

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COLUMBIA GAS OF)
KENTUCKY, INC. FOR AUTHORITY FOR)
THE ISSUANCE AND SALE OF COMMON) CASE NO. 96-267
STOCK AND PROMISSORY NOTES)

O R D E R

On June 10, 1996, as amended June 26, 1996, Columbia Gas of Kentucky, Inc. ("Columbia") filed its application seeking authority to issue and sell up to \$17,500,000 in principal amount of Installment Promissory Notes ("Notes") and up to 320,000 shares of its common stock, par value \$25. Columbia further amended its application on August 1, 1996. Columbia now seeks to issue and sell up to \$13,030,000 in Notes and up to 320,000 shares of stock.

The proceeds will be used to assist in financing capital expenditures during 1996 in the amount of \$11,734,000 as set forth in Columbia's application; to pay \$4,571,548 in current maturities on long-term debt and other lawful corporate purposes. The proposed securities will be sold to the Columbia Gas System ("System").

The proposed Notes will be issued pursuant to a new loan agreement with System if the new agreement is approved by the System Board of Directors prior to issuance of the Notes. The interest rate on the Notes will be fixed at the effective cost of money to the System for its average sales of long-term debt during the previous calendar quarter. A default rate of 2 percent per annum in excess of the stated rate will be assessed if any

interest or principal payment becomes past due. The default rate has not always been a typical provision of Columbia's financing proposals. It originated due to the financial condition of Columbia's parent, System, and the impact of its bankruptcy filing on efforts to raise capital. The Commission does not expect this to be a regular provision in the future.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the issuance and sale by Columbia of up to \$21,030,000 in securities are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

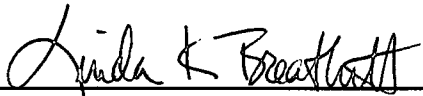
IT IS THEREFORE ORDERED that:

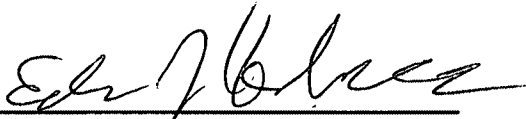
1. Columbia be and it hereby is authorized to issue and sell up to \$13,030,000 of Notes and 320,000 shares of common stock in the manner set forth in its application.
2. Columbia shall, within 30 days after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, the terms, and all fees and expenses involved in the issuance and distribution and the use of the proceeds.
3. Columbia shall agree only to such terms and prices that are consistent with said parameters as set out in its application.
4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

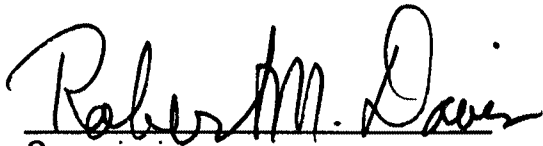
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 15th day of August, 1996.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director