

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF COLUMBIA)
GAS OF KENTUCKY, INC., FOR)
AUTHORITY FOR THE ISSUANCE AND) CASE NO. 9228
SALE OF PROMISSORY NOTES AND THE)
SALE OF COMMON STOCK)

O R D E R

On November 27, 1984, Columbia Gas of Kentucky, Inc., ("Columbia") filed an application seeking permission to sell common stock and Installment Promissory Notes ("Notes") to its parent, Columbia Gas System, Inc. ("System"). Columbia proposed to issue and sell to the System a principal amount not to exceed \$1,900,000 of Notes, with an interest rate equal to the actual cost of money to the System for its then most recent sale of long-term debt or preferred stock. The Notes would have the same terms as Columbia's outstanding Notes except that they would be payable in 15 equal installments beginning January 1987.

On December 18, 1984, the Commission issued an Order withholding approval of the issuance and sale of Notes to the System because the interest rate was unknown. Columbia was directed to file a statement advising the Commission of the interest rate for the Notes once it was determined.

On May 22, 1985, Columbia filed a Statement of Interest Rate, outlining the terms and interest rate of the Notes. The proposed \$1,900,000 of Notes will bear an interest rate, which

will be adjusted quarterly, based upon the interest rate paid on the System's Series D Adjustable Rate Preferred Stock. The interest rate is adjusted quarterly so that it is 110 basis points below the greater of the Treasury Bill Rate, the 10-Year Constant Maturity Rate or the 20-Year Constant Maturity Rate. That rate is then multiplied by 1.027092 to reflect the difference between the principal of the System's Series D Preferred Stock and the System's actual net proceeds.

After considering the application and all the evidence of record and being advised, the Commission is of the opinion that Columbia's proposed issuance and sale of Notes is for lawful objects within the corporate purpose of its utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes.

IT IS THEREFORE ORDERED that Columbia be and it hereby is authorized to issue and sell to the System a principal amount not to exceed \$1,900,000 of Notes, with an interest rate as set out in the Statement of Interest Rate.

IT IS FURTHER ORDERED that the proceeds from the sale of securities authorized herein shall be used only for lawful purposes as set out in the application.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 6th day of June, 1985.

PUBLIC SERVICE COMMISSION

Richard S. Norman, Jr.
Chairman

Paul H. Jones, Jr.
Vice Chairman

Joe Shelly
Commissioner

ATTEST:

Secretary