Columbia Gas of Kentucky
A NiSource Company

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

October 9, 2012

Mr. Jeff Derouen
Executive Director
Public Service Commission
Commonwealth of Kentucky
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

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PUBLIC SERVICE COMMISSION

RE: Case No. 2012-00418

Dear Mr. Derouen,

Enclosed for docketing with the Commission is an original and ten (10) copies of Columbia Gas of Kentucky, Inc.'s Response to the Commission's First Set of Data Requests in the above case. Should you have any questions about this filing, please contact me at 614-460-5558. Thank you!

Sincerely,

Brooke E. Leslie (gmc)

Brooke E. Leslie
Counsel

Enclosures

cc: Hon. Richard S. Taylor

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S FIRST SET OF INTERROGATORIES
DATED OCTOBER 2, 2012

1. Refer to paragraph (e) and Exhibit A of the application. Columbia states that it is requesting authority to issue new notes and/or stock not to exceed a total of $45,000,000, and its June 30, 2012 balance sheet included in Exhibit A shows that Columbia has an equity-to-debt ratio of 53.1 1 percent to 46.89 percent.

a. Describe in detail the factors that will be considered in determining the amounts of notes and stock to be issued.

b. Provide Columbia's target equity-to-debt ratio.

Response:

a. When analyzing Columbia's financing needs, the first consideration is to balance Columbia's total capitalization levels to total rate base. Second, Columbia aims to maintain an appropriate debt-equity ratio. We perform a dividend analysis on a quarterly basis, in March, June, September and December, to determine if dividends should be paid to the corporate parent or if earnings should be retained to balance total capitalization with total rate base and to achieve an appropriate debt-equity ratio. Finally, Columbia determines the level of debt and/or equity that needs to be issued to target a debt equity ratio similar to that proposed in the last rate case.
b. Columbia targets a 52% - 48% equity-to-debt ratio based on Case No. 2009-00141.

KYPSC Case No. 2012-00418
Response to Staff Data Request No. 1
Respondent: Mark Downing

COLUMBIA GAS OF KENTUCKY, INC.
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2. Refer to paragraph (j) of the application.

a. Provide the estimated range within which Columbia expects the interest rate(s) on the notes to fall, and whether Columbia has established, or plans to establish, an upper limit on the interest rates at which it will issue new notes.

b. Describe the effect Columbia expects the current conditions of the credit market to have on the rate of interest that will be incurred on the notes as well as on the process of issuing the notes.

c. Explain how the method described in paragraph (j) for determining the interest rate will ensure that Columbia obtains the lowest interest rate that would be available in the capital market.

d. For illustrative purposes provide the interest rate that would be determined using the method described in paragraph (i) assuming an issue of $1 0,000,000 of notes on October I, 2012. Provide all calculations and documentation supporting the interest rate.

e. Provide the current financial profile of NiSource Finance Corp. ("NiSource") as well as a list of companies having a credit risk profile similar to NiSource.

f. Provide a comparative analysis of the estimated costs that Columbia will incur by issuing promissory notes to NiSource with the estimated costs of issuing debt in the external capital market.

Response:

a. Columbia can't commit to a range of interest rates because we are subject to prevailing market conditions at any point in time. However, based on today's market rates published by the Federal Reserve, the 10-Year, 20-Year and 30-Year Treasury Notes are listed at 1.64%, 2.41% and 2.81% respectively. Based on the volatile nature of interest rates, no limits are utilized in evaluating a note issuance.

b. Interest rates are at historical lows now due to slow economic conditions across the country. In addition, the Federal Reserve continues to initiate measures to keep rates low to foster future growth. The favorable rate environment is expected to continue into 2013 and beyond.

c. It's not necessarily the lowest rate but the prevailing market rate based off professional estimates.

d. <u>**Illustrative Example of Interest Rate Determination – Example Only**</u>

30-Year Treasury Note Yield at October 3, 2012 equals 2.81%. **Source:** Federal Reserve Statistical Release dated October 3, 2012.

