

**PUBLIC SERVICE COMMISSION
STATE OF MONTANA**

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Bill Gallagher, Commissioner
Brad Molnar, Commissioner
John Vincent, Commissioner



1701 Prospect Avenue
PO Box 202601
Helena, MT 59620-2601
Voice: 406.444.6199
Fax #: 406.444.7618
<http://psc.mt.gov>
E-Mail: psc_webmaster@mt.gov

May 20, 2011

Thorvald Nelson
Holland & Hart LLP
6380 S. Fiddlers Green Circle Suite 500
Englewood, CO 80111

RE: PSC data requests in Docket D2011.1.8

Enclosed please find data requests of the Montana Public Service Commission to Carlyle Infrastructure Partners (numbered PSC-008 through PSC-027) in the above-referenced docket. If you have any questions regarding these data requests, please contact me at 444-6188 or Kate Whitney at 444-3056.

Sincerely,

Leroy Beeby
REGULATORY DIVISION

Enclosure

cc: service list

Service Date: May 20, 2011

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Consolidated) REGULATORY DIVISION
Petition by Mountain Water Company for)
Declaratory Rulings and Application for) DOCKET NO. D2011.1.8
Approval of Sale and Transfer of Stock in)
Park Water Company)

**MONTANA PUBLIC SERVICE COMMISSION DATA REQUESTS
PSC-008 THROUGH PSC-027 TO
CARLYLE INFRASTRUCTURE PARTNERS, LP**

PSC-008

Regarding: Value of transaction
Witness: Dove

- a. According to the Merger Agreement, the “Merger Consideration” will not exceed \$102 million. What is the specific value of the transaction, including any and all transaction costs?
- b. What is the book value of Park Water Co.?
- c. What is the book value of Mountain Water Co.?
- d. Is Carlyle aware of the provisions of Section 69-3-109, MCA, and that it is the policy of the Montana Public Service Commission not to allow acquisition adjustments of purchases of public utilities?
- e. Explain fully how Carlyle plans to recover the premium, if any, it will pay to acquire Park Water Co., which includes Mountain Water, without seeking an acquisition adjustment.

PSC-009

Regarding: Capital structure, dividend policy
Witness: Dove

- a. If Carlyle acquires Park, what will be the target capital structures for Park and for Mountain Water?
- b. Does Carlyle intend to maintain or improve the current capital structure of Park and Mountain? If not, explain why Carlyle will operate the utility with a different capital structure.
- c. What will be the dividend policy of the parent company of Park Water (believed to be Western Water)? Please provide a copy of policy if one exists.

- d. What is the estimated annual return that investors expect to make from the Park Water acquisition?
- e. If Park Water were to produce post-acquisition returns to Carlyle that are consistent with Carlyle's other infrastructure fund investments, what would those returns be annually?

PSC-010

Regarding: Expected return
Witness: Dove

A Washington Post article from January 3, 2008, titled "Soon, Roads Could Start Tolling for Carlyle," included the following unattributed statement: "Carlyle, with more than \$75 billion in assets under its control, views its foray into infrastructure as a low-risk way to make annual returns of about 15 percent." Does the statement accurately reflect Carlyle's view of expected annual returns from its infrastructure fund investments? If not, please specify what Carlyle's expected annual return from its infrastructure fund investments is.

PSC-011

Regarding: Carlyle Infrastructure "fact sheet"
Witness: Dove

The Carlyle Group's internet website includes a "fact sheet" for Carlyle Infrastructure Partners.

- a. Under the fact sheet's topic of "Maximize value creation post-investment" is the bulleted item, "Work closely with portfolio companies/assets to help drive value through: operational efficiencies; capital markets transactions; capital planning and analysis; and add-on acquisitions." Please explain how these methods identified by Carlyle to maximize the post-investment value of an investment will be applied to Park Water and Mountain Water.
- b. Under the fact sheet's topic of "Investment Strategy and Approach" the final bulleted item is, "Monitor and utilize various exit opportunities" with these sub-bullets: "Exit opportunities include: strategic sales; monetization/securitization; IPO." Please explain fully what each of these "exit opportunities" is and under what circumstances Carlyle would implement one of them in regard to Park and to Mountain, separate from Park.

PSC-012

Regarding: Existing pension of Mountain Water officers and employees
Witness: Dove

- a. Is the existing pension plan fully funded? If not, why not?
- b. Who controls the pension plan, how is it invested, and will it be continued at its present funding?

- c. Can the survivor company access the pension in any way, including pledging the pension as collateral for loans of the company, changing trustees to gain access or using the pension funds to invest in the company? Please explain.

PSC-013

Regarding: Other Post-Employment Benefits (OPEBs)

Witness: Dove

- a. Will the OPEBs continue to be funded at the present rates? Why or why not?
- b. Does the survivor company have any future plans to change the OPEBs? Please explain.

PSC-014

Regarding: California Docket A-11.01.019, part 1

Witness: Dove

On April 13, 2011, the Applicants in the California PUC proceeding were required by the Administrative Law Judge there to provide the following additional information regarding Carlyle Infrastructure. Please provide the same information in this Montana docket, to wit:

- a. Provide copies of the private placement or confidential offering memorandum, subscription documents, and partnership agreements, if any. (This description should be interpreted in the broadest fashion and the response should include anything substituting for, serving in lieu of, or which might be construed as equivalent to, the items described in this request.)
- b. Disclose whether Carlyle Infrastructure is subject to regulation under any federal securities acts or any other federal acts.
- c. Provide copies of the two most recent years' reports to the Securities and Exchange Commission pursuant to any federal securities acts.
- d. Provide copies of the most recent audited financial statements. (Rule 3.6(e)).
- e. Disclose and explain whether any or all of the limited partnerships are limited life entities (i.e., are not perpetual-lived entities) and if so, disclose and explain the disposition of any assets held by Carlyle Infrastructure at the time these limited partnerships dissolve or terminate.

PSC-015

Regarding: California Docket A-11.01.019, part 2

Witness: Dove

On April 13, 2011, the Applicants in the California PUC proceeding were required by the Administrative Law Judge there to provide the following additional information regarding Carlyle Infrastructure. Please provide the same information in this Montana docket, to wit:

- a. Provide organizational charts which show the management and operational structure of Carlyle Infrastructure.
- b. Disclose and explain how management of Carlyle Infrastructure is elected or appointed and by whom.

PSC-016

Regarding: Other holdings

Witness: Dove

- a. At present what, if any, are the other holdings of:
 1. PWC Merger Sub., Inc.;
 2. Western Water Holdings, LLC;
 3. Carlyle Infrastructure Partners Western Water, LP; and
 4. Carlyle Infrastructure Partners, LP.
- b. Please state whether Western Water Holdings, LLC has any other acquisitions pending and what, if any, acquisitions are anticipated within the next three years.
- c. Please describe, with particularity, the business purpose(s) for the use of PWC Merger Sub., Inc. as an entity participant in the proposed transaction.

PSC-017

Regarding: Merger Agreement schedules

Witness: Dove

Please provide copies of all schedules referenced in the “Agreement and Plan of Merger.”

PSC-018

Regarding: Employment contracts

Witness: Carlyle

- a. Please provide any employment contracts for the management team for Mountain Water.
- b. Will those contracts be renewed if the acquisition is approved? Please explain.

PSC-019

Regarding: Water companies owned by Carlyle

Witness: Dove

Your testimony states “Carlyle Group invests primarily in transportation and water infrastructure assets in the U.S. and Canada.”

- a. Please list the other water companies invested in by Carlyle, including percentage owned, date acquired, original investment amount, present market value of each, and whether publicly or privately owned.
- b. Please list the amount of infrastructure investment by Carlyle in each of the above listed companies

- c. Please list the changes in rates of the above companies since their acquisition by Carlyle. List by percent increase, docket, and year for each.
- d. Has Carlyle sold its interest in any of the water companies it has invested in? Please list original cost and selling price.

