COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

JOINT APPLICATION OF NISOURCE INC., NEW NISOURCE INC., COLUMBIA ENERGY GROUP AND COLUMBIA GAS OF KENTUCKY FOR APPROVAL OF A MERGER	))))	CASE NO. 2000-129

O R D E R

IT IS ORDERED that NiSource Inc. ("NiSource"), New NiSource Inc. ("New NiSource"), Columbia Energy Group ("Columbia Energy"), and Columbia Gas of Kentucky ("Columbia Gas") shall file the original and 15 copies of the following information with the Commission with a copy to all parties of record no later than May 16, 2000. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible.

1. Provide the following information with regard to NiSource, as of the date of this Order:

a. A description of each subsidiary or affiliate and the nature of that entity's business.

b. A description of the degree of government regulation over the subsidiary or affiliate.

c. The location of each subsidiary or affiliate, both the corporate office and actual operations.

d. The number of customers of each subsidiary or affiliate.

e. The number of employees for NiSource in total and for each subsidiary or affiliate.

f. A listing of the senior executive officers for NiSource and each subsidiary or affiliate, showing the corresponding corporate reporting relationships.

2. Provide the following financial information concerning NiSource:

a. A current balance sheet and income statement for the most recent reporting quarter and annual or fiscal year. This information should be provided for NiSource and all subsidiaries and affiliates, to the extent available.

b. The book value of all assets, for NiSource and all subsidiaries and affiliates, to the extent available.

c. Financial performance measures and ratios for the most recent reporting quarter and annual or fiscal year. Include, but do not limit the response to, the following measures and ratios:

(1) P/E Ratio (price divided by earnings per share).

(2) Dividend Yield (dividend yield based on present cash dividend rate).

(3) Payout Ratio (primary or basic earnings per share excluding extraordinary items paid to common shareholders in the form of cash dividends).

(4) Quick Ratio (cash plus short-term investments plus accounts receivable, divided by total current liabilities).

(5) Current Ratio (total current assets divided by total current liabilities).

(6) Interest Coverage (earnings before interest and taxes divided by interest expense).

(7) Equity Ratio (total common equity divided by total capitalization).

(8) Return on Equity (income available to common shareholders divided by common equity).

d. Bond and/or debt ratings, for both NiSource debt instruments and any separately issued debt instruments issued by subsidiaries or affiliates. Identify the rating agency or institution.

e. The dividend history of NiSource since 1990 and the dividend history of each subsidiary and affiliate since 1990.

f. Charts showing the stock price activity for NiSource since 1990. Explain the reason(s) for any significant movements in the stock price during the period.

g. Where not already provided, investor ratings of NiSource and any subsidiary or affiliate since 1990.

3. Provide the following information with regard to Columbia Energy, as of the date of this Order:

a. A description of each subsidiary or affiliate and the nature of that entity's business.

b. A description of the degree of government regulation over the subsidiary or affiliate.

c. The location of each subsidiary or affiliate, both the corporate office and actual operations.

d. The number of customers of each subsidiary or affiliate.

e. The number of employees for Columbia Energy in total and for each subsidiary or affiliate.

f. A listing of the senior executive officers of Columbia Energy and each subsidiary or affiliate, showing the corresponding corporate reporting relationships.

4. Provide the following financial information concerning Columbia Energy:

a. A current balance sheet and income statement for the most recent reporting quarter and annual or fiscal year. This information should be provided for Columbia Energy and all subsidiaries and affiliates, to the extent available.

b. The book value of all assets, for Columbia Energy and all subsidiaries and affiliates, to the extent available.

c. Financial performance measures and ratios for the most recent reporting quarter and annual or fiscal year.

(1) P/E Ratio (price divided by earnings per share).

(2) Dividend Yield (dividend yield based on present cash dividend rate).

(3) Payout Ratio (primary or basic earnings per share excluding extraordinary items paid to common shareholders in the form of cash dividends).

(4) Quick Ratio (cash plus short-term investments plus accounts receivable, divided by total current liabilities).

(5) Current Ratio (total current assets divided by total current liabilities).

(6) Interest Coverage (earnings before interest and taxes divided by interest expense).

(7) Equity Ratio (total common equity divided by total capitalization).

(8) Return on Equity (income available to common shareholders divided by common equity).

d. Bond and/or debt ratings, for both Columbia Energy debt instruments and any separately issued debt instruments issued by subsidiaries or affiliates. Identify the rating agency or institution.

e. A comparison of Columbia Energy's current financial performance measures and ratios and bond/debt ratings with other utilities operating in the United States.

f. The dividend history of Columbia Energy since 1990 and the dividend history of Columbia Gas since 1990, if any.

g. A brief description of all joint ventures in which Columbia Energy is participating, or has participated, since 1990. Include the name(s) of the business partners and the nature of the business.

h. Provide the Columbia Energy annual report to shareholders for 1999, 1998, and 1997.

