Columbia Gas Of Kentucky, Inc.

AG Data Request 1

Volume 3 of 5

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COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 161:

Please reconcile the plant balances used to calculate the rates in the depreciation study with the plant balances shown in the Company's FERC Form 2 report for the same year.

Response:

The plant balances utilized to calculate the rates in the depreciation study agree with the plant balances shown in the Company's annual report to the Kentucky PSC.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 162:

Please reconcile the reserve balances used to calculate the rates in the depreciation study with the reserve balances shown in the Company's FERC Form 2 report for the same year.

Response:

Please refer to the attachment labeled AG DR Set 1-162 Attachment A.

Columbia Gas of Kentucky, Inc.
Reconcilation of Reserve Balances
As of December 31, 2008

AG DR Set 1-162 Attachment A

	Accumulated Depreciation
FERC Form 2 (Account 108)	**115,874,205**
add General Plant amortization (account 111)	
391.1 Furniture	860,914
391.11 Equipment	3,345
391.12 Information Systems	178,502
394 CNG Facilities	940,265
395 Laboratory Equipment	4,760
398 Miscellaneous Equipment	55,112
add unrecovered reserve to be amortized (account 111)	
391.1 Furniture	(273,190)
391.11 Equipment	(27,738)
391.12 Information Systems	82,488
394 CNG Facilities	46,701
395 Laboratory Equipment	(65)
398 Miscellaneous Equipment	(15,977)
add other amortizable plant	
303 Misc. Intangible Plant	866,483
393 Stores equipment	833
less Retirement Work in Progress (account 108)	(212,251)
Total	118,808,889.00
Depreciation Study	**118,808,889.00**
Variance	0.00

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 163:

Please provide all FERC audit reports and the Company's responses thereto during the last 10 years.

Response:

The Company does not file reports with the FERC and thus is not subject to audit. There have been no audits of the annual reports filed with the Kentucky PSC during the time period in question.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 164:

Please provide any and all internal studies and correspondence concerning the Company's implementation of FASB Statement No. 143, FIN 47 and FERC Order No. 631 in RM-02-7-000.

Response:

Columbia objects to and declines to respond to this discovery request to the extent that it is overbroad and causes annoyance, embarrassment, oppression, or undue burden or expense. To comply with this data request Columbia would have to review the files and emails of dozens of people. To review the files and emails of that many people would be unduly burdensome. It is impossible for Columbia to conduct such a review given the time constraints of the discovery process in this case. If the Attorney General's office can submit a more focused request Columbia will attempt to provide the data requested.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 165:

Please provide complete copies of all correspondence with the following parties regarding the Company's implementation of FASB Statement No. 143, FIN 47 and FERC Order 631 in RM02-7-000:

a. External auditors and other public accounting firms,
b. Consultants,
c. External counsel,
d. Federal and State regulatory agencies, and
e. Internal Revenue Service.

Response:

(a)-(e) Columbia objects to and declines to respond to this discovery request to the extent that it is overbroad and causes annoyance, embarrassment, oppression, or undue burden or expense. To comply with this data request Columbia would have to review the files and emails of dozens of people. To review the files and emails of that many people would be unduly burdensome. It is impossible for Columbia to conduct such a review given the time constraints of the discovery process in this case. If the Attorney General's office can submit a more focused request Columbia will attempt to provide the data requested.

(c) In addition, Columbia objects to part (c) of this data request on the grounds that it seeks information that is subject to the attorney client privilege.

(e) Without waiving its objection Columbia states that it does not believe there has been any correspondence with the Internal Revenue Service regarding the matters identified in this request.

PSC Case No. 2009-00141
AG DR Set 1-166
Respondent(s): Robert Kriner

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 166:

Regarding FASB Statement No. 143, FIN 47, and FERC Order No. 631 in Docket No. RM02-7-000, on a plant account-by-plant account basis, please identify any and all "legal obligations" associated with the retirement of the assets contained in the account that result from the acquisition, construction, development and (or) the normal operation of the assets in the account. Again, for the purposes of this question, please use the definition of a "legal obligation" provided in FASB Statement No. 143: "an obligation that a party is required to settle as a result of an existing or enacted law, statute, ordinance, or written or oral contract under the doctrine of promissory estoppel."

Response:

AROs are indentified for financial reporting purposes only. They are not recorded on the general ledger or utilized for regulatory reporting or calculating depreciation.

Please refer to the attachment labeled AG DR Set 1-166 Attachment A for a list Columbia Gas of Kentucky's legal AROs identified for financial reporting purposes.

FIN 47 - Description of quantified assets
CDE - Gas Distribution
For Period Ended December 31, 2008

Issue	Current ARO	Obligation created by	Quanity	Estimate Cost (total)	Estimated Total Life (years)	Record a liability (Y or N)	Utility Account	% COR in Account	Notes	Company	Record Initial ARO and Asset 100-113-101 DR. Plant in service	Record Initial ARO and Asset 361-821-230 (Cr.) ARO liability	Record Accum. Accretion 131-060-182 Dr. G/L from Change in Acctg.	Record Accum. Accretion 361-822-230 (Cr.) ARO liability	ARO Liability (Current fair value)	Record Accum. Deprec. 131-060-182 Dr. G/L from Change in Acctg.	Record Accum. Deprec. 100-213-108 (Cr.) Accum. Depreciation	Reclass Out of COR Reg Liability 361-705-254 Dr. G/L from Change in Acctg.	Reclass Out of COR Reg Liability 131-060-182 (Cr.) Accum. Depreciation
PCB disposal requirement																			
CKY Distribution Pipeline - System # 32010143	Y	State reg 40 CFR 761	14 lines	$ 4,335,830	50	Y	37600	15%	216 miles in CKY. Cost estimated to be $4,000 per 1000 ft. of 6" pipe.	CKY	793,370	(793,370)	3,694,215	(3,694,215)	(4,487,585)	793,370	(793,370)	335,866	(335,866)
											793,370	(793,370)	3,694,215	(3,694,215)	(4,487,585)	793,370	(793,370)	335,866	(335,866)
Cut & Cap																			
Estimate costs to cut & cap pipe that is abandoned in place	Y					Y	37600			CKY	1,193,639	(1,193,639)	916,772	(916,772)	(2,110,411)	328,360	(328,360)	1,245,132	(1,245,132)
											1,193,639	(1,193,639)	916,772	(916,772)	(2,110,411)	328,360	(328,360)	1,245,132	(1,245,132)
Grand Total											1,987,009	(1,987,009)	4,610,987	(4,610,987)	(6,597,996)	1,121,730	(1,121,730)	1,580,998	(1,580,998)