PSC-020

Regarding: Carlyle Infrastructure acquisitions

Witness: Dove

- a. Do Carlyle Infrastructure's acquisitions include any state-regulated utility companies? If so, please identify them.
- b. For each of the four Carlyle-acquired companies listed on page 5 of the California Application (included in the Montana filing), specify how long Carlyle has owned it.
- c. If any governmental entities reviewed and approved Carlyle Infrastructure's acquisitions of the four companies referred to above, provide copies of the final decisions they issued.
- d. For each of the four Carlyle-acquired companies, provide the levels of capital expenditures by category of expenditure for each year since Carlyle Infrastructure acquired the company and for the three years immediately preceding the acquisition.

PSC-021

Regarding: Jurisdiction

Witness: Dove

You indicated in your testimony Carlyle's willingness to work with the Montana PSC to adhere to all regulations regarding the operation of Mountain Water. Why then, is there a request for the Commission to disclaim jurisdiction over the sale? Please explain.

PSC-022

Regarding: Water development – Rattlesnake and Miller creeks

Witness: Dove

- a. What, if any, are the plans to develop Rattlesnake Creek, which is the backup resource for drinking water for Mountain Water?
- b. What, if any, are the plans to develop Miller Creek?
- c. Please detail the measures that will be taken to protect the water quality and wildlife that are dependent on these creeks?
- d. Will Carlyle guarantee that adequate water remains in the creeks to maintain healthy fish and bird populations, as well as recreational opportunities? Why or why not?

PSC-023

Regarding: Water quality and development

Witness: Dove

- a. Will Missoula's water resources be expanded in any way if the transaction is approved? For instance will bottling and selling Missoula water be considered? Please explain.
- b. What will be done by Carlyle to assure that the Missoula water supply remains clean, healthful and plentiful?
- c. Will the proposed transfer of ownership have any effect on the water quality presently enjoyed by the customers of Mountain Water? Please explain.

PSC-024

Regarding: Missoula concerns

Witness: Dove

- a. If the Commission were to approve the proposed transaction, and subsequently Carlyle decided to sell Mountain Water, the subsidiary of Park, would Carlyle/Park allow the City of Missoula the right of first refusal? Why or why not?
- b. What are the long-term implications (benefits/concerns) for Missoula if the sale is allowed?
- c. How will the acquisition of Park by Carlyle, whose objective is to "generate superior investment returns," affect the monthly bills of customers of Mountain Water?

PSC-025

Regarding: Environmental Defense Fund

Witness: Dove

Your testimony at page 5 referenced Carlyle's work with the Environmental Defense Fund (EDF). EDF recently reported that Carlyle used the EDF's "EcoValuScreen" evaluation tool as part of Carlyle's due diligence efforts concerning Park Water Co. Please provide a copy of the results of EDF's EcoValuScreen process.

PSC-026

Regarding: Acquisition evaluation

Witness: Dove

Describe the process by which the Carlyle Group evaluated the potential acquisition of Park Water Co.

PSC-027

Regarding: Ring-fencing

Witness: Dove

In Montana PSC Docket D2008.5.57, Order 6960a, the PSC identified the following as best practices regarding ring-fencing in a case where a holding company structure was being proposed that involved a Montana utility as a wholly-owned subsidiary:

- The regulated utility is a corporate subsidiary in a holding company structure.
- The regulated utility is placed in a Special Purpose Entity that is legally separate from any non-regulated affiliates of the parent.
- The provision of non-petition (bankruptcy) covenants by the parent.
- The regulated utility is managed separately and has a separate board of directors.
- The regulated utility's books and records are kept separate from the parent and any affiliates.
- The regulated utility has its own bank accounts and credit facilities, its own separate debt, and its own separate credit rating.
- There are limits imposed on the utility's capital structure, such as setting a minimum common equity percentage in the capital structure.
- There are limits imposed on inter-company guarantees and loans – including loans to cash management money pools.
- There are limits imposed on dividends.
- There is a written Affiliate Code of Conduct.
- Violations of ring-fencing conditions are subject to clear, effective penalties imposed by regulatory authorities.

Please provide Carlyle's view of ring-fencing in general and, to the extent each of the above provisions could apply to the Carlyle-Park proposed merger, provide Carlyle's specific view of each "best-practice" ring-fencing provision on the list.