COLUMBIA GAS OF KENTUCKY, INC.

GAS COST ADJUSTMENT CLAUSE
APPLICABLE TO ALL RATE SCHEDULES

GAS COST ADJUSTMENT CLAUSE

Determination of GCA

Company shall file a quarterly report with the Commission which shall contain an updated Gas Cost Adjustment (GCA) Rate and shall be filed at least thirty (30) days prior to the beginning of each quarterly calendar period. The GCA shall become effective for billing with the final meter readings of the first billing cycle of each quarterly calendar period.

The gas cost adjustment is comprised of:

(1) The Expected Gas Cost Component (EGC), on a dollar-per-Mcf basis, is made up of two components: (a) Expected Commodity Gas Cost which applies to Rate Schedules GS, IS, and IUS, and represents the average expected commodity cost of gas supplied, and (b) Expected Demand Gas Cost which applies to Rate Schedules GS,IUS and SVAS, and represents the average expected demand cost of gas supplied, excluding the Standby Service demand costs to be recovered from IS Customers and General Service Delivery Service Customers. The Commodity Gas Cost component of the EGC includes the gains and losses resulting from the settlement of gas futures contracts entered into pursuant to the Company's Commission approved hedging plan and all transaction fees and other brokerage fees or costs associated with the use of those gas futures contracts.

(2) The supplier Refund Adjustment (RA), on a dollar-per-Mcf basis, which reflects refunds received during the reporting period plus interest at a rate equal to the average of the "three month commercial paper rate" for the immediately preceding twelve month period. In the event of any large or unusual refunds, Company may apply to the Commission for the right to depart from the refund procedure herein set forth.

(3) The Actual Cost Adjustment (ACA), on a dollar-per-Mcf basis, which compensates for any previous over or undercollections of gas costs experienced by the company through the operation of this gas cost recovery procedure. The ACA shall be based on the twelve months ended June 30th each year, with the ACA factor to be in effect for twelve months beginning September 1st of each year.

(4) The Balancing Adjustment (BA), on a dollar-per-Mcf basis, which compensates for any *under or overcollections which have occurred as a result of prior adjustments.*

(5) The Gas Cost Incentive Adjustment (GCIA), on a dollar-per –Mcf basis, which is calculated annually based on the prior April through October period, with the GCIA factor to be in effect for twelve months beginning March 1st each year.

(6) The Off-System Sales and Capacity Release Adjustment (OSCRA), on a dollar-per-Mcf basis, which is calculated annually based on the twelve months ended September 30th of each year, with the OSCRA factor to be in effect for twelve months beginning December 1st of each year.

NOTE: All adjustments will be assigned to the Expected Demand Gas Cost or Expected Commodity Gas Cost components.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
5/22/2009
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By _____
Executive Director

DATE OF ISSUE: June 11, 2009 **DATE EFFECTIVE:** May 22, 2009

ISSUED BY : Herbert A. Miller, Jr. President

Issued by authority of an Order of the Public Service Commission in Case N lay 22, 2009

COLUMBIA GAS OF KENTUCKY, INC.

GAS COST ADJUSTMENT CLAUSE
APPLICABLE TO ALL RATE SCHEDULES
(Continued)

GAS COST ADJUSTMENT CLAUSE - (Continued)

Gas Cost Incentive Adjustment

The Gas Cost Incentive Adjustment ("GCIA") shall be calculated as follows:

GCIA = PV × 50% / PSV

PV = Performance Value = BC - AC
BC = Benchmark Cost
AC = Actual Cost
PSV = Projected Sales Volume

The GCIA will measure the Company's gas purchase performance in the months of April through October each year against a Market Standard.

For each gas purchase made during the months of April through October, the Company will calculate a Market Standard price by taking the NYMEX natural gas futures contract settlement price for the month and adjusting for basis. Basis is calculated as the difference between the prices published in the first publication of the month of *Inside FERC's Gas Market Report*, under the column labeled "Index" for the Henry Hub and for the pipeline location at which Columbia made the gas purchase.

A monthly Benchmark Cost will be calculated by multiplying the applicable Market Standard for each purchase by the gas volume of each applicable purchase, and summing the results for all applicable purchases that month.

When the Company's Actual Cost for gas purchased in the month is less than the Benchmark Cost, the result for the month is a positive performance. When the Company's gas purchase costs are greater than the Benchmark Cost, the result for the month is a negative performance. The resulting negative or positive Performance Amount will be shared equally between the Company and its sales customers.

If the Company purchases gas at a point not reported in the applicable index publication. The Company will use the next closest index on the applicable pipeline upstream of the purchase point, and add to that index the 100% load factor cost of firm transportation on that pipeline between the index location and the purchase point.

Purchases made at Columbia's own city gate are excluded from the GCIA process and calculation.

If the index used to develop the Market Standard price ceases to exist or ceases to adequately report those prices required in the normal implementation of this GCIA, the Company shall choose a suitable replacement index, assuming an acceptable index is available, and immediately report that change in writing to the Commission.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
5/22/2009
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By
Executive Director

DATE OF ISSUE: June 11, 2009

DATE EFFECTIVE: May 22, 2009

ISSUED BY: Herbert A. Miller, Jr.

Issued by authority of an Order of the Public Service Commission in Case I lay 22, 2009

COLUMBIA GAS OF KENTUCKY, INC.

GAS COST ADJUSTMENT CLAUSE
APPLICABLE TO ALL RATE SCHEDULES
(Continued)

GAS COST ADJUSTMENT CLAUSE - (Continued)

Off-System Sales and Capacity Release Adjustment:

Fifty percent (50%) of all revenues generated from off-system sales and capacity release (other than those revenues generated by operational sales, administrative capacity release, or Rate Schedule SVAS capacity assignments), net of costs, will be credited to the calculation of the Off-System Sales and Capacity Release Adjustment factor.

Results of operational sales, administrative capacity releases, and Rate Schedule SVAS capacity assignments will be credited 100% to gas cost.

Delivery Service

FERC approved direct billed pipeline supplier charges relating to the buyout of Take-or-Pay liabilities will be billed to Delivery Service Fixed Rate Volumes.

Banking and Balancing Service

This rate is based on the percentage of the portion of storage capacity allocated to Delivery Service Customers to Company's total annual storage capacity, applied to:

(1) Columbia Transmission's FSS seasonal capacity charge, annualized,

(2) Columbia Transmission's SST commodity charge, and

(3) Columbia Transmission's FSS injection and withdrawal charges

as calculated in the Gas Cost Adjustment.

Interim Gas Cost Adjustments

Should any significant change in supplier rates occur, Company may apply to the Commission for an Interim Gas Cost Adjustment Clause in addition to the regular quarterly Gas Cost Adjustment Clause filings.

PUBLIC SERVICE COMMISSION
OF KENTUCKY
EFFECTIVE
5/22/2009
PURSUANT TO 807 KAR 5:011
SECTION 9 (1)
By _____
Executive Director

DATE OF ISSUE: June 11, 2009 **DATE EFFECTIVE:** May 22, 2009

ISSUED BY: Herbert A. Miller, Jr. President

Issued by authority of an Order of the Public Service Commission in Case May 22, 2009