

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**In the Matter of:** )  
 )  
**The Application of Columbia Gas of** )  
**Kentucky, Inc. for an Order Authorizing the** )  
**Issuance and Sale of Promissory Notes** )

Case No. 2005- 00400

RECEIVED

SEP 28 2005

PUBLIC SERVICE  
COMMISSION

---

---

**APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.**

---

---

The petition of Columbia Gas of Kentucky, Inc. ("Columbia") respectfully states:

(a) That applicant is engaged in the business of furnishing natural gas service to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Public Service Commission ("Commission").

(b) That Columbia's full name and post office address are:

Columbia Gas of Kentucky, Inc.  
2001 Mercer Road  
P.O. Box 14241  
Lexington, KY 40512-4241

(c) That Columbia's Articles of Incorporation have previously been filed with the Commission in Case No. 2000-129 and are incorporated herein by reference.

(d) That Columbia is a wholly-owned subsidiary of Columbia Energy Group ("CEG"), which is a wholly-owned subsidiary of NiSource Inc. ("NiSource"). NiSource is a registered holding company under the Public Utility Holding Company Act of 1935, whose principal office is located at 801 East 86th Avenue, Merrillville, IN 46410.

(e) That pursuant to KRS § 278.300, Columbia files this application with the Commission and requests authorization to issue and sell Long-term Promissory Notes (“Notes”) to NiSource Finance Corp., which is also a wholly-owned subsidiary of NiSource. Columbia requests authority to refinance its current Notes totaling \$42,055,000 and to issue new Notes not to exceed \$16,000,000, from the date of the Commission’s order herein through December 31, 2007.

(f) As of June 30, 2005, Columbia had authorized 1,100,000 shares of common stock, par value \$25 per share, amounting to \$27,500,000. Of this amount, 952,248 shares were issued and outstanding. There was no preferred stock authorized, issued or outstanding. Columbia was not party to trust deeds or mortgages and there were no mortgage notes outstanding. There were no bonds authorized, issued or outstanding.

(g) During the fiscal year ending June 30, 2005, the short term borrowing authorization was \$80,000,000 of which \$0 was outstanding at June 30, 2005. The interest expense on the above debt during the fiscal year ended June 30, 2005 totaled \$0.

(h) **Refinancing of Current Notes.** NiSource Finance Corp. has entered into a definitive agreement with institutional investors providing for the sale of \$900 million of its unregistered senior notes. NiSource will use the proceeds from the transaction, along with other funds, to refinance the \$1.1 billion of CEG senior unsecured notes that become callable on November 28, 2005, and that carry an average weighted interest rate of 7.33 percent.

(i) The \$900 million in senior notes will be issued on November 28, 2005, in tranches of seven-, ten-, eleven- and twenty-year maturities, at a weighted average interest rate of 5.52 percent. The note offering will be allocated as: \$315 million of seven-year notes at a coupon rate of 5.21 percent; \$230 million of ten-year notes at a coupon rate of 5.36 percent; \$90 million

of eleven-year notes at a coupon rate of 5.41 percent; and \$265 million of twenty-year notes at a coupon rate of 5.89 percent.

(j) 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. In order to finance the retirement of Columbia's current Promissory Notes bearing a higher composite interest rate, Columbia will require \$42,055,000 which it proposes to secure from the issuance and sale to NiSource Finance Corp., not to exceed \$42,055,000 in principal amount, of new Notes which will be dated November 28, 2005, will have maturities of up to twenty years, and will have a weighted average aggregate interest cost of 5.52 percent plus associated issuance costs.

(k) **Issuance of New Notes.** The proceeds to be realized from the proposed sale of new Notes is, in part, to reimburse Columbia's treasury for Columbia's 2005 through 2007 construction program totaling \$36,040,000. Columbia estimates that its capital expenditure for 2005 will be \$10,192,000, for 2006 will be \$13,110,000 and for 2007 will be \$12,738,000. These expenditures will be required for the purposes of the acquisition of property and for the construction, completion, extension and improvement of company facilities.

(l) In order to permanently finance its capital program, and for other corporate purposes, Columbia will require, in addition to internally generated funds, up to \$16,000,000 of new money. Columbia therefore requests Commission authority to secure from the issuance to NiSource Finance Corp. of Notes not to exceed \$16,000,000 as more fully described below.

(m) The Notes will be unsecured and will be dated the date of their issue. The Notes will be issued with maturities of up to thirty years; will bear an interest rate that corresponds to the pricing being offered companies with financial profiles similar to NiSource Finance Corp.;

and will reflect market conditions at the time of issuance. The interest rate of the Notes will be determined by the corresponding applicable Treasury yield (as reported in Federal Reserve Statistical Release, H.15 Selected Interest Rates (Daily)) effective on the date a Note is issued, plus the yield spread on corresponding maturities for companies with a credit risk profile equivalent to that of NiSource Finance Corp. (as reported by Reuters Corporate Spreads) effective on the date a Note is issued. For maturities not specifically referenced in the Statistical Release or Reuters, an interest rate will be calculated based upon a simple linear interpolation method. A default rate equal to 2% per annum in excess of the stated rate on the unpaid principal amount will be assessed if any interest or principal payment becomes past due. All of the new Notes, not to exceed \$16,000,000 will be issued on or before December 31, 2007.

(n) Because the Notes are to be sold privately, they will not be registered with the Securities and Exchange Commission under the Securities Act of 1933.

(o) Pursuant to KRS § 278.300, Columbia submits the following as part of this Application:

- (1) A balance sheet as of June 30, 2005, attached as Attachment A.
- (2) An income statement as of June 30, 2005, attached as Attachment B.
- (3) A statement of notes outstanding as of June 30, 2005, attached as Attachment C.
- (4) A statement of dividends paid, fiscal years 2000-2004 attached as Attachment D.
- (5) A summary of utility plant and accumulated provisions for depreciation, amortization and depletion as of June 30, 2005, attached as Attachment E.

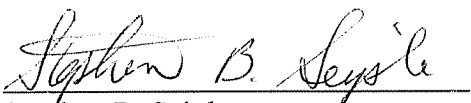
**WHEREFORE**, Columbia respectfully requests that the Commission order that:

1. Columbia be authorized to refinance its current Promissory Notes with the issuance and sale of new Notes in an amount not to exceed \$42,055,000;
2. Columbia be authorized to issue and sell to NiSource Finance Corp. new Notes in an amount not to exceed \$16,000,000;
3. Columbia be authorized to issue, sell, and deliver the new Notes upon the terms and bases set forth in this Application;
4. Columbia be authorized to use the cash proceeds arising from the issuance and sale of the subject Notes for the purposes set forth herein; and,
5. That Columbia be authorized to take such other and further actions as may be necessary and proper.

Columbia requests that the Commission approve this Application as soon as practical so as to maximize Columbia's flexibility for the issuance of Notes for which this Application is sought.

Respectfully submitted,

**COLUMBIA GAS OF KENTUCKY, INC.**

By:   
Stephen B. Seiple  
Lead Counsel

Stanley J. Sagun, Assistant General Counsel  
Stephen B. Seiple, Lead Counsel  
200 Civic Center Drive  
P.O. Box 117  
Columbus, Ohio 43216-0117  
Telephone: (614) 460-4648  
Fax: (614) 460-6986  
Email: sseiple@nisource.com

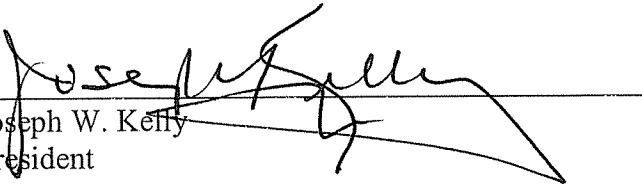
Richard S. Taylor  
225 Capital Avenue  
Frankfort, Kentucky 40601  
Telephone: (502) 223-8967  
Fax: (502): 226-6383

Attorneys for  
**COLUMBIA GAS OF KENTUCKY, INC.**

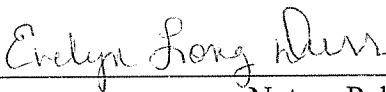
AFFIDAVIT

**COMMONWEALTH OF KENTUCKY** )  
 ) **ss:**  
**FAYETTE COUNTY** )

Joseph W. Kelly, being first duly cautioned and sworn, deposes and says that he is the President of Columbia Gas of Kentucky, Inc., Applicant herein, that the statements and schedules submitted herewith establish the facts and grounds upon which this Application is based, and that the data and facts set forth herein are true to the best of his knowledge and belief.