30-Year Corporate Credit Spread for Baa3/BBB- utilities equals 2.58%. **Source:** Reuters Corporate Spreads for Utilities dated October 2, 2012.

Total Intercompany Note Rate = 2.81% + 2.58% = 5.39%.

e. The current credit profile of NiSource Finance Corp is as follows:

Rating Agency	Senior Unsecured	Outlook
S&P	BBB-	Stable
Moody's	Baa3	Stable
Fitch	BBB-	Stable

Companies with similar risk profiles can be referenced on the Rating Agency websites.

f. The cost contrast between Columbia issuing an intercompany note versus obtaining external financing is straight forward. For example, estimated underwriting fees for a 10-Year bond are ranging at approximately 65 to 87 basis points. There are no underwriting fees associated with an intercompany note. Other related transaction fees can run in the range of \$250,000 to \$350,000. These fees are avoided with an intercompany note. Besides the underwriting and maintenance fees mentioned above, external financing transactions are subject to independent reviews by legal, audit and the rating agencies. Typical costs for these types of reviews are as follows:

Review Category	Estimated Costs
Legal	\$200,000 to \$250,000
Audit	\$25,000 to \$50,000
Rating Agencies	\$75,000 to \$100,000

**COLUMBIA GAS OF KENTUCKY, INC.
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3. Refer to paragraph (k) of the application. Columbia states that it, "proposes to issue and sell to Columbia Energy Group up to 147,752 shares of authorized, but unissued stock, at $25 par value, yielding up to $3,693,800 in additional equity capital."

a. Explain whether this is the same 147,752 shares of authorized, but unissued, stock Columbia sought and received approval to issue in Case No. 2008-00403.

b. Explain why Columbia did not issue this stock as authorized in that proceeding, as well as why it believes it will issue this stock before December 31 , 2014.

c. Provide a detailed analysis of the costs that Columbia would incur as a result of issuing and selling any or all of the remaining authorized shares.

d. State whether Columbia has plans to request authorization of additional shares of stock.

Response:

a. Yes, this is the same shares authorized in Case No. 2008-00403 and unissued.

b. Columbia issues stock as a last resort and prefers to balance Columbia's total capitalization levels to total rate base and to maintain an appropriate debt-equity ratio by issuing dividends or issuing long-term notes. There are no plans to issue stock before December 31, 2014, however the ability to do so if needed is requested to give Columbia as much flexibility in its financing.

c. Columbia Energy Group is the sole owner of all of Columbia's outstanding shares of common stock. If Columbia were to issue the remaining authorized, but unissued shares, it would not incur any significant additional costs.

d. Columbia has no plans to authorize additional shares of stock at this time.

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4. Refer to Exhibit C, Statement of Notes Outstanding as of June 30, 2012.

Explain whether any of these notes will be refinanced with funds requested in this proceeding.

Response: During the financing period of the application, there are two Notes that will mature. A $14,720,000 Note matures on January 7, 2013 and a $14,000,000 Note matures on December 23, 2013. We project to reissue both of these Notes at the time of maturity using funds requested in this proceeding. There are no plans to refinance any of the other Notes with funds requested in this proceeding during the requested authorization period.

KYPSC Case No. 2012-00418
Response to Staff Data Request No. 1
Respondent: Jenni Leonard

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5. Refer to Exhibit D of the application. Provide Columbia Energy Group's actual return on equity it earned on its investment in Columbia Gas of Kentucky, Inc. for each fiscal year 2008 through 2011.

Response: See attached.

Columbia Gas of Kentucky Inc.'s Return on Equity
(000's)

	2008	2009	2010	2011
Net Income	10,464	8,212	10,690	10,859
Average Equity	103,462	98,063	91,281	91,848
Return on Equity	10.11%	8.37%	11.71%	11.82%

Columbia Energy Group's Earned Return
(000's)

	2008	2009	2010	2011
Dividends Paid to CEG	17,000	15,000	10,000	10,000
Average Equity	103,462	98,063	91,281	91,848
CEG's Earned Return	16.43%	15.30%	10.96%	10.89%