5. In previous cases involving holding companies and regulated utilities, the Commission has expressed numerous regulatory concerns related to protection of utility resources, monitoring of corporate activities, and reporting requirements. For each of the concerns listed below, state how NiSource, Columbia Energy, and Columbia Gas have addressed the concern.

a. The potential for cross-subsidization of non-regulated activities by Columbia Gas.

b. The diversion of management talent away from Columbia Gas to the holding company and/or its affiliates.

c. The holding company's ability to adjust the capital structure of Columbia Gas in a manner that could adversely affect their cost of capital and financial integrity.

d. The holding company's ability to adjust the dividend policy of Columbia Gas in a manner that could adversely affect their financing requirements, financing capabilities and financial integrity.

e. The holding company's refusal to provide necessary capital to Columbia Gas, which could severely impair their ability to provide utility services.

f. The guaranteeing of the debt of affiliates and of the holding company by Columbia Gas could unnecessarily place in jeopardy their financial position and resources.

g. Columbia Gas could be used as the "dumping ground" for employees, assets, and products associated with failed or troubled affiliate ventures, causing them to be viewed by the holding company and the non-utility affiliates as the employer or purchaser of last resort.

h. The effects of a failed or failing unregulated affiliate upon the operations and financial condition of Columbia Gas.

i. The need for the Commission to have open access in Kentucky to the books and records of the holding company and its other affiliates and subsidiaries.

j. The ability of the Commission to monitor significant transfers of utility assets, business ventures of the holding company, and other major transactions.

k. The need for periodic and special reports to the Commission in order to assist the Commission with its monitoring activities.

6. For each report or type of information listed below, state the position and/or commitment NiSource, Columbia Energy, and Columbia Gas are prepared to make.

a. A quarterly report of the number of employees of Columbia Energy and each subsidiary on the basis of payroll assignment.

b. An annual report of the years of service at Columbia Gas and the salaries of professional employees transferred from Columbia Gas to NiSource, Columbia Energy or its subsidiaries.

c. At least annually, a report of the cost allocation factors that would be in use.

d. On an “as prepared” basis, summaries of any cost allocation studies conducted and the basis for the methods used to determine the cost allocation in effect.

e. At least annually, the methods used to update or revise the cost allocation factors in use.

f. As needed, copies of the articles of incorporation and bylaws of affiliated companies that would be in businesses related to the gas industry or that would be doing business with Columbia Gas.

g. As needed, copies of the articles of incorporation of affiliated companies involved in non-related businesses.

h. On an annual basis, a report describing the nature of intercompany transactions with specific identification of major transactions, including a description of the basis upon which cost allocations and transfer pricing have been established.

i. An annual report of the activities of NiSource and Columbia Energy, in a format similar to the Securities and Exchange Commission's ("SEC") Form U-3A-2.

j. On an annual basis, a detailed organization chart of Columbia Energy showing all subsidiaries. On a quarterly basis, an update to the annual chart disclosing and describing any changes since the submission of the annual chart.

7. Provide copies of all reports submitted by financial advisors to either Columbia Energy or NiSource related to the merger.

8. With regard to employee benefits of Columbia Energy, provide the following information:

a. Copies of all materials provided to the employees concerning the changes, if any, in the company's employee benefits plan.

b. Explain the changes, if any, that will occur to the employee stock option plans after the effective time of the merger.

c. List all collective bargaining agreements in effect at Columbia Gas and indicate when each agreement is scheduled to expire.

9. Provide the following information concerning the boards of directors of NiSource, Columbia Energy, and Columbia Gas as of the date of this Order:

a. The names and occupations of each board member.

b. Indicate how long the current board members have served on the respective board of directors.

c. Indicate how the members of the board are selected and describe any eligibility requirements that a candidate must satisfy.

d. Indicate when the term expires for each board member.

10. Describe the terms and conditions of the loan facility secured from Credit Suisse First Boston and Barclays Bank PLC.

11. Provide the estimated costs to NiSource, Columbia Energy, and Columbia Gas of compliance with the requirements of PUHCA. Include a description of the assumptions used to arrive at the estimate.

12. The federal debate over the restructuring of the electric industry in the United States has included the possible repeal or significant modification of PUHCA. Provide the viewpoints on PUHCA reform for NiSource.

13. In Case No. 94-104,[1] among the commitments offered by Cinergy, and accepted by the Commission, was a guarantee that any service agreement or amendment between The Cincinnati Gas & Electric Company and The Union Light,

[1] Case No. 94-104, Application of The Cincinnati Gas & Electric Company and Cinergy Corp. for Approval of the Acquisition of Control of The Union Light, Heat & Power Company by Cinergy Corp., final Order dated May 13, 1994.

Heat & Power Company would be filed with the Commission for review 60 days before filing with the SEC and, if rejected by the Commission, the service agreement or amendment would not be filed with or withdrawn from the SEC.[2] In Case No. 99-149,[3] the Commission-adopted settlement agreement provides that American Electric Power Company, Inc. ("AEP") would provide the Commission with notice at least 30 days prior to any filings that propose new allocation factors with the SEC. The notice would include a description of the proposed factors and the reasons supporting such factors. AEP and the Commission would make a good faith attempt to resolve any differences in advance of a filing being made at the SEC.[4] Are NiSource, Columbia Energy, and Columbia Gas prepared to commit to a similar notice provision relating to service agreements between Columbia Gas and any affiliated company? Explain the response.

14. Provide a schedule showing the excess deferred income taxes for Columbia Gas as of December 31, 1999 and the date of this Order. Describe the impact the merger of Columbia Energy and NiSource will have on the excess deferred income taxes.