  
\_\_\_\_\_  
Joseph W. Kelly  
President

Sworn to before me and subscribed in my presence this 27<sup>th</sup> day of September 2005.

  
\_\_\_\_\_  
Evelyn Long  
Notary Public

5-15-06

SEAL

COLUMBIA GAS OF KENTUCKY, INC.  
Balance Sheet, Per Books, as of June 30, 2005  
Assets and Other Debits

	<u>Amount</u> \$
<u>Utility Plant</u>	
Gas Plant (101,105,106,107,114)	243,428,990
Less: Accumulated Provision for Depreciation and Amortization (108,111,115)	<u>108,277,144</u>
Net Utility Plant	<u>135,151,846</u>
 <u>Current and Accrued Assets</u>	
Cash (131,135,136)	3,733,664
Notes and Accounts Receivable (Less Accumulated Provision for Uncollectable Accounts 141-144,171-173)	12,821,916
Receivables from Associated Companies (146)	13,654,277
Materials and Supplies (151,154,163)	42,794
Gas Stored Underground - Current (164)	24,974,951
Prepayments and Other Current Assets (165,174,175)	449,147
Regulatory Assets Current (182)	<u>478,599</u>
Total Current and Accrued Assets	<u>56,155,348</u>
 <u>Deferred Debits</u>	
Unrecovered Plant and Regulatory Study Costs (182)	2,252,444
Preliminary Survey and Investigation Charges (183)	418,783
Clearing Accounts (184)	6,568
Miscellaneous Deferred Debits (186,188)	2,244,140
Accumulated Deferred Income Taxes (190)	4,194,682
Unrecovered Purchased Gas Costs (191)	<u>(9,082,923)</u>
Total Deferred Debits	<u>33,694</u>
Total Assets and Other Debits	<u><u>191,340,888</u></u>



COLUMBIA GAS OF KENTUCKY, INC.  
Balance Sheet, Per Books, as of June 30, 2005  
Liabilities and Other Credits

	<u>Amount</u> \$
<u>Proprietary Capital</u>	
Common Stock (201)	23,806,202
Other Paid-in Capital (211)	4,684,374
Earned Surplus (216)	51,020,201
Total Proprietary Capital	79,510,777
 <u>Long-Term Debt</u>	
Advances from Associated Companies (223,233)	42,054,999
Other Long-Term Debt (224,231)	-
Total Long-Term Debt	42,054,999
 <u>Current and Accrued Liabilities</u>	
Accounts Payable (232)	5,613,259
Accounts Payable to Associated Companies (234)	5,284,648
Customer Deposits (235)	2,813,790
Taxes Accrued (236)	5,798,981
Interest Accrued (237)	75,288
Tax Collections Payable (241)	263,225
Miscellaneous Current and Accrued Liabilities (242,244)	18,896,220
Capital Lease Obligations (243)	36,543
Liberalized Depreciation and Other Current (282,283)	931,626
Total Current and Accrued Liabilities	39,713,580
 <u>Deferred Credits</u>	
Miscellaneous Long-Term Accrued Liabilities (242)	-
Customer Advances for Construction (252)	887,058
Other Deferred Credits (253)	6,363,034
Regulatory Effect of Adopting SFAS 96 (254)	2,408,425
Accumulated Deferred Investment Tax Credits (255)	1,072,923
Total Deferred Credits	10,731,440
 <u>Other Noncurrent Liabilities</u>	
Capital Lease Obligations (227)	40,520
Injuries and Damages Reserve (228)	110,750
Total Other Noncurrent Liabilities	151,270
 <u>Accumulated Deferred Income Taxes</u>	
Liberalized Depreciation and Other Long-Term (282,283)	19,178,822
 Total Liabilities and Other Credits	 191,340,888

COLUMBIA GAS OF KENTUCKY, INC.  
Statement of Income, Per Books, 12 Months Ended June 30, 2005

