DOCKET NO. 05-0522

DIRECT TESTIMONY OF Steven M. Lubertozzi

I. Background And Purpose

Q. Please state your name, title and business address.

A. Steven Lubertozzi, Director, Regulatory Accounting.
Utilities, Inc., 2335 Sanders Rd., Northbrook, IL 60062

Q. What are the responsibilities of your current position?

A. My responsibilities encompass all aspects of utility commission regulation in sixteen of the states where UTILITIES, INC. has operations. (Georgia does not regulate water and sewer utilities.) My regular duties include the preparation of rate case applications, coordinating state utility commission audits, developing and delivering testimony before state utility commissions, obtaining commission approval of territory expansions, utility system transfers, participation in rule-making proceedings, and keeping apprised of industry trends and current events. In addition to the regular duties listed above, I am also responsible for securing the necessary state utility commission approvals of the stock purchase agreement between HYDRO STAR, LLC ("HS") and NUON GLOBAL SOLUTIONS USA BV ("NGS").

Q. Please describe your work experience and education.

A. I have been employed by UTILITIES, INC. since June of 2001 and have testified before many state utility commissions, including the Illinois Commerce Commission. I have testified on several subjects, including cost of service, rate

design and cost of capital. In my present position as Director of Regulatory Accounting, I am responsible for all aspects of utility commission regulation for all of UTILITIES, INC.'s subsidiaries. Since that time I have been involved in many phases of rate-making in several regulatory jurisdictions. I am a Certified Public Accountant. I graduated from Indiana University in 1990. I had four years of public accounting/financial analysis experience prior to joining Utilities, Inc. and I am a member of the American Institute of Certified Public Accountants. I have attended utility regulation seminars sponsored by National Association of Regulatory Utility Commissioners on Water and the American Water Works Associations,

Q. What is the purpose of your testimony?

A. To support the Joint Application for Approval of the Stock Purchase Agreement Between HYDRO STAR, LLC and NUON GLOBAL SOLUTIONS USA BV, by which HYDRO STAR, LLC will acquire control of NUON GLOBAL SOLUTIONS USA, INC. ("NGSI"), the parent of UTILITIES, INC. (the "Transaction")

II. Overview of Testimony

Q. Please describe the testimony that the Joint Applicants are submitting in support of the Joint Application.

A. The testimony demonstrates that the Transaction is consistent with the public interest and the requirements of Illinois law. My testimony discusses service quality issues, showing that the Transaction will not diminish the ability of UTILITIES, INC., through its Illinois Operating Subsidiaries ("Illinois Subsidiaries"), to provide adequate, reliable, efficient, safe and least cost service

in Illinois. I will also describe in detail how the merged company will remain subject to regulation by this Commission and all applicable laws of Illinois. My testimony discusses the estimated costs and savings resulting from the Transaction. I will explain why there is no anticipated need to allocate costs and savings between the company's utility and non-utility activities. I will also show that the Transaction will not result in the unjustified subsidization of non-utility activities by the Illinois Subsidiaries.

Finally, my testimony explains why the Transaction will not require this Commission to impose any additional terms, conditions or requirements, and also shows that the Transaction will not result in any adverse rate impacts on retail customers.

Q. Do the Joint Application and your testimony address and satisfy each element of Section 7-204 of the Illinois Public Utilities Act, 220 ILCS 5/1-101 et seq. ("Act")?

A. Yes, they do.

III. Overview Of HS , NGS and Utilities, Inc.

Q. Please describe HS.

A. HS is a limited liability company created and existing under the laws of the State of Delaware. HS is owned by AIG Highstar Capital II, L.P. (Highstar II) and certain of its affiliates. Highstar II is a limited partnership created and existing under the laws of the State of Delaware and sponsored by AIG Global Investment Group (AIGGIG). AIGGIG is an indirect subsidiary of American International Group, Inc., a Delaware corporation.

Q. Please describe NGS.

A. NGS is a limited liability company created and existing under the laws of the Netherlands. NGS is a wholly-owned subsidiary of nv Nuon ("NUON"), a Dutch public company with limited liability.

Q. Please describe UTILITIES, INC.

A. UTILITIES, INC. is a privately held Illinois corporation that operates as a water and sewer utility holding company. UTILITIES, INC. has been involved in the water and sewer industry for 40 years. UTILITIES, INC. owns approximately 75 operating companies spread throughout 17 states, including: Illinois, Arizona, Florida, Georgia, Indiana, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Nevada, New Jersey, Ohio, Pennsylvania, South Carolina, Tennessee and Virginia. Together, those operating companies provide safe and reliable water and sewer services to approximately 300,000 customers.

The Illinois Subsidiaries are public utilities regulated by this Commission pursuant to the Act.

IV. Summary Of The Transaction

A. Structure And Implementation Of The Parent Company Transaction

Q. Please describe the structure of the Transaction between HS and NGS.

A. As a result of discussions between HS and NGS concerning the possible acquisition of NGSI by HS, HS and NGS entered into a Stock Purchase Agreement, dated May 14, 2005. Pursuant to and in accordance with the terms of the Agreement, each issued and outstanding share of NGSI stock will be acquired by HS. As a result of the Transaction, the separate corporate existence of UI shall continue, and UI shall be a wholly-owned subsidiary of HS. From and

after the effective time of the Transaction, all rights, duties and obligations of UI existing before the Transaction will continue and UI will remain the owner of the UI Operating Subsidiaries. UI will continue to maintain its headquarters in Northbrook, Illinois and will retain its current management. With respect to the UI Operating Subsidiaries, the Transaction occurs entirely "above the holding company level," that is, none of the assets or securities of UI or any UI Operating Subsidiary will be transferred or sold as a result of the Transaction. The Transaction will change only the ultimate owner of the stock of NGSI. Thus, no certificate of public convenience and necessity will need to be issued or cancelled due to the Transaction.

Q. How will UTILITIES, INC. be operated until the Transaction is completed?

A. Until the Transaction is completed, UTILITIES, INC. will continue to operate as a subsidiary of NGS. It will be business as usual for UTILITIES, INC.'s operations. The Transaction will not occur until all necessary regulatory approvals have been obtained.

B. Merged Company Characteristics And Transaction Financing

Q. Please explain the process for integrating HS and UTILITIES, INC.

A. The integration of the two entities will be transparent to customers, regulators and employees. HS's acquisition of UTILITIES, INC. through its acquisition of NGSI is simply an indirect shareholder substitution. Because HS does not have any other water or wastewater utilities in the United States, there will be no office consolidations or work-force reductions resulting from the Transaction.

Q. Do you believe that the management teams from HS and UTILITIES, INC. will be able to integrate the companies' operations smoothly?

A. Yes. As I explained above, as a result of the proposed Transaction, no change in the employees who operate the Illinois Subsidiaries (and UTILITIES, INC.'s subsidiaries in other states) will occur, nor will a change in the manner of operation occur.

Q. Please describe some of the financial and operating characteristics of the merged company.

A. Similar to what I have explained above regarding the operating characteristics of the merged entity, there will be little change in the financing activities of UTILITIES, INC. UTILITIES, INC. will continue to raise capital for the Illinois Subsidiaries as well as the other UTILITIES, INC. subsidiaries. The Transaction will not impair the UI's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure. It is anticipated that the Transaction may in fact enhance the ability to access the capital markets on reasonable terms. While UI will continue to provide necessary capital to the UI Operating Subsidiaries, the Transaction may enhance the UI Operating Subsidiaries' ability to effectively access capital. UTILITIES, INC. will continue to manage its capital in a prudent and efficient manner. Equity capital will come from reinvested earnings of the UTILITIES, INC. group of companies. Debt capital will be obtained by UTILITIES, INC. from banks and institutional lenders such as large insurance companies. As of December 31, 2004, UTILITIES, INC. had a

debt/equity ratio of 56/44. That ratio is reasonable when compared to the capital structure that UTILITIES, INC. has maintained in the past.

C. Impact on the Illinois Subsidiaries

Q. How will the Transaction influence the operations of the Illinois Subsidiaries?

A. The substitution of shareholders should have no significant direct influence on the Illinois Subsidiaries' operations in Illinois. Moreover, nothing in the proposed Transaction changes the ongoing obligations of the Illinois Subsidiaries to provide quality service in Illinois at just and reasonable rates. The transactions necessary to complete the Transaction will not change the relationship of the regulated Illinois Subsidiaries with the Commission: they will simply become second tier subsidiaries of HS. No operations, lines, plants, franchises or permits of the Illinois Subsidiaries will merge with the lines, plants, franchises or permits of any HS subsidiary. The Transaction will not require any change in the rates, terms, or conditions for the provision of any services provided in Illinois. If the merged company seeks to make any such changes, the Illinois Subsidiaries will file all necessary applications with the Commission to ensure compliance with all statutory obligations in Illinois. Lastly, neither the accounting nor tax-reporting methods of UTILITIES, INC. and its subsidiaries will change as a result of the proposed Transaction. The Illinois Subsidiaries will continue to use the Uniform System of Accounts as required by this Commission.

Q. How will the Transaction affect employment at the Illinois Subsidiaries?

A. The Transaction is not expected to have a material impact on employment. The Illinois Subsidiaries rely on Water Service Corp. ("WSC"), an affiliate of

UTILITIES, INC., for essentially all operational services. WSC provides these services to the Illinois Subsidiaries pursuant to a contract originally approved by the Commission on March 14, 1979 and approved as modified by the Commission in Docket No. 94-0157. The Transaction will not impact WSC or its contract with the Illinois Subsidiaries. Any workforce changes that do occur are expected to result from influences encountered in the ordinary course of business (*i.e.* from attrition, retirements, and other voluntary measures), and thus the Transaction should not have a material impact on the personnel available to the Illinois Subsidiaries.

V. Benefits Of The Transaction

Q. What are the benefits of the Transaction to Illinois consumers?

A. HS's indirect ownership of the UI Operating Subsidiaries will enhance the reliability, efficiency and safety of service provided to the customers in the UI Operating Subsidiaries' service territories. This will be achieved primarily through access to the financial resources of HS. UI, when owned by HS, will remain committed to providing adequate, efficient, safe and least-cost service to its customers. UI will continue to provide seasoned management and necessary funding to the UI Operating Subsidiaries. The Transaction will therefore not adversely affect the UI Operating Subsidiaries' ability to provide adequate, reliable, efficient, safe and least-cost public utility services.

Section 7-204(b)(1)

Q. Are you familiar with Section 7-204(b)(1) of the Act?

A. Yes. It states that the Commission cannot approve a reorganization of a public utility unless it finds that the reorganization will not diminish the company's ability to provide adequate, reliable, efficient, safe and least-cost public utility service.

Q. Will UTILITIES, INC.'s ability to provide adequate, reliable, efficient, safe and least-cost service diminish if the Transaction is approved?

A. No. As I stated earlier, the proposed Transaction will not impact the manner in which the Illinois Subsidiaries are operated. The Illinois Subsidiaries will continue to provide the same high quality service to their customers and the Transaction will not result in any lowering of service quality. The Transaction is a parent company Transaction and will only result in HS acquiring indirect control over the Illinois Subsidiaries. Because the Illinois Subsidiaries' relationship with WSC will not be affected by the Transaction, the Illinois Subsidiaries will rely on essentially the same management, technology, processes and people that are providing high quality service today. As such, the current high quality of service enjoyed by UTILITIES, INC.'s customers will continue after the Transaction.

Section 7-204(b)(2)

Q. Are you familiar with Section 7-204(b)(2) of the Act?

A. Yes. It requires that "the proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers." The proposed Transaction will not result in any subsidization of non-utility activities by the utility or its customers. As an initial matter, the Illinois Subsidiaries currently do not engage in any unregulated activities. The only unregulated activity of any UTILITIES, INC. operating subsidiary is a sludge hauling operation in the

Columbia, South Carolina area. Further, UTILITIES, INC. has in place cost allocation procedures to allocate costs to the various business units. These procedures prevent any subsidization of non-utility activities by the Illinois Subsidiaries or their customers. The allocation procedures conform to UTILITIES, INC.'s affiliate contracts. These procedures were reviewed and accepted by the Commission in prior rate case orders.

