Columbia Gas of Kentucky
A NiSource Company

P.O. Box 14241
2001 Mercer Road
Lexington, KY 40512-4241

November 16, 2005

Ms. Beth A. O'Donnell
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

RECEIVED
DEC 1 6 2005
PUBLIC SERVICE
COMMISSION

RE: PSC Case No. 2005-00400

Dear Ms. O'Donnell:

Enclosed for filing with the Commission are the original and five copies of Columbia Gas of Kentucky's Response to the First Data Requests submitted by the Staff of the Public Service Commission in Case No. 2005-00400. Please call me at (859) 288-0242 should you have any questions about this matter.

Very truly yours,

Judy Cooper

Judy Cooper

Enclosure

cc: Richard S. Taylor

Public Service Commission Staff Data Request Set 1
Question No. 1
Columbia Gas of Kentucky Respondent: Vincent V. Rea
Assistant Treasurer

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2005-00400
DATA REQUESTED BY
THE PUBLIC SERVICE COMMISSION STAFF
DATED DECEMBER 6, 2005

Question No. 1

Refer to pages 3-4 in Section M of the application. Columbia Gas states that it anticipates issuing unsecured notes to NiSource Finance Corporation with final maturities of 30 years. The notes will bear an interest rate that corresponds to the price offered companies with financial profiles similar to Nisource Finance Corporation reflecting market conditions at the time of issuance.

a. Explain whether Columbia Gas has reviewed forecasts of the Treasury yield and corresponding maturities for companies with a credit risk profile equivalent to that of NiSource Finance Corporation.

b. Provide Columbia Gas's credit risk profile and compare that credit risk profile to that of NiSource Finance Corporation. Identify any items in Columbia Gas's credit risk profile that compare unfavorably with NiSource Finance Corporation. Describe the impact on the interest rate for the new Notes resulting from the unfavorable items.

Response of Columbia Gas of Kentucky:

(a) Yes, Columbia Gas of Kentucky ("Columbia"), through its parent company NiSource Inc., has periodically reviewed forecasts of applicable Treasury yields and credit spreads for companies with a credit risk profile equivalent to NiSource Finance Corp.(for maturities ranging from 2-years to 30-years). These forecasts are provided from essentially three different sources, and disparities in forecasted interest rates between these sources are often material. The three main sources of forecasts are as follows: (1) Forward interest rates determined by the derivatives and debt capital markets and published within the Bloomberg Financial Markets service; (2) Individual bank forecasts as provided by on-staff economists from NiSource Inc.'s leading relationship banks (however, these forecasts are only provided periodically); and, (3) Consensus estimates of future interest rates by the nation's leading economists through the "Blue Chip Financial Forecasts" publication (however, these forecasts only look out eighteen months into the future).

(b) Because Columbia does not have a standalone credit rating, it would be extremely difficult to provide a "credit risk profile" for it. Such a profile can only ultimately be determined by the major credit rating agencies, such as Standard and Poor's, Moody's or Fitch Ratings. NiSource Inc. currently has no plans to secure an independent credit rating for Columbia.

In the absence of our ability to speculate on a hypothetical credit profile for Columbia, we believe that the scale and critical mass of NiSource Finance Corp's activity in the public and private capital markets does amount to a strong advantage relative to Columbia independently raising capital in the public markets (which would only be possible if Columbia first obtained credit ratings from two of the aforementioned credit rating agencies). Although this "advantage" cannot be readily quantified in the form of an interest rate differential, NiSource Finance Corp.'s size and scale of financing activities does assure competitive rates of financing and efficient capital markets execution. As an example of this, NiSource Finance Corp. was very active in the debt capital markets during 2005, refinancing $2.3 billion of debt between the public and private placement markets at extremely competitive interest rates.

**BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2005-00400
DATA REQUESTED BY
THE PUBLIC SERVICE COMMISSION STAFF
DATED DECEMBER 6, 2005**

Question No. 2

Refer to page 3 in Section J of the application. Columbia Gas states that, "in order for Columbia's indebtedness to more closely reflect the NiSource cost debt and maturity term, Columbia's current debt must be refinanced with new Promissory Notes." Explain in details the basis for this statement.