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 167:

For any asset retirement obligations identified above, please provide the "fair value" of the obligation. For the purposes of the question, fair value means "the amount at which that liability could be settled in a current [not future] transaction between willing parties, that is, other than in a forced or liquidation transaction." Please provide all assumptions and calculations underlying these amounts.

Response:

AROs are required for financial reporting purposes only and are not reflected in the general ledger or for regulatory reporting. The fair value of the obligations identified for financial reporting is detailed in the attachment labeled as AG DR Set 1-167 Attachment A for a combined total of $8,483,001.

Columbia Gas of Kentucky, Inc.

PCB Exposure in System Main Pipe
Fair Value Calculations and Analysis
For Year Ended December 31, 2008

PCBs in Distribution Pipeline:
Provided by Vicki Flesher, Nisource, on December 9, 2005

Asset Description	Cost Estimate (Fair Value)	In-service Date	Contamination Date	Regulation Date	Life Estimate	Miles of Pipeline	Feet of Pipeline	Option 1 Grouting Cost	Option 2 Internal labor cost	Average cost
System # 32010143	(4,335,830)	1952	1958	1978	20 - 80 yrs	216.10	1,141,008	4,564,032	4,107,629	4,335,830
Total Liability	**(4,335,830)**					216.10	1,141,008	4,564,032	4,107,629	4,335,830

Comments:
Per Dave Schwarzwaelder, in-service dates range from 100 years ago to present, spanning 105 years.
105 / 2 = 52.5 yrs ago for in-service date
2005 - 53 = 1952

Columbia Gas of Kentucky
Cut and Cap System Main Pipe
Fair Value Calculation
For Year Ended December 31, 2008

Accrued ARO at 12/31/08 for CKY cut and cap (liability):	$ (2,110,410)	
Estimated average life of system pipe (years):	48	
Estimated inflation rate	3.50%	
Estimated corporate discount rate	6.12%	
Estimated present value of cut and cap retirements (liability):		**$ (4,147,171)**

(Miles)	Miles of Pipe (Mains) 12/31/07	Miles of Pipe (Mains) 12/31/08	Pipe Retirements (Mains) 2008	Pipe Additions (Mains)	Overall CKY System Expansion 2008
CKY	2,586	2,604	19	37	18

	Total Removal Costs 2007(1)	Total Removal Costs 2008(2)	Estimated % of legal Costs (cut and cap) (3)	2008 Average cost to Cut and Cap	2008 Average Cost per Mile
CKY	$ 423,862	$ 436,618	35%	$ 152,816	$ 8,043

1) Removal cost for 2007 are totals Jan1 through Nov. 30. December removals is not estimated to be significant due to weather and holidays.
2) Removal cost for 2008 are totals Jan1 through Nov. 30 and an estimate for December removals.
3) This is an estimate of what portion of the total job cost is actually for performing the legal obligation.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 168:

Please provide the "credit adjusted risk free rate" used for any and all ARO calculations under FASB Statement No. 143, FIN 47, and FERC Order No. 631 calculations to date.

Response:

Columbia Gas of Kentucky's credit adjusted Risk Free Rate utilized for ARO calculations for financial reporting purposes as of December 31, 2008 are as follows:

13.71%	5-10 Year Asset Life
14.25%	10-20 Year Asset Life
14.63%	20+ Year Asset Life

PSC Case No. 2009-00141
AG DR Set 1-169
Respondent(s): Gary Pottorff, Robert Kriner

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 169:

Please provide complete copies of all Board of Director's minutes and internal management meeting minutes during the past five years in which any or all of the following subjects were discussed: the Company's gas and/or common plant depreciation rates; retirement unit costs; SFAS No. 143; FIN 47; and, FERC RM02-7-000.

Response:

The Company's depreciation rates, retirement unit costs, SFAS No. 143, FIN 47 and FERC RM02-7-2000 were not discussed at any Columbia Gas of Kentucky Board meetings or internal management meetings for which minutes were kept.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 170:

Please provide the accounting entries (debits and credits) used to implement SFAS No. 143 and FIN 47, along with all workpapers supporting those entries. Please provide all these workpapers and calculations in electronic format (Excel) with all formulae intact.

Response:

SFAS 143 and Fin 47 are required for financial reporting purposes only and are not reflected in the general ledger or for regulatory reporting.

The accounting entries required for financial reporting purposes are provided as shown in the attachment labeled AG DR Set 1-170 Attachment A. The workpapers and calculations supporting the SFAS 143 entries in 2003 are provided in the attachment labeled AG DR Set 1-170 Attachment B. The workpapers and calculations supporting FIN 47 in 2005 are provided in the attachments labeled AG DR Set 1-170 Attachment C, AG DR Set 1-170 Attachment D, and AG DR Set 1-170 Attachment E.