Q. Will UTILITIES, INC.'s cost allocation processes change once the proposed Transaction is consummated?

A. No changes are foreseen at this time. These procedures will continue to comply with all Commission regulations, including those applicable to affiliate transactions. Accordingly, the Transaction will not result in subsidization of non-utility activities by utility operations.

Section 7-204(b)(3)

Q. Are you familiar with Section 7-204(b)(3) of the Act?

A. Yes. Section 7-204(b)(3) requires the Commission to find that "costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the utility for rate-making purposes." As I discussed above, UTILITIES, INC.'s cost allocation procedure complies with the Commission's rules. Also, these procedures were examined and accepted by the Commission Staff in prior rate case orders. The proposed parent company Transaction will not change the legal entity status of the Illinois Subsidiaries. Furthermore, as I discussed above, the Transaction will not materially alter the

procedures used to account for and allocate company costs. Even if these procedures change in the future, they will continue to comply with all Commission regulations, including those applicable to affiliate transactions.

Section 7-204(b)(4)

Q. Are you familiar with Section 7-204(b)(4) of the Act?

A. Yes. It requires the Commission to find that “the proposed reorganization will not significantly impair the utility’s ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure.”

Q. Will the Transaction impair the ability of the Illinois Subsidiaries to raise necessary capital on reasonable terms or to maintain a reasonable capital structure?

A. No. The Transaction will not impair the Illinois Subsidiaries’ ability to raise necessary capital at all, let alone "significantly." The Transaction will be effected by a stock purchase at the parent company level. As I mentioned above, UTILITIES, INC. will continue to be responsible for raising capital and the Transaction will have no adverse impact on the ability of UTILITIES, INC. to either raise capital on reasonable terms or to maintain a reasonable capital structure. In fact, the merged company will have considerable financial strength and may possess an increased ability to raise capital and maintain a capital structure adequate to meet its operational needsWith merged total assets of over $7.8 billion and operating revenues of over $3.4 billion, the merged company's debt rating is expected to be as good as or even better than either company's

debt rating. UTILITIES, INC. and HS will not need to issue bonds or otherwise assume any new indebtedness to finance the Transaction.

Q. Does the Transaction require the sale of any assets of the Illinois Subsidiaries?

A No. Because the Transaction involves a stock purchase at the parent company level only, it does not require the sale, assignment, or transfer of any property of the Illinois Subsidiaries.

Section 7-204(b)(5)

Q. Are you familiar with Section 7-204(b)(5) of the Act?

A. Yes. It provides that the Commission must not approve a reorganization of a public utility unless it finds that the utility "will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities."

Q. Will the Illinois Subsidiaries remain subject to applicable laws, regulations, rules, decisions and policies after the Transaction, as required by Section 7-204(b)(5)?

A. Yes. As I mentioned above, the Transaction is only a parent company Transaction, with no change in the legal status of UTILITIES, INC.'s operating entities. Accordingly, the Illinois Subsidiaries will be subject to the same laws, regulations, rules, decisions and policies after the Transaction that they were subject to before the Transaction.

Section 7-204(b)(6)

Q. Are you familiar with Section 7-204(b)(6) of the Act?

A. Yes. That section of the Act requires the Commission to find that "the proposed reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction."

Q. Will the Transaction have an adverse effect on competition in the Illinois water and sewer services market?

A. No. There will be no adverse effect on competition at all, let alone a "significant" adverse effect. HS does not offer any water or sewer services in Illinois, and the Transaction will not result in the elimination of an actual competitor in the water and sewer services market.

Q. Will the Transaction eliminate a significant potential competitor in the Illinois water and sewer services market?

A. No. HS had no plans to enter the water or sewer markets in Illinois, nor was it even authorized to provide such services anywhere in Illinois. Moreover, HS does not have any customer relationships or existing on-site facilities in Illinois. As a result, mass-market entry by HS into UTILITIES, INC.'s Illinois service areas is not feasible.