15. To the extent Columbia Energy has investments in exempt wholesale generators ("EWG") and foreign utility companies ("FUCO"):

a. Provide a schedule, by Columbia Energy subsidiary or affiliate, showing Columbia Energy's investment in EWGs. Include the location of each EWG.

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[2] Case No. 94-104, May 13, 1994 Order at 5.

[3] Case No. 99-149, Joint Application of Kentucky Power Company, American Electric Power Company, Inc. and Central and South West Corporation Regarding a Proposed Merger, final Order dated June 14, 1999.

[4] Case No. 99-149, June 14, 1999 Order, Appendix at 6.

b. Provide a schedule, by Columbia Energy subsidiary or affiliate, showing Columbia Energy's investment in FUCOs. Include the location of each FUCO.

c. Based on its 1999 calendar year financial statements, provide the percentage that Columbia Energy's investments in EWGs and FUCOs represent compared to its consolidated retained earnings.

16. What is the current level of NiSource's investment in EWGs and FUCOs expressed in dollars and as a percentage of NiSource's retained earnings.

17. Does NiSource intend to request from the SEC additional authority to invest in EWGs and FUCOs? If yes, by what amount?

18. Provide the following information concerning the costs of the merger of NiSource and Columbia Energy:

a. The total cost incurred as of the date of this Order by NiSource.

b. The total cost incurred as of the date of this Order by Columbia Energy.

c. The current estimated total cost of the merger to be borne by NiSource.

d. The current estimated total cost of the merger to be borne by Columbia Energy.

19. Will any merger cost be borne by Columbia Gas? If yes, provide the estimated annual merger costs for each year through 2010.

20. On page 14 of the application there is reference to the "best practices" of NiSource and Columbia Energy being adopted by the merged company. Identify and describe in detail the best practices referenced.

21. Will the acquisition by NiSource result in any change in control payments to any individual or employee of Columbia Energy or Columbia Gas? If yes, provide a list of the employees entitled to the payments and the amount of payment to each employee.

22. Provide copies of any letters, analysis, notes, memorandum, or other written documents prepared by or for Columbia Energy or Columbia Gas which discuss the price to be paid by NiSource for the Columbia Energy stock.

23. Does NiSource, including its subsidiaries and affiliates, have any internal standards relating to reliability or service quality for its gas operations? Explain the response and provide copies of any written standards, if not voluminous.

24. Does either Columbia Energy or Columbia Gas, including subsidiaries and affiliates, have any internal standards relating to reliability or service quality? Explain the response and provide copies of any written standards, if not voluminous.

25. a. Are NiSource, Columbia Energy, and Columbia Gas willing to establish minimum service quality standards in order to assure the same level of reliability and service quality currently provided to Columbia Gas's customers? Explain the response.

b. If no, what assurances can NiSource, Columbia Energy, and Columbia Gas provide to ensure that its utility transmission and distribution systems will be adequately funded and maintained?

26. With reference to the statement that decision-making for Columbia Gas will remain with Columbia Gas management, the Prepared Direct Testimony of Mark Maassel, page 20, provides a detailed description of the corporate planning, strategic

planning, capital budgeting and Operation & Management budgeting process currently used by the NiSource companies. Explain how local considerations are included in these processes. Explain how NiSource expects such processes to be incorporated by Columbia Gas after the merger.

27. With reference to the statement that decision-making will continue to be made at the local level, the Prepared Direct Testimony of Joseph Kelly' page 12, provides a detailed description of the corporate planning, strategic planning, capital budgeting and Operation & Management budgeting process currently utilized by Columbia Gas. Explain how local considerations are included in these processes. Explain what changes Columbia Gas anticipates in these processes after the merger.

28. Provide a detailed analysis of all costs billed to Columbia Gas from the Columbia Energy Service Corporation and any other affiliate that transacted business with Columbia Gas for calendar years 1997, 1998, and 1999. Include all workpapers, calculations, and assumptions used in this analysis.

29. Provide a detailed description of the $72.29 used in the calculation of the "Additional Amount" shown on page 11 of Attachment A to the Application, the Agreement and Plan of Merger ("Merger Agreement").

30. Provide a copy of Columbia Energy's "Company Disclosure Letter" referred to in paragraph 5.1 on page 20 of the Merger Agreement. Include copies of all attachments and any documents referred to in the Company Disclosure Letter.

31. Provide a copy of Columbia Energy's financial statements referred to in paragraph 5.1(e) on page 20 of the Merger Agreement.

32. Provide a copy of NiSource's "Parent Disclosure Letter" referred to in paragraph 5.2 on page 35 of the Merger Agreement. Include copies of all attachments and any documents referred to in the Parent Disclosure Letter.

33. Provide a copy of NiSource's financial statements referred to in paragraph 5.2(f) on page 41 of the Merger Agreement.

34. Provide copies of Columbia Energy's "Letters of Company's Accountants" referred to in paragraph 6.3(b) on page 58 of the Merger Agreement.

35. Provide copies of NiSource's "Letters of Parent's Accountants" referred to in paragraph 6.3(c) on pages 58 and 69 of the Merger Agreement.

36. Provide all of the information that Columbia Energy will identify in the affiliate letter that it will provide NiSource in compliance with paragraph 6.16 on page 71 of the Merger Agreement.