Columbia Gas of Kentucky, Inc.
Asset Retirement Obligations (AROs)
Annual Cumulative Journal Entries and Balances for 2003-2008
As of December 31, 2008

		Implementation of SFAS 143 2003	Implementation of FIN 47 2005
Non-Legal Retirement Obligations			
SFAS 143 - Cost of Removal in Reserve	100-213-108	21,172,995	(910,965)
Non-Legal Regulatory Liability	361-705-254	(21,172,995)	910,965
Cumulative Balance	100-213-108	21,172,995	20,712,246
	361-705-254	(21,172,995)	(20,712,246)
Legal Asset Retirement Obligations- PCB Pipeline Entries			
FIN 47 - Record initial ARO asset	100-113-101		793,370
Offset to ARO Liability	361-821-230		(793,370)
FIN 47 - Record accum. accretion of ARO asset in Reg asset	131-060-182		3,424,919
Offset to ARO Liability	361-822-230		(3,424,919)
FIN 47 - Record accum. depreciation of ARO asset in Reg asset	131-060-182		765,035
Offset to Depr Reserve	100-213-108		(765,035)
FIN 47 - Reverse Cost of Removal in Reserve applicable to ARO	361-705-108		335,866
Offset to ARO Regulatory Asset	131-060-182		(335,866)
Legal Asset Retirement Obligations- Cut & Capped Pipe Entries			
FIN 47 - Record initial ARO asset	100-113-101		1,577,073
Offset to ARO Liability	361-821-230		(1,577,073)
FIN 47 - Record accum. accretion of ARO asset in Reg asset	131-060-182		571,912
Offset to ARO Liability	361-822-230		(571,912)
FIN 47 - Record accum. depreciation of ARO asset in Reg asset	131-060-182		262,846
Offset to Depr Reserve	100-213-108		(262,846)
FIN 47 - Reverse Cost of Removal in Reserve applicable to ARO	361-705-108		834,758
Offset to ARO Regulatory Asset	131-060-182		(834,758)
Legal AROs- Cut & Capped Pipe - YearEnd Adjustments Entries			
FIN 47 - Record accum. accretion of ARO asset in Reg asset	131-060-182		
Offset to ARO Liability	361-822-230		
FIN 47 - Record accum. depreciation of ARO asset in Reg asset	131-060-182		
Offset to Depr Reserve	100-213-108		
FIN 47 - Reverse Cost of Removal in Reserve applicable to ARO	361-705-108		
Offset to ARO Regulatory Asset	131-060-182		
Offset to ARO Liability	361-823-230		
FIN 47 - Recognize interim retirements to ARO asset	100-113-101		
FIN 47 - Recognize expansion of system for ARO asset	100-113-101		
Offset to ARO Liability	361-821-230		
FIN 47 - Recognize adjustment for current system for ARO asset	100-113-101		
Offset to ARO Liability	361-821-230		
Total Legal Asset Retirement Obligations- Accumulated Entries			
FIN 47 - Record initial ARO asset	100-113-101		2,370,443
Offset to ARO Liability	361-821-230		(2,370,443)
FIN 47 - Record accum. accretion of ARO asset in Reg asset	131-060-182		3,996,831
Offset to ARO Liability	361-822-230		(3,996,831)
FIN 47 - Record accum. depreciation of ARO asset in Reg asset	131-060-182		1,027,881
Offset to Depr Reserve	100-213-108		(1,027,881)
FIN 47 - Reverse Cost of Removal in Reserve applicable to ARO	361-705-108		1,170,624
Offset to ARO Regulatory Asset	131-060-182		(1,170,624)
Asset Retirement Obligations- Account Balances			
Asset Retirement Cost (ARC) = Plant-in-Service			2,370,443
Asset Retirement Obligation (ARO) Liability			(6,367,274)
Non-Legal Asset Retirement Obligation - Regulatory Liability		(21,172,995)	(20,712,246)
Accumulated Accretion and Depreciation - Regulatory Asset		-	5,024,712
Legal Asset Retirement Obligation - Contra-Regulatory Asset		-	(1,170,624)
Account Total		-	3,854,088

Columbia Gas of Kentucky
Estimated Cost of Removal in Accumulated Depreciation, Depletion, and Amortization
As of December 31, 2003

GPA	COR * Percent	Salvage * Percent	Allocation ** Formula	Accum DD&A	Amount Alocated to Cost of Removal
374.40	0.00	0.00	0.0000	88,260	-
374.50	0.00	0.00	0.0000	508,720	-
375.20	10.00	0.00	0.0909	5,275	480
375.30	10.00	0.00	0.0909	10,434	949
375.40	10.00	0.00	0.0909	310,558	28,233
375.60	10.00	0.00	0.0909	31,713	2,883
375.70	0.00	0.00	0.0000	1,440,918	-
375.80	0.00	0.00	0.0000	16,938	-
376.00	15.00	0.00	0.1304	41,032,081	5,352,011
378.10	5.00	0.00	0.0476	252,827	12,039
378.20	5.00	0.00	0.0476	1,974,925	94,044
378.30	5.00	0.00	0.0476	26,038	1,240
379.10	0.00	0.00	0.0000	234,125	-
380.00	50.00	0.00	0.3333	46,375,793	15,458,598
381.00	0.00	0.00	0.0000	3,299,535	-
382.00	5.00	0.00	0.0476	2,724,991	129,761
383.00	5.00	0.00	0.0476	870,501	41,452
384.00	0.00	0.00	0.0000	1,577,539	-
385.00	5.00	0.00	0.0476	1,077,432	51,306
387.20	0.00	0.00	0.0000	118,529	-
387.41	0.00	0.00	0.0000	171,827	-
387.42	0.00	0.00	0.0000	435,652	-
387.44	0.00	0.00	0.0000	43,170	-
387.45	0.00	0.00	0.0000	349,533	-
387.46	0.00	0.00	0.0000	90,167	-
392.20	0.00	0.00	0.0000	37,097	-
392.21	0.00	0.00	0.0000	3,399	-
394.11	0.00	0.00	0.0000	349,897	-
396.00	0.00	25.00	0.0000	552,925	-
Other	0.00	0.00	0.0000	912	-
RWIP	0.00	0.00	0.0000	123,039	-
Amortization	0.00	0.00	0.0000	3,607,924	-
			f/s =	**107,742,674**	**21,172,995**

Percent of DD&A that is COR = 19.65%

* Cost of Removal (COR) and Salvage percentages based on Gannett Fleming Consultants Depreciation Study as of December 31, 2001

** Allocation Formula = COR % / (100 + COR % - Salvage %)

Columbia Gas of Kentucky, Inc.

PCB Exposure in Main Pipe
Calculations and Analysis - Summary
For Year Ended December 31, 2005

Key Assumptions	CKY Sys#32010143	
In Service Date	1952	Per PBC tab
Contamination date	1958	Per PBC tab
Obligation Date	1978	Per PBC tab
Later of In Service/Contamination Date	1978	Rx
Today's Date	2005	
Estimated Lives	50	
Estimated Settlement Date	2006	Rx
Cost of removal	4,335,830	Per PBC tab
Years until settlement	1	Rx
Discount rate	6.384%	Per Nisource, email dated 12/06/2005 from V. Fleshner
Inflation rate	3.500%	Per Nisource, email dated 12/06/2005 from V. Fleshner

	Sys#32010143	Check total
2005 impacts		
Asset retirement cost (net value)	28,335	-
Asset retirement obligation (liability fair value)	**4,218,289**	-
Total cumulative effect	4,189,954	-
- depreciation impact	**765,035**	-
- accretion impact	3,424,919	-
2006 impacts		
Annual depreciation expense	28,335	-
Annual inflation expense	147,640	-
Annual accretion	269,296	-
2005 Journal entry		
Dr. Asset retirement cost	28,335	-
Dr. Cumulative effect/balance sheet	4,189,954	-
Cr. Asset retirement obligation	(4,218,289)	-
Check total	-	-

Columbia Gas of Kentucky, Inc.

PCB Exposure in Main Pipe
Calculations and Analysis - Summary
For Year Ended December 31, 2005

PCBs in Distribution Pipeline:
Provided by Vicki Flesher, Nisource, on December 9, 2005

Asset Description	Cost Estimate	In-service Date	Contamination Date	Regulation Date	Life Estimate	Miles of Pipeline	Feet of Pipeline	Option 1 Grouting Cost	Option 2 Internal labor cost	Average cost
System # 32010143	4,335,830	1952	1958	1978	20 - 80 yrs	216.10	1,141,008	4,564,032	4,107,629	4,335,830
Total	**4,335,830**					216.10	1,141,008	4,564,032	4,107,629	4,335,830

Comments:
Per Dave Schwarzwaelder, in-service dates range from 100 years ago to present, spanning 105 years.
105 / 2 = 52.5 yrs ago for in-service date
2005 - 53 = 1952

Columbia Gas of Kentucky, Inc.

PCB Exposure in Main Pipe
Calculations and Analysis - Journal Entries and Balances
For Year Ended December 31, 2005

Key Assumptions	Sys#32010143	
In Service Date	1952	Per Assumptions tab
Contamination date	1958	Per Assumptions tab
Obligation Date	1978	Per Assumptions tab
Later of In Service/Contamination Date	1978	Per Assumptions tab
Today's Date	2005	Per Assumptions tab
Estimated Lives	50	Per Assumptions tab
Estimated Settlement Date	2006	Per Assumptions tab
Cost of removal	4,335,830	Per Assumptions tab
Years until settlement	1	
Discount rate	6.38%	
Inflation rate	3.50%	Per Assumptions tab

	Sys#32010143
Later of In Service/contamination date	1978
Today's Date	2005
Estimate Settlement Date	2006
Years from inservice date	27
Years until removal	1
Total life	28
Cost of removal:	
- at current date	4,335,830
- at settlement date	4,487,584
- at inservice date (discounted) (ARC)	**793,370**
- at current date (discounted)	4,218,289
2005 impacts	
Asset retirement cost	28,335
Asset retirement obligation	4,218,289
Total cumulative effect	4,189,954
- depreciation impact	**765,035**
- accretion impact	**3,424,919**
2006 impacts	
Annual depreciation expense	28,335
Annual inflation expense	147,640
Annual accretion	269,296

Columbia Gas of Kentucky, Inc.
Asset Retirement Obligations - Cut & Capped Pipe
Calculation and Analysis of System activity for 2005

2005 ARO Model

Key Assumptions	CKY	
In Service Date	1960	Estimated average in-service date of pipe
Obligation Date	2000	Est avg date of when states adopted DOT Reg.
Later of In Service/Obligation Date	2000	
Today's Date	2005	
Cost of removal	4,272,013	Per Work Order Analysis
Years until settlement	25	Estimated average remaining life of assets
Estimated Settlement Date	2030	
Discount rate	6.384%	
Inflation rate	3.500%	

Later of In Service/Obligation Date	2000
Today's Date	2005
Estimate Settlement Date	2030
Years from inservice date	5
Years until removal	25
Total life	30
Cost of removal:	
- at current date	4,272,013
- at settlement date	10,095,813
- at inservice date (discounted) (ARC)	1,577,073
- at current date (discounted)	2,148,985
2005 Impacts	
Net Asset retirement cost	1,314,228
Asset retirement obligation	2,148,985
Total cumulative effect	834,758
- depreciation impact	262,846
- accretion impact	571,912
Asset to record	1,577,073
2006 impacts	
Annual depreciation expense	52,569
Annual inflation expense	75,214
Record Asset	
Dr. Plant in Service (100113101)	1,577,073
Cr. ARO Liability Additions (361821230)	(1,577,073)
Record Accumulative Accretion	
Dr. Regulatory Cost of Removal (361705254)	571,912
Cr. ARO Liability Additions (361822230)	(571,912)
Record Accumulative Depreciation	
Dr. Regulatory Cost of Removal (361705254)	262,846
Cr. Accumulated Depreciation (100213108)	(262,846)
Record Accumulative Accretion	
Dr. ARO regulatory asset (131060182)	
Cr. ARO Liability Additions (361822230)	
Record Accumulative Depreciation	
Dr. ARO regulatory asset (131060182)	
Cr. Accumulated Depreciation (100213108)	

