with its monitoring activities.

Responses:

- a. Objection. The information sought is not relevant to the case pending before the Commission. The transaction will have no impact on the ability of the Commission to ensure the proper allocation of costs to any non-regulated activities that might be undertaken by WSKC. Without waiving this objection, the Applicants state the following: It is anticipated that WSKC will continue to have an intercompany allocation agreement in the future, and the Commission will continue to have the ability to ensure proper allocation of costs.
- b. As part of a larger entity, the employees of Corix and of UI will have more opportunity to learn, grow, and advance in their careers. The Applicants believe that rather than management talent leaving, UI employees will be enriched with access to the combined knowledge and talents of the combined entity. To the extent that any UI employees chose to pursue employment opportunities (through Corix or elsewhere), UI will ensure that its management operations are maintained with competent staff.
- c. The capital structure of UI will not be affected by the transaction, and the current financial arrangements for UI will remain in place.
- d. UI and WSKC does not currently have a formal dividend policy, and there is no anticipated change when the transfer occurs.
- e. Corix is backed by financially sound investors who are interested in long-term, stable returns as offered by investments in utilities. This alignment of Corix and UI utility operations ensures access to capital to fund utility projects.

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f. Water Service will not be required to guarantee the debt of Corix or its affiliates.

g. Corix Infrastructure Inc. is involved in a number of businesses across North America. These businesses are all related to utilities and utility infrastructure and include a range of products, markets, and span a large geographic area. While no utility or company is immune to an unforeseen adverse event, this diversity provides Corix with a significant level of protection in its operations. An example of this is how well the company weathered the recent downturn in the economy in 2008 with little or no impact on our utility operations. Corix is well positioned to continue to grow and thrive in the years ahead.

h. The Commission will continue to have full access to the books and records relevant to WSCK's rates and service.

i. The transaction will not impair the current ability of the Commission to monitor or to require information from WSCK that is necessary for the Commission to undertake regulatory oversight.

j. The transaction will in no way fetter the ability or the powers of the Commission to undertake its regulatory mandate as determined by statute or law to ensure the interests of utility customers are protected.

Objection – Legal
Witness – Steve Lubertozi

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25. Provide all reports related to the proposed acquisition that financial advisors submitted to Corix Infrastructure, Corix Infrastructure affiliates, or Hydro Star.

Response: Objection. The documents sought and information contained therein (1) are not relevant to this case, (2) are not reasonably calculated to lead to discoverable information, and (3) are protected by the attorney-client privilege and work product doctrine.

Objection – Legal

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26. Provide all materials that Corix Infrastructure, Corix, 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 such documents exist.

Witness – Steve Lubertozi

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27. a. Provide a schedule showing the excess deferred income taxes for Utilities and Water Service as of December 31, 2011 and the date of this Order.
- b. Describe all effects that the proposed transfer will have on Water Service's and Utilities' excess deferred income taxes.

Responses:

- a. UI and WSCK have no excess deferred income taxes.
- b. The proposed transfer will have no impact on UI's or WSCK's excess deferred income taxes, because none exist.

Witness – Steve Lubertozi

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28. a. Provide the total costs related to the proposed transaction that Corix Infrastructure, Corix Infrastructure's affiliates and Hydro Star have incurred as of the date of this Order.

b. Provide the total costs related to the proposed transaction that Corix Infrastructure, Corix Infrastructure's affiliates, and Hydro Star expect to bear.

Response: Objection. The information sought is not relevant to this case. The transaction costs will not be included in customer rates and, therefore, have no relevance to the application.

Objection – Legal

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29. a. State whether Corix's acquisition of Hydro Star 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.

Responses:

- a. Objection. The information requested is not relevant to the case pending before the Commission because the Applicants have already indicated that they will not seek to recover transaction costs from WSCK's customers. *See* Application ¶ 22. In addition, the information requested is not reasonably calculated to lead to discoverable information.
- b. See response to 29(a) above.

Objection – Legal

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30. Provide all letters, analyses, notes, memoranda, studies, and related documents that Corix Infrastructure or its affiliates prepared, or commissioned to be prepared, and that discuss the price to be paid for the Hydro Star stock.

Response: Objection. The documents sought and information contained therein are not relevant to this case and are not reasonably calculated to lead to discoverable information. The documents also contain information that is protected by the attorney-client privilege and work product doctrine.

Objection – Legal

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31. a. Describe the internal standards and policies of Corix (including its subsidiaries and affiliates) 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.

Responses:

a. Corix maintains service and water quality standards that meet or exceed the standards required in, and that are subject to the oversight of the regulatory agencies in, the states and provinces where it has utility operations.

b. In Alaska, Corix meets the drinking water regulations set forth by the Alaska Department of Environmental Conservation and the Environmental Protection Agency. In British Columbia, Corix meets the standards of the British Columbia Ministry of Environment and the British Columbia Ministry of Health, specifically the Vancouver Island Health Authority, the Vancouver Coastal Health Authority, Fraser Health Authority, and Interior Health Authority. In Alberta, Corix meets the regulations set out by the Alberta Environment and Sustainable Resource Development and Alberta Health ministries.

Witness – Steve Lubertozi