	<u>Amount</u>
	\$
<u>Utility Operating Income</u>	
Operating Revenue	<u>146,286,773</u>
<u>Operating Expenses</u>	
Operations Expenses	123,571,601
Maintenance Expense	2,124,329
Depreciation and Amortization Expense	5,152,515
Taxes Other Than Income Taxes	2,234,517
Income Taxes - Federal	6,142,954
Income Taxes - State	362,397
Income Taxes Deferred	4,776,162
Income Taxes Deferred - Credit	(6,751,461)
Investment Tax Credit Adjustment - Net	<u>(89,322)</u>
Total Utility Operating Expenses	<u>137,523,692</u>
Net Utility Operating Income	<u>8,763,081</u>
<u>Other Income and Deductions</u>	
<u>Other Income</u>	
Interest Income	450,272
Miscellaneous Non-Operating Income	<u>1,540,379</u>
Total Other Income	<u>1,990,651</u>
<u>Other Income Deductions</u>	
Miscellaneous Income Deductions	<u>-</u>
Net Other Income and Deductions	1,990,651
<u>Interest Charges</u>	
Interest on Debt to Associated Companies	3,253,301
Other Interest Expense	266,787
Allowance for Funds Used During Construction - Debt	3,908
Total Interest Charges	<u>3,523,996</u>
Net Income	<u><u>7,229,736</u></u>

COLUMBIA GAS OF KENTUCKY, INC.  
Statement of Notes Outstanding as of June 30, 2005

<u>Line No.</u>	<u>Year Issued</u> (1)	<u>Principal Amount Per Books</u> (2) \$	<u>Date of Maturity</u> (3)	<u>Rate of Interest</u> (4)	<u>In Whose Favor</u> (5)	<u>Interest Paid During Fiscal Year Ended June 30, 2005</u> (6) \$
1	01-30-97	5,805,000	11-28-05	7.300%	Columbia Energy Group	423,765
2	08-29-96	7,999,999	03-01-06	8.000%	Columbia Energy Group	640,000
3	01-30-97	5,805,000	11-28-07	7.550%	Columbia Energy Group	438,278
4	01-30-97	5,805,000	11-28-10	7.820%	Columbia Energy Group	453,951
5	12-30-96	5,030,000	03-01-11	7.280%	Columbia Energy Group	366,184
6	01-30-97	5,805,000	11-28-15	7.920%	Columbia Energy Group	459,756
7	01-30-97	5,805,000	11-28-25	8.120%	Columbia Energy Group	471,366
8	Total	<u><u>42,054,999</u></u>				<u><u>3,253,299</u></u>

COLUMBIA GAS OF KENTUCKY, INC.  
Statement of Dividends Paid, Fiscal Years 2000 to 2004

<u>Line No.</u>	<u>Year</u> (1)	<u>Dividend Paid</u> (2) \$	<u>Capital Stock</u> (3) \$	<u>Payout Rate</u> (4)
1	2000	3,999,440	23,806,202	16.800%
2	2001	15,626,387	23,806,202	65.640%
3	2002	20,997,064	23,806,202	88.200%
4	2003	6,475,284	23,806,202	27.200%
5	2004	8,999,999	23,806,202	37.805%

COLUMBIA GAS OF KENTUCKY, INC.  
Summary of Utility Plant and Accumulated Provisions  
for Depreciation, Amortization and Depletion  
as of June 30, 2005

	<u>Amount</u> \$
<u>Utility Plant</u>	
In Service	
Plant in Service (Classified)	237,844,581
Property Under Capital Lease	77,084
Completed Construction not Classified	3,597,431
Total in Service	241,519,096
Held for Future Use	-
Construction Work in Progress	1,909,894
Acquisition Adjustments	-
Total Utility Plant	243,428,990
Accumulated Provision for Depreciation, Amortization and Depletion	108,277,144
Net Utility Plant	135,151,846

Detail of Accumulated Provisions for Depreciation, Amortization and Depletion

In Service	
Depreciation	105,637,508
Amortization of Other Utility Plant	2,639,622
Total in Service	108,277,130
Amortization of Plant Acquisition Adjustment	14
Total Accumulated Provisions	108,277,144