Columbia Gas of Kentucky, Inc.
Asset Retirement Obligations - Cut & Capped Pipe
Calculation and Analysis of System activity for 2005
Calculation of cost per mile to remove cut and capped pipe

2005 ARO Work Order Analysis

Distribution	Total Removal Costs 2005	Estimated % of legal Costs (cut and cap)	Estimated $ of legal Costs (cut and cap)	Remaining Useful Life (On average	Total Gross costs from 1/1/06	12-31-05 Pipe Milage in System	Estimated Cut and Cap Cost per Mile
CKY	488,230	35%	170,881	25	4,272,013	2,530	1,688.5
Cash Flow	488,230		170,881		4,272,013	2,530	

Columbia Gas of Kentucky
Estimated Cost of Removal in Accumulated Depreciation, Depletion, and Amortization
As of December 31, 2005

GPA	COR * Percent	Salvage * Percent	Allocation ** Formula	Accum DD&A	Amount Allocated to Cost of Removal	**Amount Allocated to ARO COR**
374.40	0.00	0.00	0.0000	101,925	-	
374.50	0.00	0.00	0.0000	576,052	-	
375.20	10.00	0.00	0.0909	5,480	498	
375.30	10.00	0.00	0.0909	10,860	987	
375.40	10.00	0.00	0.0909	294,866	26,806	
375.60	10.00	0.00	0.0909	35,171	3,197	
375.70	0.00	0.00	0.0000	1,725,181	-	
375.80	0.00	0.00	0.0000	20,477	-	
376.00	15.00	0.00	0.1304	39,472,980	4,313,892	
376 Cap & Cut						**834,758**
376 ARO	15.00	0.00	0.1304	2,574,974		**335,866**
378.10	5.00	0.00	0.0476	264,333	12,587	
378.20	5.00	0.00	0.0476	1,991,970	94,856	
378.30	5.00	0.00	0.0476	24,147	1,150	
379.10	0.00	0.00	0.0000	244,249	-	
380.00	50.00	0.00	0.3333	48,089,475	16,029,825	
[illegible]	0.00	0.00	0.0000	3,518,317	-	
382.00	5.00	0.00	0.0476	2,964,601	141,171	
383.00	5.00	0.00	0.0476	918,638	43,745	
384.00	0.00	0.00	0.0000	1,607,037	-	
385.00	5.00	0.00	0.0476	914,165	43,532	
387.20	0.00	0.00	0.0000	99,279	-	
387.41	0.00	0.00	0.0000	193,936	-	
387.42	0.00	0.00	0.0000	435,019	-	
387.44	0.00	0.00	0.0000	46,407	-	
387.45	0.00	0.00	0.0000	344,257	-	
387.46	0.00	0.00	0.0000	94,402	-	
392.20	0.00	0.00	0.0000	44,690	-	
392.21	0.00	0.00	0.0000	3,399	-	
394.11	0.00	0.00	0.0000	151,152	-	
396.00	0.00	25.00	0.0000	575,431	-	
Other	0.00	0.00	0.0000	(5,744)	-	
RWIP	0.00	0.00	0.0000		-	
Amortization	0.00	0.00	0.0000	2,713,593	-	
			f/s =	**110,050,716**	20,712,246	1,170,624
			Percent of DD&A that is COR =		19.88%	**21,882,870**

* Cost of Removal (COR) and Salvage percentages based on Gannett Fleming Consultants Depreciation Study as of December 31, 2001

** Allocation Formula = COR % / (100 + COR % - Salvage %)

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 171:

Please refer to NiSource's December 31, 2008 Form 10-K Report, page 92. If not provided elsewhere, please provide the workpapers supporting the calculation of the regulatory liabilities for cost of removal of $1,315.2 million as of December 31, 2008 and $1,227.3 million as of December 31, 2007. Please provide these workpapers in electronic format (Excel), with all formulae intact. Provide the calculations on a plant account-by-plant account basis. In addition, for each plant account please provide the portion related to Columbia Gas of Kentucky and provide the calculation showing the allocation to Columbia Gas of Kentucky with all assumptions. Provide these calculations in Excel with all formulae intact.

Response:

The sum of $1,386.1 million for 2008 regulatory liabilities and other removal costs and the current portion of regulatory liabilities of $40.4 million (see page 84) agrees with Total Regulatory Liabilities reflected in Current Regulatory Liabilities and Other Regulatory Liabilities and Other Removal Costs of $1,426.5 million (page 92). The explanation for each category of difference is described in the regulatory liabilities table on page 92 and presented again below:

Regulatory liabilities and other removal costs (p. 84)	1,386.1
Current regulatory liabilities (p. 84)	40.4
Total Regulatory Liabilities and Other Removal Costs	**1,426.5**
All items presented below included on p. 92	
Cost of Removal	**1,315.2**
Regulatory effects of accounting for income taxes	38.1
Unrecognized pension benefit and other postretirement benefit costs	2.0
Transition capacity cost	20.8
Emission allowances	18.1
Derivatives	6.7
Other	25.6
Total Regulatory Liabilities and Other Removal Costs	**1,426.5**

Detail for the 10K information on an account by an account basis for all affiliates is not readily available.

The reclassification of cost of removal to a regulatory liability is for financial reporting purposes only. The reclassification does not apply to regulatory reporting. As such, the information is not contained within the general ledger of Columbia Gas of Kentucky. The information provided for financial reporting purposes on an account by an account basis for Columbia Gas of Kentucky is included in the attachment labeled AG DR Set 1-171 Attachment A.