37. a. Provide copies of any filings or applications regarding the proposed merger that have been filed with the SEC by or on behalf of NiSource, New NiSource, Columbia Energy, or Columbia Gas.

b. Provide a copy of the most recent NiSource/Columbia Energy Form 10-Q Quarterly Report filed with the SEC.

38. For each of the calendar years 1997, 1998, and 1999, provide schedules showing Columbia Gas's detailed capital structure including, the rate of return on each component and the return on total capital. Include all workpapers, calculations, and assumptions used by Columbia Gas in the determination of each calendar year capital structure.

39. For each of the calendar years 1997, 1998, and 1999, provide schedules showing Columbia Energy's detailed capital structure, including the rate of return on each component and the return on total capital. Include all workpapers, calculations, and assumptions used by Columbia Energy in the determination of each calendar year capital structure.

40. For each of the calendar years 1997, 1998, and 1999, provide schedules showing NiSource's detailed capital structure, including the rate of return on each component and the return on total capital. Include all workpapers, calculations, and assumptions used by NiSource in the determination of each calendar year capital structure and rate of return.

41. For each of the calendar years 1997, 1998, and 1999, provide schedules showing Columbia Gas's detailed rate base, including the overall return on each rate base. Include all workpapers, calculations, and assumptions used by Columbia Gas in the determination of each rate base.

42. For each of the calendar years 1997, 1998, and 1999, provide schedules showing Columbia Energy's detailed rate base, including the overall return on each rate base. Include all workpapers, calculations, and assumptions used by Columbia Energy in the determination of each rate base.

43. For each of the calendar years 1997, 1998, and 1999, provide schedules showing NiSource's detailed rate base, including the overall return on each rate base. Include all workpapers, calculations, and assumptions used by NiSource in the determination of each rate base.

44. On page 8 of his Prepared Direct Testimony, Mr. Maassel testifies that, “The merger will enable the combined company to leverage strong local utility brand names while offering customers access to a comprehensive choice of products and services – a product mix broader than either company could offer, and one competitive with the largest and most diversified energy companies in the country.” Provide a list and detailed description of each product and service that the merged NiSource/Columbia Energy can offer that cannot be provided currently by Columbia Energy.

45. Provide examples of the “transactional economies” of scale referred to on page 23 of Mark T. Maassel’s Prepared Direct Testimony.

46. Provide examples of the “duplicative portfolio assets” of scale referred to on page 23 of Mark T. Maassel’s Prepared Direct Testimony.

47. On page 19 of his Prepared Direct Testimony, Mr. Maassel testifies that, “As such, investors will not undertake acquisitions unless there is reasonable assurance that the premium will be repaid with opportunities for a return.” If the recovery of the acquisition premium is not requested at this time, explain how NiSource’s investors/stockholders are assured that the premium will be repaid.

48. On page 19 of his Prepared Direct Testimony, Mr. Maassel testifies that, the transaction has been designed to recover the acquisition premium by the merger benefits. Explain how NiSource and Columbia Energy have designed the transaction to accomplish this goal.

49. Refer to pages 18 and 19 of the Prepared Direct Testimony of Mark T. Maassel.

a. On page 19 Mr. Maassel testifies that, “We are still determining whether Generally Accepted Accounting Principals (“GAAP”) permit the reflection of this premium on the financial statements of either Columbia Energy itself or the individual LDC’s such as Columbia Gas of Kentucky.” Provide the current status of the process of determining the appropriate accounting treatment for the premium being paid by NiSource for Columbia Energy’s stock.

b. Provide copies of any cites and any authoritative accounting pronouncements NiSource is using in its determination if GAAP allows the use of the “push-down” method for reflecting the acquisition premium on the financial statements of Columbia Energy or Columbia Gas.

c. Explain why such an important matter as the determination of the appropriate accounting treatment of the premium being paid by NiSource for Columbia Energy’s stock had not been performed and a final determination made prior to the filing of this application.

d. Provide an estimate of the amount of the acquisition premium that would be recorded on Columbia Gas’s books under each of the alternate merger structures and pricing alternatives assuming that the acquisition premium is required to be pushed down to the subsidiary level. Provide all supporting documentation, calculations and assumptions used to derive the allocated amount.

e. Provide journal entries that will be recorded on the books of NiSource, Columbia Energy, and Columbia Gas under each of the alternate merger structures and pricing alternatives assuming that the acquisition premium is required to be pushed down to the subsidiary level. Provide all supporting documentation, calculations and assumptions used to derive the journal entries.

f. Provide journal entries that will be recorded on the books of NiSource, Columbia Energy, and Columbia Gas under each of the alternate merger structures and pricing alternatives assuming that the acquisition premium will not be pushed down to the subsidiary level. Provide all supporting documentation, calculations and assumptions used to derive the journal entries.

g. Will the treatment of deferred taxes on Columbia Gas's books differ depending on the required accounting treatment, that is whether push-down accounting is required or not? Fully explain your answer.

h. If push-down accounting is not required, how does NiSource intend to recover the acquisition premium from the ratepayers of Columbia Gas?

50. Provide information regarding the Commission policies on recovery of Gas Plant Acquisition Adjustments in each of the jurisdictions that NiSource and Columbia Energy operate. Include in the response copies of statutes, regulations, and/or Commission orders addressing this issue.