Q. Will the Transaction further concentrate the Illinois Subsidiaries' position in the market for water and/or sewer services in Illinois?

A. No. As mentioned above, the Transaction will not change the number of companies providing (or controlling the provision of) water and sewer services in Illinois. Thus, no concentration will occur.

Section 7-204(b)(7)

Q. Are you familiar with Section 7-204(b)(7) of the Act?

A. Yes. That Section requires the Commission to find that "the proposed reorganization is not likely to result in any adverse rate impacts on retail customer rates."

Q. Will the proposed Transaction have any adverse impacts on customer rates?

A. No. The Joint Applicants do not contemplate any rate increases as a result of the proposed Transaction. Additionally, the Joint Applicants do not seek recovery of Transaction costs. Therefore, as proposed, the Transaction will not result in an increased cost of service or any increases in retail rates.

Q. Are the Joint Applicants requesting to consolidate rates, tariffs, or operations?

A. No. The Joint Application requests approval of a parent company Transaction. It does not seek approval of legal entity, tariff, rate or financial consolidation. Approval of the proposed Transaction will not change the Commission's regulation of the Illinois Subsidiaries. Further, no approval for changes to rates or tariffs is sought.

Section 7-204(c)

Q. Are you familiar with Section 7-204(c) of the Act?

A. Yes. Section 7-204(c) states:

> The Commission shall not approve a reorganization without ruling on: (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated.

Q. What does Section 7-204(c) require this Commission to do with respect to the proposed Transaction?

A. Section 7-204(c) directs the Commission to rule on the allocation of savings resulting from the Transaction and to determine whether costs incurred in accomplishing the Transaction should be recovered and, if so, how those costs should be allocated.

Q. Do you anticipate any savings to result from the proposed Transaction?

A. No. This Transaction, which occurs entirely at the parent company level, will most likely not result in any savings because, aside from having no operations in Illinois, HS has no utility management. Accordingly, no duplication of functions will occur on account of the Transaction, and thus no savings can result on account of elimination of any redundancies. Any Transaction savings that do occur will be passed on to rate-payers in later rate proceedings.

Q. Will recovery of any Transaction costs be sought?

A. No. The Joint Applicants will not seek recovery of any Transaction costs for rate-making purposes.

Q. How should Transaction savings and costs be allocated?

A. As explained above, no material Transaction savings are expected and no recovery of Transaction costs is sought. To the extent that there are savings occasioned by the Transaction, they will be wholly reflected in the Illinois Subsidiaries' future rate cases in a manner that passes such savings to rate-payers.

Section 7-204(f)

Q. Are you familiar with Section 7-204(f) of the Act?

A. Yes. Section 7-204(f) provides that the Commission "may impose such terms, conditions or requirements as, in its judgment, are necessary to protect the interests of the public utility and its customers."

Q. Is it necessary for the commission to impose conditions on the Transaction to protect the Illinois Subsidiaries or their customers?

A. No. As the Joint Application and supporting testimony make clear, the proposed Transaction meets all the requirements of Sections 7-204(b) and (c). Thus, the Commission has a complete record before it to find that the Transaction meets the public interest criteria established by the Act. Based on my testimony, the Commission can find that the Transaction will allow the Illinois Subsidiaries to continue to provide adequate, reliable, efficient, safe and least-cost public utility service. In addition, the Commission can find that the Transaction will not result in any adverse rate impacts, that the Transaction will have no adverse impact on competition and that the Transaction will not impair the ability of UTILITIES, INC. to raise capital. In short, every factor required by Section 7-204(b), as well as every finding required by Section 7-204(c), have been met by the Joint Applicants, demonstrating generally that the Transaction is in the public interest and will result in no negative impact on the Illinois Subsidiaries or their customers. Furthermore, as I have explained above, the Transaction is a parent company transaction and is not expected to have any significant effect on the Illinois Subsidiaries. Thus, it follows that it is not "necessary" for the Commission to impose further conditions on the merged company "to protect the interests of the Illinois Subsidiaries and their customers."

Q. Does this conclude your testimony?

A. Yes it does.