Columbia Gas of Kentucky
Estimated Cost of Removal in Accumulated Depreciation, Depletion, and Amortization
As Of December 31, 2008

GPA	COR * Percent	Salvage * Percent	Allocation ** Formula	Accum DD&A	Amount Allocated to **Non-Legal**	Amount Allocated to **ARO-Legal**
374.40	0.00	0.00	0.0000	124,496	-	
374.50	0.00	0.00	0.0000	673,713	-	
375.20	10.00	0.00	0.0909	5,523	502	
375.30	10.00	0.00	0.0909	10,948	995	
375.40	10.00	0.00	0.0909	314,927	28,630	
375.60	10.00	0.00	0.0909	40,358	3,669	
375.70	0.00	0.00	0.0000	2,121,307	-	
375.80	0.00	0.00	0.0000	25,786	-	
376.00	15.00	0.00	0.1304	43,268,573	4,398,599	
376 Cut & Cap						1,245,128
376 ARO PCB	15.00	0.00	0.1304	2,574,974		335,866
378.10	5.00	0.00	0.0476	263,026	12,525	
378.20	5.00	0.00	0.0476	2,223,225	105,868	
378.30	5.00	0.00	0.0476	27,335	1,302	
379.10	0.00	0.00	0.0000	261,813	-	
[illegible]	50.00	0.00	0.3333	51,024,582	17,008,194	
[illegible]	0.00	0.00	0.0000	4,063,730	-	
382.00	5.00	0.00	0.0476	3,356,476	159,832	
383.00	5.00	0.00	0.0476	1,027,527	48,930	
384.00	0.00	0.00	0.0000	1,640,703	-	
385.00	5.00	0.00	0.0476	933,051	44,431	
387.20	0.00	0.00	0.0000	(33,290)	-	
387.41	0.00	0.00	0.0000	243,858	-	
387.42	0.00	0.00	0.0000	498,444	-	
387.44	0.00	0.00	0.0000	57,471	-	
387.45	0.00	0.00	0.0000	427,837	-	
387.46	0.00	0.00	0.0000	103,342	-	
392.20	0.00	0.00	0.0000	40,214	-	
392.21	0.00	0.00	0.0000	3,399	-	
394.11	0.00	0.00	0.0000	208,194	-	
396.00	0.00	25.00	0.0000	552,542	-	
Other	0.00	0.00	0.0000		-	
RWIP	0.00	0.00	0.0000		-	
Amortization	0.00	0.00	0.0000	**2,722,434**	-	
			f/s =	**118,806,518**	21,813,476	1,580,994
		Percent of DD&A that is COR =			19.69%	**23,394,471**

* Cost of Removal (COR) and Salvage percentages based on Gannett Fleming Consultants Depreciation Study as of December 31, 2001

** Allocation Formula = COR % / (100 + COR % - Salvage %)

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 172:

Please refer to page 84 of NiSource's December 31, 2008 Form 10-K Report. Please reconcile the $1,386.1 million amount for 2008 regulatory liabilities and other removal costs with the $1,315.2 million amount shown on page 92 for cost of removal. Explain each category of difference.

Response:

The sum of $1,386.1 million for 2008 regulatory liabilities and other removal costs and the current portion of regulatory liabilities of $40.4 million (see page 84) agrees to Total Regulatory Liabilities reflected in Current Regulatory Liabilities and Other Regulatory Liabilities and Other Removal Costs of $1,426.5 million (page 92). The explanation for each category of difference is described in the regulatory liabilities table on page 92 and presented again below:

Regulatory liabilities and other removal costs (p. 84)	1,386.1
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Total Regulatory Liabilities and Other Removal Costs	**1,426.5**
All items presented below included on p. 92	
Cost of Removal	**1,315.2**
Regulatory effects of accounting for income taxes	38.1
Unrecognized pension benefit and other postretirement benefit costs	2.0
Transition capacity cost	20.8
Emission allowances	18.1
Derivatives	6.7
Other	25.6
Total Regulatory Liabilities and Other Removal Costs	**1,426.5**

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 173:

What impact, if any, did the application of FIN 47 have upon the proposed depreciation rates and expense in this rate case? Provide all workpapers supporting the answer. If the application of FIN 47 had no impact please explain why not.

Response:

FIN 47 had no impact on the proposed depreciation rates and expense in this rate case. FIN 47 is a financial reporting requirement and has nothing to do with regulatory depreciation.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 174:

Provide an analysis of the regulatory liability for accrued asset removal costs since the regulatory liability was established, identifying and explaining each debit and credit entry and amount. Also, provide the copies of the pages from each of Columbia's SEC Form 10Ks and 10Qs and Columbia's Annual Reports in which SFAS No. 143 was ever mentioned, whether or not Columbia had quantified an amount of the regulatory liability at the time. Specify the exact date each of these reports was issued and released to the public.

Response:

Columbia adopted SFAS 143 effective January 1, 2003 for financial reporting purposes only. Regulatory reporting was not affected by the adoption of SFAS 143. Copies of Columbia's annual reports for years 2003-2008 were provided in response to AG DR Set 1-160. All annual reports were filed by the required due date of March 31 following the close of the reporting period. Since the annual reports are regulatory reporting purposes, SFAS 143 is not reflected in said reports. Columbia Gas of Kentucky does not file with the SEC.

Please refer to the attachment labeled AG DR Set 1-174 Attachment A which details the monthly entries for SFAS 143 from implementation on December 2003 through December 2008.

Columbia Gas of Kentucky, Inc.