51. Refer to page 19 of Mr. Maassel's prepared direct testimony. Beginning at line 12, you state that "[w]e have designed the transaction so the acquisition premium eventually will be paid for by the merger benefits." Provide an estimate of the amount of the merger benefits that will be derived from Columbia Gas to offset any acquisition costs and premiums that NiSource believes should be recovered from Columbia Gas.

52. Refer to the Prepared Direct Testimony of Mark T. Maassel at page 19 regarding the potential that Columbia Gas may request recovery of the acquisition premium in a future rate proceeding.

a. Given that the application contains no provision for passing any merger-related savings on to ratepayers in the form of reduced rates or merger surcredits, explain how the merger can be considered to be in the public interest if the applicants are proposing ratepayers ultimately be charged for the acquisition premium being paid for Columbia Energy's stock.

b. All major mergers/acquisitions on which this Commission has ruled over the past 10 years involving energy companies have either included a provision for capping rates, establishing a mechanism for sharing merger-related savings with ratepayers, reducing rates immediately, instituting a hold harmless clause for ratepayers, or requiring the utility to file a general rate application within a specified period of time for the purpose of passing merger-related savings and benefits to ratepayers. Explain why this merger should be approved when it contains none of these features.

53. Provide a detailed narrative chronology of the history of the NiSource/Columbia Energy merger beginning with the date NiSource management first recommended to NiSource shareholders that it pursue a merger and/or acquisition of Columbia Energy. At a minimum, this should include all significant milestones, such as the NiSource shareholders vote on the matter, the announcement of the strategy to pursue Columbia Energy, the initial offer to Columbia Energy's shareholders,

subsequent offers to Columbia Energy shareholders, the announcement that the merger was no longer a hostile takeover, etc.

54. Provide the following information regarding the states in which regulatory approvals of the proposed merger are required:

a. The NiSource or Columbia Energy entities operating in those states.

b. The date merger applications were filed or will be filed.

c. The statutory time period in which the state commission must rule on the application and whether that period can be extended.

d. Copies of the applications filed in all states to date.

55. For any states in which Columbia Energy distribution companies operate, but in which regulatory approval commensurate to that being requested herein is not being requested, provide the following information:

a. An explanation of how it was determined that such approval is not required.

b. The applicable statutes, commission orders, or court rulings upon which that determination is based.

56. Provide all press releases, web site postings, and other forms of public information disseminated by either NiSource or Columbia Energy regarding the proposed merger since the execution of the Agreement and Plan of Merger.

57. Provide all information related to the merger that has been submitted to the following groups.

a. Investment firms

b. Credit rating agencies

c. Shareholders of either NiSource or Columbia Energy

d. Employees of either NiSource or Columbia Energy

58. Identify all utility mergers and acquisitions NiSource, or its predecessor, has been involved in over the past 10 years. For each such merger or acquisition, provide the NiSource/ predecessor capital structure for the three years before and every year since the merger or acquisition.

59. Provide the most current gas cost for all NiSource subsidiary Local Distribution Companies.

60. Provide detailed descriptions of any pending proceedings that could affect future earnings of the combined company, such as rate complaints from consumer groups or show cause actions initiated by commissions against any of NiSource's or Columbia Energy's regulated entities.

61. Refer to page 11 of the application, Item 23. Identify and describe the specific ways the merger will permit Columbia Gas to expand its efforts to provide high-quality, reliable and economical service in an efficient manner.

62. Refer to page 13 of the application, Item 32. The applicants state that, "Following the merger, the combined company expects to maintain a capital structure consistent with the capital structure of utilities of similar size."

a. Given the size of the proposed combined company, identify the utilities to which the new company will compare itself and those utilities' respective capital structures for the calendar years 1997, 1998, and 1999.

b. Provide the specific capital structure that NiSource expects to maintain after the merger, the amount of time it will take to achieve its capital structure goal and the methods NiSource will use to achieve its target capital structure.

63. The application discusses the increase in stability of the combined company from both an economic and operational standpoint, as well as its larger market capitalization, which will permit it to better absorb risks. Explain whether it is anticipated that New NiSource stock will be perceived by investors as a relatively stable or a risky investment.

64. Identify any preliminary opportunities to optimize contracted and owned storage, transportation, or supply assets that NiSource has identified as potential results of the merger.

65. Explain whether it is anticipated that there will be any transfer of managerial expertise or other resources away from Columbia Gas or Columbia Energy to NiSource or its subsidiaries.

66. Refer to Paragraph 1.3 page 3 of the Merger Agreement. Provide the Certificates of Incorporation and By-Laws of the Parent Acquisition Corporation and the Company Acquisition Corporation.

67. Refer to Paragraph 1.4 page 4 of the Merger Agreement. Provide a listing of the directors and officers of the Merger Subs and identify each individual's current relationship with either NiSource or Columbia Energy.

68. Refer to Paragraph 5.1(r) page 34 of the Merger Agreement. Provide the Registration Statement and Joint Proxy Statement/Prospectus referenced therein.

69. Refer to Paragraph 5.2(r) page 48 of the Merger Agreement. Provide the Commitment Letter from Credit Suisse First Boston and Barclays Bank PLC referenced therein.

70. Refer to Paragraph 6.8(e) page 65 of the Merger Agreement. Provide a listing of the members of the Integration Committee ("Committee") and their current relationships with either NiSource or Columbia Energy. Also indicate the number of times the committee has met to date, when it is scheduled to have its next meeting, and provide copies of any recommendations of the committee.