Response of Columbia Gas of Kentucky:

The proceeds from the previous public capital market borrowings of Columbia Energy Group ("CEG") were passed down to CEG's subsidiaries (including Columbia) in the form of long-term inter-company notes. As of November 30, 2005, Columbia's inter-company notes issued to CEG, which had five maturity tranches remaining, had a weighted average interest rate of 7.74% (which represented CEG's weighted average external borrowing costs plus .50% in transactional related costs).

Between November 28, 2005 and November 29, 2005, CEG redeemed all of its outstanding public debt. The funding used to retire CEG's external debt was raised by NiSource Finance Corp. (NFC) in the private capital markets. Since the underlying CEG public borrowings supporting the aforementioned inter-company borrowings have now been retired, new inter-company borrowing arrangements are now necessary to reflect the new borrowing costs and maturities associated with NFC's recent external private placement transaction. As a result, new inter-company notes will be issued by each of the CEG subsidiaries directly to NFC. Doing so will ensure that each of the CEG subsidiaries (including Columbia) will benefit from the lower interest costs associated with NFC's recent private market debt issuance transaction. The proposed inter-company notes between Columbia and NFC will bear a weighted average interest rate of 5.52%, including transactional costs. This is what was intended by the statement "in order for Columbia's indebtedness to more closely reflect the NiSource cost of debt and maturity term, Columbia's current debt must be refinanced with new Promissory Notes."

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2005-00400
DATA REQUESTED BY
THE PUBLIC SERVICE COMMISSION STAFF
DATED DECEMBER 6, 2005

Question No. 3

Refer to page 2 in Sections H and I of the application, which refers to refinancing of Current Notes. Explain why the proposed financing on November 28, 2005, in tranches of 7-year, 10-year, 11-year, and 20-year maturities with maximum maturities of 20 years, is preferable to longer-term bond issues.

Response of Columbia Gas of Kentucky:

As discussed in Columbia's response to Staff data request #2, the proposed inter-company notes will essentially be a "mirror-image" of NFC's recent external private placement debt transaction. Doing so ensures that Columbia and the other CEG subsidiaries are paying objectively determined "market competitive" rates of interest on their long-term inter-company borrowings. The tranches of 7, 10, 11 and 20-year maturities are consistent with NFC's external transaction, which bear a lower interest rate than maturities beyond 20 years.

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2005-00400
DATA REQUESTED BY
THE PUBLIC SERVICE COMMISSION STAFF
DATED DECEMBER 6, 2005

Question No. 4

Refer to page 3 in Section J of the application. The application implies that intercompany loans with NiSource Corporation will result in equal or lower financing costs.

a. Identify the savings that Columbia Gas anticipates from the unsecured issuance of the notes represented in the table provided on Exhibit C.

b. Provide a schedule of interest rates and term of the notes available through NiSource Finance Corporation as of November 1, 2005. Include the calculations supporting the interest rates provided in the schedule. Also identify the "Comparable Risk Companies" used to determine each interest rate.

Response of Columbia Gas of Kentucky:

(a) and (b) See table below.

Columbia Gas of Kentucky Inc.
Long-Term Debt as of November 1, 2005:

Current Long-Term Debt

	Year Issued	Date of Maturity	Principle	Interest Rate	Annual Interest Expense
Promissory Note	01-30-97	11-28-05	$5,805,000	7.30%	$423,765
Promissory Note	08-29-96	03-01-06	$8,000,000	8.00%	$640,000
Promissory Note	01-30-97	11-28-07	$5,805,000	7.55%	$438,278
Promissory Note	01-30-97	11-28-10	$5,805,000	7.82%	$453,951
Promissory Note	12-30-96	03-01-11	$5,030,000	7.28%	$366,184
Promissory Note	01-30-97	11-28-15	$5,805,000	7.92%	$459,756
Promissory Note	01-30-97	11-28-25	$5,805,000	8.12%	$471,366
Total			$42,055,000		$3,253,300

Post-Refinancing

Promissory Notes			$42,055,000	5.52%	$2,321,436
Annual Interest Savings					$931,864

See also Columbia's response to Staff data request #1 in which Columbia explained that it does not have a standalone credit rating. It is therefore not possible to identify "Comparable Risk Companies."