Non Legal Regulatory Liability
Cost of Removal imbedded in the Depreciation Reserve
For Months December 2003 through December 2008

	Reclass for COR imbedded in reserve		Reclass COR as legal obligation				
Month/ Year	Debit (108) - Depr Reserve	Credit (254) - Reg Liability	Debit (254) - Reg Liability	Credit (182) - ARO Liability	Cumulative Bal. (108) Depreciation Reserve	Cumulative Bal. (254) - Regulatory Non-Legal Liability	Cumulative Bal. (182) - ARO Legal Liability
12/03	21,172,995	(21,172,995)			21,172,995	(21,172,995)	0
1/04	50,001	(50,001)			21,222,996	(21,222,996)	0
2/04	13,976	(13,976)			21,236,972	(21,236,972)	0
3/04	(64,346)	64,346			21,172,626	(21,172,626)	0
4/04	18,169	(18,169)			21,190,795	(21,190,795)	0
5/04	49,089	(49,089)			21,239,885	(21,239,885)	0
6/04	23,600	(23,600)			21,263,485	(21,263,485)	0
7/04	69,600	(69,600)			21,333,085	(21,333,085)	0
8/04	(3,147)	3,147			21,329,938	(21,329,938)	0
9/04	170,635	(170,635)			21,500,573	(21,500,573)	0
10/04	33,146	(33,146)			21,533,719	(21,533,719)	0
11/04	47,004	(47,004)			21,580,723	(21,580,723)	0
12/04	42,488	(42,488)			21,623,211	(21,623,211)	0
1/05	62,417	(62,417)			21,685,628	(21,685,628)	0
2/05	60,566	(60,566)			21,746,194	(21,746,194)	0
3/05	59,440	(59,440)			21,805,634	(21,805,634)	0
4/05	86,174	(86,174)			21,891,808	(21,891,808)	0
5/05	(11,843)	11,843			21,879,965	(21,879,965)	0
6/05	32,559	(32,559)			21,912,524	(21,912,524)	0
7/05	47,396	(47,396)			21,959,920	(21,959,920)	0
8/05	49,736	(49,736)			22,009,656	(22,009,656)	0
9/05	66,439	(66,439)			22,076,095	(22,076,095)	0
10/05	53,670	(53,670)			22,129,765	(22,129,765)	0
11/05	(248,760)	248,760			21,881,005	(21,881,005)	0
12/05	1,865	(1,865)	1,170,624	(1,170,624)	21,882,870	(20,712,247)	(1,170,624)
1/06	53,184	(53,184)	15,813	(15,813)	21,936,054	(20,749,617)	(1,186,437)
2/06	31,913	(31,913)	15,813	(15,813)	21,967,967	(20,765,717)	(1,202,250)
3/06	21,323	(21,323)	15,813	(15,813)	21,989,290	(20,771,226)	(1,218,064)
4/06	34,471	(34,471)	15,813	(15,813)	22,023,761	(20,789,884)	(1,233,877)
5/06	34,713	(34,713)	15,813	(15,813)	22,058,474	(20,808,784)	(1,249,690)
6/06	30,724	(30,724)	15,813	(15,813)	22,089,198	(20,823,695)	(1,265,504)
7/06	40,849	(40,849)	15,813	(15,813)	22,130,047	(20,848,730)	(1,281,317)
8/06	42,436	(42,436)	15,813	(15,813)	22,172,483	(20,875,353)	(1,297,130)
9/06	36,403	(36,403)	15,813	(15,813)	22,208,886	(20,895,943)	(1,312,944)
10/06	53,551	(53,551)	15,813	(15,813)	22,262,437	(20,933,680)	(1,328,757)
11/06	45,986	(45,986)	15,813	(15,813)	22,308,423	(20,963,853)	(1,344,570)
12/06	54,432	(54,432)	109,871	(109,871)	22,362,855	(20,908,413)	(1,454,442)
1/07	28,530	(28,530)	15,813	(15,813)	22,391,385	(20,921,130)	(1,470,255)
2/07	53,764	(53,764)	15,813	(15,813)	22,445,149	(20,959,081)	(1,486,068)
3/07	44,309	(44,309)	22,764	(22,764)	22,489,458	(20,980,626)	(1,508,833)
4/07	46,450	(46,450)	18,130	(18,130)	22,535,908	(21,008,945)	(1,526,963)
5/07	34,706	(34,706)	18,130	(18,130)	22,570,614	(21,025,521)	(1,545,093)
6/07	52,616	(52,616)	18,130	(18,130)	22,623,230	(21,060,007)	(1,563,224)
7/07	49,549	(49,549)	18,130	(18,130)	22,672,779	(21,091,425)	(1,581,354)
8/07	26,298	(26,298)	18,130	(18,130)	22,699,077	(21,099,593)	(1,599,484)
9/07	11,678	(11,678)	18,130	(18,130)	22,710,755	(21,093,140)	(1,617,615)
10/07	52,591	(52,591)	18,130	(18,130)	22,763,346	(21,127,601)	(1,635,745)
11/07	17,385	(17,385)	18,130	(18,130)	22,780,731	(21,126,855)	(1,653,875)
12/07	47,744	(47,744)	(256,741)	256,741	22,828,474	(21,431,340)	(1,397,135)
1/08	67,060	(67,060)	18,130	(18,130)	22,895,535	(21,480,270)	(1,415,265)
2/08	44,455	(44,455)	18,130	(18,130)	22,939,990	(21,506,595)	(1,433,395)
3/08	60,931	(60,931)	9,704	(9,704)	23,000,921	(21,557,822)	(1,443,099)
4/08	47,702	(47,702)	15,322	(15,322)	23,048,623	(21,590,202)	(1,458,421)
5/08	57,702	(57,702)	15,322	(15,322)	23,106,324	(21,632,581)	(1,473,743)
6/08	27,114	(27,114)	15,322	(15,322)	23,133,439	(21,644,374)	(1,489,065)
7/08	71,695	(71,695)	15,322	(15,322)	23,205,134	(21,700,747)	(1,504,387)
8/08	4,612	(4,612)	15,322	(15,322)	23,209,747	(21,690,038)	(1,519,709)
9/08	43,242	(43,242)	15,322	(15,322)	23,252,988	(21,717,957)	(1,535,031)
10/08	23,803	(23,803)	15,322	(15,322)	23,276,791	(21,726,438)	(1,550,353)
11/08	56,742	(56,742)	15,322	(15,322)	23,333,534	(21,767,858)	(1,565,675)
12/08	60,937	(60,937)	15,319	(15,319)	23,394,471	(21,813,476)	(1,580,994)

