Energy Distribution Group Legal

NiSource
Corporate Services

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November 25, 2008

Ms. Stephanie Stumbo,
Executive Director
Public Service Commission of Kentucky
211 Sower Boulevard
P.O. Box 615
Frankfort, Kentucky 40602

Re: **PSC Case No. 2008-00403**

Dear Ms. Stumbo,

Enclosed for filing with the Commission are the original and five copies of Columbia Gas of Kentucky's Responses to the second set of Data Requests submitted by the Staff of the Public Service Commission in Case No. 2008-00403. Please call me at (614) 460-4648 should you have any questions about this matter.

Sincerely,

Stephen B. Seiple

Stephen B. Seiple
Lead Counsel
COLUMBIA GAS OF KENTUCKY, INC.

Enclosures

cc: Richard S. Taylor

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2008-00403
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
ORDER DATED NOVEMBER 18, 2008

Question No. 1:

Refer to Columbia's Response to Item 3(c) of the Initial Data request of Commission Staff.

a. Columbia was asked to explain how the method described in Section J of the application for determining the interest rate would ensure that Columbia obtains the lowest interest rate that would be available in the capital markets. Columbia's response did not provide an adequate explanation. Provide a more detailed response.

b. This response states that Columbia will avoid transactional costs associated with an external debt capital market. Provide estimates of the transactional costs that will be incurred for the intercompany note and the transactional costs that would be incurred if an external debt capital market was used.

Response:

a. The method described in Section J ensures that Columbia will receive a current market-based rate of interest available in the debt capital markets. This is because the methodology sets an interest rate that reflects the sum of: (1) current Treasury rate yields, plus (2) current risk premium spreads for BBB-/Baa3 rated utility issuers. This methodology reflects the most competitive interest rates available in the market place for external debt financings. However, because Columbia will avoid the transactional costs associated with an external debt capital markets transaction, the "all-in" financing cost will be lower for Columbia's intercompany note, versus an external debt financing transaction.

b. By financing through its affiliate, Columbia avoids underwriting commissions which on a transaction of this magnitude could be in the range of .70% - .75% of the principal. Thus, based upon the proposed financing of $30 million, Columbia will avoid underwriting commissions in the range of $210,000 to $225,000. In addition, through the proposed financing, the Company will not incur incremental legal fees, accounting and auditing fees, rating agency fees, or other transaction fees. These additional costs would likely be in the range of $225,000 to $250,000. The total avoided transactional costs associated with the proposed financing with NiSource Finance Corp. range from $435,000 to $475,000.

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Question No. 2:

Columbia is proposing to rely on NiSource Finance Corp. for its financing. For calendar year 2008, identify all similar financings for NiSource, Inc. affiliated companies that were obtained through NiSource Finance Corp. Provide the term and interest rate for each.

Response:

2008 Intercompany Note Issuances

Affiliate	Issuance Date	Term	Coupon
Northern Indiana	June 6, 2008	10 yr	6.090%
Northern Indiana	June 6, 2008	15 yr	6.525%
Columbia Maryland	September 10, 2008	10 yr	5.910%

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Question No. 3:

Is Columbia familiar with Case Nos. 2003-00058[1] and 2006-00155[2] wherein the Commission authorized Louisville Gas and Electric Company ("LG&E") and Kentucky Utilities Company ("KU"), respectively, to issue debt to an affiliated company?

a. If yes, explain why Columbia did not propose to borrow from NiSource Finance Corp. at the lower of (a) the average of the interest rates available to NiSource Inc. or (b) the lowest interest rate available to Columbia, based on three quotes obtained by each, as was required in those cases.

b. If no, state whether Columbia believes the method approved for LG&E and KU is an acceptable method for determining the interest rate it will incur to NiSource Finance Corp. and explain the rationale for such belief.

Response:

Columbia is familiar with Case Nos 2003-00058 and 2006-001 55. Columbia believes its existing methodology is more appropriate for the issuance of long-term intercompany notes, as it reflects the current borrowing costs for the entire universe of BBB-/Baa3 rated utility companies. In addition, considering that the proposed financing shall not exceed $30 million, Columbia would not be able to secure quotes for an external debt capital markets transaction, since the size and scale of such a transaction would not meet minimum market thresholds to attract public investors into the financing. Therefore, due to the small size of the proposed transaction and also to the absence of a credit rating for Columbia, securing market quotes for a public Columbia debt offering is not possible.

[1] Case No 2003-00058, The Application of Louisville Gas and Electric Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.
[2] Case No. 2006-00155, The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations.