

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF COLUMBIA GAS)	
OF KENTUCKY FOR AN ORDER)	CASE NO.
AUTHORIZING THE ISSUANCE AND)	2005-00400
SALE OF PROMISSORY NOTES)	

O R D E R

On September 30, 2005, Columbia Gas of Kentucky, Inc. ("Columbia") submitted an application for authority to issue and sell Long Term Promissory Notes ("Notes") to NiSource Finance Corp. ("NiSource"), which is also a subsidiary of NiSource. Columbia sought authority to refinance its current Notes totaling \$42,055,000 and to issue new Notes not to exceed \$16,000,000 through December 31, 2007. The application was initially found to be deficient. Columbia cured the deficiencies with its filing received October 31, 2005.

NiSource has entered into an agreement with investors, allowing 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 \$1.1 billion of Columbia's parent company Columbia Energy Group's ("CEG") senior unsecured notes. CEG's notes totaling \$900 million were to be issued on November 28, 2005.

NiSource's cost of debt and maturity term requires Columbia's debt to be refinanced with new Promissory Notes, to be comparable.¹ In order for Columbia to

¹ Columbia's new Notes are expected to bear an average interest rate of 5.52 percent, compared to an average rate of 7.74 percent, as of November 30, 2005, on its inter-company notes to CEG.

finance the retirement on current Promissory Notes, Columbia will require \$42,055,000. Columbia proposed to secure this amount through issuance and sale to Nisource.

The new Notes, which will not exceed \$42,055,000, will have maturities of up to 20 years. The proceeds of the new Notes will, in part, reimburse Columbia for construction totaling \$36,040,000 from 2005-2007. Columbia requests authority to secure an amount not to exceed \$16,000,000 from the issuance of Notes to NiSource. All the new Notes will be issued on or before December 31, 2007.

The Commission, having considered the evidence of record and being otherwise advised, finds that the issuance of the proposed Notes as set out in Columbia's application, is for lawful objects within the corporate purposes of Columbia's utility operations, is necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, is reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. Columbia is 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 is authorized to issue and sell to NiSource Finance Corp. new Notes in an amount not to exceed \$16,000,000.
3. Columbia is authorized to issue, sell, and deliver the new Notes upon the terms and bases set forth in this Application.
4. Columbia is authorized to use the cash proceeds arising from the issuance and sale of the subject Notes for the purposes set forth herein.

5. Columbia is authorized to take such other and further actions as may be necessary and proper.

Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 22nd day of December, 2005.

By the Commission

ATTEST:


Executive Director