71. Refer to Paragraph 7.1(e) page 73 of the Merger Agreement.

a. Provide a detailed listing and description of the types of terms or conditions included in a Final Order, as referenced therein, that could "reasonably be expected to have a material adverse effect on the combined entity resulting from the transactions contemplated hereby" or could "materially impair the ability of the parties to complete the mergers or the transactions contemplated hereby."

b. Provide a detailed explanation of why this provision was included in the Merger Agreement.

c. Provide a detailed explanation of whether the following terms and conditions would be a violation of the provision stated in (a) above:

(1) Disallowance of the recovery of the acquisition premium.

(2) A required pass-through of any merger savings to the ratepayers of Columbia Gas.

(3) The inclusion of a most favored nations clause.

72. In other mergers approved by this Commission, utilities have agreed to a "most favored nations" clause. Explain NiSource's position on this type of merger condition.

73. Provide copies of the incentive rate plans or performance-based regulations in effect in any jurisdiction to which affiliates of Columbia Energy or NiSource have operations.

74. Refer to the Prepared Direct Testimony of Mark T. Maassel, at pages 11-13 which refers to the absence of large savings or "synergies" from the combined operations of the two companies. Mr. Maassel further states that the merger is expected to dilute NiSource's earnings per share in the first year after the merger but be accretive to NiSource's earnings per share beginning with the second year after the merger.

a. In the absence of savings or synergies from the combined operations of the two companies, explain why the merger is expected to be accretive to NiSource's earnings per share beginning with the second year after the merger. Provide any supporting earnings projections and details.

b. At an informal conference on April 18, 2000 Mr. Maassel indicated that $750 million in estimated savings or synergies were expected over the first five years after the merger and these would come primarily from "corporate integration and synergies" resulting from the merger. Explain why the identification of synergies of this type and size are not reflected in the discussion in Mr. Maassel's testimony. Also, provide copies of any studies supporting NiSource's estimated savings.

c. With synergies/savings of this type and size expected to result from the merger, explain in detail why the application contains no provision for sharing some portion of these savings with ratepayers.

75. On its web page, NiSource included an April 26, 2000 Analyst Presentation entitled, "Creating Value in the Energy Corridor." (www.nisource.com/about/analyst_424.ppt). In this presentation, NiSource estimated the realizable synergies that will occur between 2001 and 2005 as a result of its merger with Columbia Energy. The following questions are in reference to the "Realizable Synergies…" schedule, a copy of which is attached as Appendix A:

a. Provide copies of any studies or analysis NiSource or Columbia Energy has performed, or had performed on their behalf, to arrive at the realizable synergies contained on this schedule.

b. Provide a detailed analysis and description of each number listed on this schedule. Include copies of all calculations, workpapers, and assumptions used in this analysis.

c. On page 12 of the application, NiSource states that, "Net savings, if any, that subsequently may be achieved at the corporate level by the elimination of redundancies ultimately will be reflected in the service company charges distributed among the operating companies, and will be considered when Columbia Gas of Kentucky's base rates are reviewed pursuant to any rate review scheduled by the Commission as part of its Orders in Case No. 99-165." Given that NiSource has identified realizable synergies in its Analyst Presentation, explain why NiSource intends to wait until a review of the base rates in Case No. 99-165 is ordered to pass through any cost savings to the ratepayers of Columbia Gas.

d. For each item included in the analysis performed in (b) above, provide the amounts that will be distributed to Columbia Energy. Include copies of all calculations, workpapers, and assumptions used in the analysis.

e. For each item distributed to Columbia Energy in (d) above, provide an analysis of how these costs will be allocated to the operating companies. Include copies of all calculations, workpapers, and assumptions used in the allocation.

f. At the bottom of the "Realizable Synergies…" schedule NiSource makes the following statement, "Expect to identify further savings once complete review with Columbia." When does NiSource and Columbia Energy expect to complete their review of the realizable synergies?

g. Explain why NiSource expects the Commission to render a decision regarding NiSource's merger with Columbia Energy before the review of the realizable synergies is completed.

76. On page 18 of his Prepared Direct Testimony, Mr. Maassel testifies that, "The premium that NiSource is offering above book value – the acquisition premium – for Columbia Energy is well within the typical range offered by companies seeking to acquire LDC's and pipeline companies." Identify the other transactions to which Mr. Maassel refers and the premiums paid therein.

77. Refer to the Prepared Direct Testimony of Joseph W. Kelly at page 3, lines 16-22, which refers to Columbia Gas's abilities in marketing and growing its company while avoiding rate increases for its customers.

a. Beginning in 1990 and continuing through 1996, provide the amounts of annual rate increases implemented, by year, by Columbia Gas.

b. Provide, exclusive of gas costs, the average monthly bill for a Columbia Gas residential customer using 10 Mcf based on rates effective January 1, 1990 and rates effective January 1, 2000.

c. Provide Columbia Gas's non-gas, or base rate, revenues, annually, for the period 1994 through 1999.

d. For the period 1994 through 1999 provide Columbia Gas's annual net income available for common stock, average annual common equity balance, and its resulting return on equity.

78. Refer to the Prepared Direct Testimony of Joseph W. Kelly, page 5, line 8. Specifically identify any processes found to be redundant.

79. Refer to the Prepared Direct Testimony of Joseph W. Kelly at page 8, which indicates that the financial support of a strong parent corporation will help Columbia Gas meet its capital investment needs. Provide a detailed description of the type of financial assistance Columbia Gas would expect to obtain from its parent for capital investment and explain what assistance NiSource can provide that Columbia Energy cannot provide.

80. Refer to the Prepared Direct Testimony of Jamie Welch at page 2, which identifies Mr. Welch as the leader of the Credit Suisse First Boston team that represented NiSource in the merger negotiations.

a. Mr. Welch has been involved in every aspect of the transaction since March 1999 and has made numerous presentations to rating agencies, institutional investors, and equity research analysts over that time. Provide a listing of all such presentations made by Mr. Welch and the executive summary, or similar synopsis, of each of those presentations.

b. Identify the individuals and firms that represented Columbia during the merger negotiations and explain why it was deemed unnecessary to have any of those individuals present testimony as part of this application.

81. Refer to the Prepared Direct Testimony of Jamie Welch at page 4 where Mr. Welch states that the expected financial profile of New NiSource will result in investment grade ratings. Provide the current ratings for both NiSource and Columbia.

82. Refer to the Prepared Direct Testimony of Jamie Welch at page 6, which states that NiSource expects to repay most of the initial debt within two years with proceeds from an issuance of equity securities, public debt, the sale of additional non-core assets and cash flow from operations.

a. Explain how much additional debt and equity NiSource expects to issue under this plan.

b. Explain whether or not NiSource will use dividends from Columbia Gas to repay the debt.

83. Provide an analysis of the number and types of consumer complaints, in table format, that have been filed regarding Columbia Gas with this Commission in each of the last 3 years. Include with this analysis any resolution of the complaints filed.

84. For each regulated utility operated by NiSource, provide a similar table as requested in the previous question regarding the number and types of consumer complaints and resolutions achieved in the last 3 years.

85. Refer to page 5 of Joseph W. Kelly's Prefiled Direct Testimony.

a. Provide a copy of the "operational excellence objectives" employed by Columbia Gas.

b. Provide all details regarding the "formal Opportunity for Improvement process" employed by the company.

c. Provide details of all problems so identified by this process for the past 2 years. Include with this response full details regarding the status and resolution of these problems.

d. Describe how these objectives were established.

e. Provide copies of any established best practices available from the Kentucky Gas Association, the American Gas Association or other entity against which Columbia Gas benchmarks itself.

86. Provide any established operational excellence objectives or best practices employed by NiSource. Explain how these objectives or best practices were developed. Additionally, provide a comparison of these objectives or best practices with those employed by Columbia Gas.

87. With regard to unbundling and choice programs in the natural gas industry, does NiSource believe it is necessary for the LDC to remain the supplier of last resort for residential consumers?

88. Provide the names, and place in the corporate structure of the new company, of all NiSource and Columbia Energy affiliates that market gas to residential endusers. Include with this listing, the names of the incumbent LDCs where each affiliate markets gas.

89. If this merger receives all required approvals and is consummated, will the new marketing affiliates continue to operate co-incident (in the same markets) to each other? If yes, why is this good corporate policy? And, if not, why not?

90. Provide a copy of the most recent management audit report for each of NiSource's regulated utilities. Include with this response the most recent update or status report regarding the findings of the audit.

91. Refer to page 4 of Jamie Welch's Prefiled Direct Testimony. Provide complete details regarding the "SAILS" securities that will be issued to Columbia Energy shareholders. Include with this response the life of the bonds, the interest rate terms and a discussion of the use of these instruments to fund similar mergers in the utility industry.

92. Refer to page 8 of the Prepared Direct Testimony of Mark T. Maassel. Given the size of the combined company and its control over such a large amount of transmission and storage assets, assets essential for the delivery of natural gas service, explain how this control will lead to a more competitive natural gas marketplace in Kentucky?

93. Provide a copy of any Standard or Code of Conduct NiSource or any of its affiliates has developed internally or is required to adhere to with regard to both affiliate and non-affiliate transactions by jurisdictions that regulate its operations.

94. For each jurisdiction in which NiSource has regulated operations, provide a listing and detailed explanation of any complaints filed by non-affiliates alleging violation by a NiSource company of an established code or standard of conduct.

95. Provide a copy of any Standard or Code of Conduct Columbia Energy or any of its affiliates has developed internally or is required to adhere to with regard to both affiliate and non-affiliate transactions by jurisdictions that regulate its operations.

96. For each jurisdiction in which Columbia Energy has regulated operations, provide a listing and detailed explanation of any complaints filed by non-affiliates alleging violation by a Columbia Energy company of an established code or standard of conduct.

97. Refer to page 4 of the Prepared Direct Testimony of Joseph W. Kelly.

a. Provide a complete list of operational excellence objectives used by the company that relate to any aspect of customer service.

b. Explain how the company benchmarks its goals and how those benchmarks were set.

c. Provide any reports which detail how the company is performing in meeting its operational excellence goals.

98. Refer to page 5 of the Prepared Direct Testimony of Joseph W. Kelly.

a. Provide the documentation and reports which were used to develop the “Opportunity For Improvement” process.

b. Provide an explanation and relevant reports that detail how problems are identified, that track team progress in solving identified problems, and that show that problems have been corrected.

c. Provide an explanation of the management reporting requirements of the problem solving teams and an explanation of how proposed team solutions are approved.

d. Describe whether or not there is any tracking of costs and benefits inside this problem solving approach. If so, provide a copy of such a report.

99. On page 5 of the Prepared Direct Testimony of Joseph W. Kelly, the company states, "[w]e have reviewed and compared virtually every function we perform (from field operations to call centers) in an effort to become as competent, capable and efficient as possible."

a. Explain whether the review of other utilities' practices was performed by Columbia Gas or at the corporate level.

b. Provide a summary page and all reports detailing the reviews of every function that has been examined. Include in the response the final reports where any recommended changes in procedure would be outlined and a cost benefit analysis.

c. Provide a summary page and an explanation of all functions and processes that are slated to undergo changes, but have not yet begun.

d. Provide an explanation of all Columbia Energy functions and processes that were judged to be at a best practices level of operation, and so no changes were implemented. For each function, provide a list of the other utilities that were used as benchmarks for Columbia Energy's own functions and process performance.

e. Provide an explanation of all changes that have been implemented to date, the date of implementation for each change, and any quantifiable net benefit that may have been achieved.

f. Provide a list of all internal company functions, processes, and operation benchmarks, "from field operations to call centers," that are used to track performance.

g. Does the attainment and maintenance of certain performance benchmarks affect employee compensation? If so, explain how for each affected employee category, compensation is affected by the attainment and maintenance of performance benchmarks.

100. Does NiSource have a program similar to Columbia Energy's Continuous Improvement and Opportunity for Improvement processes?

a. Describe the program(s).

b. Describe the process used to identify improvements, including the areas or functions identified for improvement.

c. Describe what actions were taken to achieve improvement.

101. Describe and quantify the costs and benefits of any NiSource programs similar to Columbia's Continuous Improvement and Opportunity for Improvement processes.

102. Refer to page 6 of the Prepared Direct Testimony of Joseph W. Kelly.

a. Provide a list of all internal company goals including, but not limited to, customer service objectives, and a report detailing company performance in each category for the last three years.

b. Provide a similar list for NiSource LDCs.

c. When NiSource acquired Bay State Gas, were performance benchmarks changed in any way? Explain.

d. When NiSource acquired Bay State Gas, were employees given different incentives than they already had to maintain high performance levels? Explain.

103. Refer to page 8 of the Prepared Direct Testimony of Joseph W. Kelly. Mr. Kelly states that the financial support of a strong parent corporation will help Columbia Gas meet its capital investment needs.

a. Provide an explanation of the type of financial support Columbia Gas would expect to obtain from its parent for capital investment that could not have been provided by its original parent.

b. For those services that Columbia Gas will receive from its new parent, explain how the new parent can provide those service in a more cost effective manner.

104. Refer to page 9, line 20, et seq., of the Prepared Direct Testimony of Joseph W. Kelly. Mr. Kelly states that after the proposed merger, Columbia Gas's field locations will operate as they do now. Provide a list of each of Columbia Gas's field locations, the services each field location provides, and the number and classification of employees at each field location.

105. Refer to paragraph 5.1(p) on page 34 of the Merger Agreement. Provide information, including any language from the 1935 Act, to support the statement that, "Neither the Company nor any subsidiary company or affiliate of the Company is subject to regulation as a public utility or public service company (or similar designation) by any state in the United States, by the United States or any agency or instrumentality of the United States or by any foreign country."

106. Refer to paragraph 5.2(s) on page 49 of the Merger Agreement. Provide information, including any language from the 1935 Act, to support the statement that, “Neither the Parent nor any subsidiary company or affiliate of Parent is subject to regulation as a public utility or public service company (or similar designation) by any state in the United States, by the United States or any agency or instrumentality of the United States or by any foreign country.”

107. Provide copies of any financial reports issued by NiSource or Columbia Energy or any of their affiliated companies that contain any disclosure of restructuring and impairment charges. Include references to any specific sections of the report containing the disclosures. Also, provide copies of the accounting standards or bulletins that require such disclosure.

108. a. Provide a copy of the actual construction expenditures for Columbia Gas, listing all capital and maintenance costs, for calendar years 1997, 1998, and 1999.

b. Provide a copy of the construction budgets for Columbia Gas, listing all capital and maintenance costs, for calendar years 2000, 2001, and 2002.

109. a. Provide a copy of the actual construction expenditures for each NiSource regulated operating company, listing all capital and maintenance costs, for calendar years 1997, 1998, and 1999.

b. Provide a copy of the construction budgets for each NiSource regulated operating company, listing all capital and maintenance costs, for calendar years 2000, 2001, and 2002.

Done at Frankfort, Kentucky, this 10th day of May, 2000.

By the Commission

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION
IN CASE NO 2000-129

Realizable Synergies…

(Dollars in Millions)

	2001	2002	2003	2004	2005
Distribution:					
Revenue	$1.5	$7.7	$11.5	$15.8	$18.1
Cost	15.3	19.1	22.6	27.8	29.5
Transmission:					
Cost	8.7	13.9	15.3	17.3	17.8
Corporate	72.1	100.6	106.5	102.7	119.6
Total Synergies	$97.6	$141.3	$155.9	$163.6	$185.0

Expect to identify further savings once complete review with Columbia