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 175:

Provide Columbia's projection of the annual year-end balance in the regulatory liability for cost of removal obligations for Columbia, for the next 20 years. If not available for the next twenty years provide for as many years into the future that the projection is available. If this projection has not been made, please explain why not. Provide in electronic format (Excel) with all formulae intact.

a. For this projection assume that all of Columbia's proposed depreciation rates are approved as requested.
b. Explain all other assumptions used to make this projection.

Response:

Columbia of Kentucky (CKY) does not record a regulatory liability relating to cost of removal for regulatory purposes, it is a financial reporting requirement only. Since CKY does not record a regulatory liability relating to cost of removal for regulatory purposes, there is no projection required.

PSC Case No. 2009-00141
AG DR Set 1-176
Respondent(s): Robert Kriner

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 176:

For all accounts for which Columbia has collected for non-legal AROs (AROs for which Columbia does not have a legal obligation as defined in SFAS No. 143), but instead recorded a regulatory liability (regulatory liability for cost of removal), please provide the fair value of the related asset retirement cost as of December 31, 2003; December 31, 2004; December 31, 2005, December 31, 2006, December 31, 2007 and December 31, 2008. For the purposes of this question, assume that Columbia has legal AROs for these accounts, and use the life and dispersion assumptions reflected in Mr. Spanos' depreciation study.

Response:

AROs are identified for financial reporting purposes only. They are not required to be identified nor reported for regulatory purposes.

Please refer to the attachment labeled AG DR Set 1-176 Attachment A.

Columb·ia Gas of Kentucky, Inc.
Asset rement Obligations (AROs)
Annual Cumulative Journal Entries and Balances for 2003-2008
As of December 31, 2008

		2003	2004	2005	2006	2007	2008
Non-Legal Retirement Obligations							
SFAS 143 - Cost of Removal in Reserve	100-213-108	21,172,995	450,216	(910,965)	196,167	522,931	382,132
Non-Legal Regulatory Liability	361-705-254	(21,172,995)	(450,216)	910,965	(196,167)	(522,931)	(382,132)
Cumulative Balance	100-213-108	21,172,995	21,623,211	20,712,246	20,908,414	21,431,344	21,813,476
	361-705-254	(21,172,995)	(21,623,211)	(20,712,246)	(20,908,414)	(21,431,344)	(21,813,476)

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 177:

Provide the calculation of the annual amount of future gross salvage, cost of removal and net salvage incorporated into Columbia's existing depreciation rates and in its proposed depreciation rates by account. If any of the amounts are reduced by the total amount of non-legal AROs included in year-end accumulated depreciation, show that calculation.

Response:

The attached schedule, labeled Attachment A AG 1-177-CGK08.xls, sets forth the annual amount of future net salvage incorporated into Columbia of Kentucky's current depreciation rates and in its proposed depreciation rates by account as of December 31, 2008. There are no amounts adjusted in the year-end accumulated depreciation.

COLUMBIA GAS OF KENTUCKY, INC.

COMPARISON OF THE ANNUAL AMOUNT OF FUTURE NET SALVAGE USING
CURRENT VS. PROPOSED PERCENTAGES AS OF DECEMBER 31, 2008

			Current			Proposed		
	Depreciable Group	Original Cost at December 31, 2008	Net Salvage	Future Net Salvage Rate	Future Net Salvage Amount	Net Salvage	Future Net Salvage Rate	Future Net Salvage Amount
	(1)	(2)	(3)	(4)	(5)=(2)*(4)	(6)	(7)	(8)=(2)*7)
	DEPRECIABLE PLANT							
	DISTRIBUTION PLANT							
	Land and Land Rights							
374.4	Land Rights	555,084.60	0	0.00	0.00	0	0.00	0.00
374.5	Rights-of-Way	2,668,348.92	0	0.00	0.00	0	0.00	0.00
	Total Account 374	3,223,433.52			0.00			0.00
	Structures and Improvements							
375.34	Measuring and Regulating	732,654.88	(10)	0.31	2,271.23	(10)	0.36	2,637.56
375.7	Other Distribution System							
	Other Buildings	7,000,103.15	0	0.00	0.00	0	0.00	0.00
	Distribution System Structures	179,280.37	0	0.00	0.00	0	0.00	0.00
	Total Account 375.70	7,179,383.52			0.00			0.00
375.8	Communication Structures	33,260.58	0	0.00	0.00	0	0.00	0.00
	Total Account 375	7,945,298.98			2,271.23			2,637.56
376	Mains							
	Cast Iron	287,300.46	(15)	0.22	632.06	(15)	0.23	660.79
	Bare Steel	18,226,235.82	(15)	0.22	40,097.72	(15)	0.26	47,388.21
	Coated Steel	38,761,932.46	(15)	0.22	85,276.25	(15)	0.27	104,657.22
	Plastic	79,314,158.63	(15)	0.22	174,491.15	(15)	0.27	214,148.23
	Total Account 376	136,589,627.37			300,497.18			366,854.45
378	Meas and Reg Sta. Equip. - General	4,838,300.25	(5)	0.13	6,289.79	(10)	0.23	11,128.09
379.1	Meas and Reg Sta. Equip. - City Gate	257,908.74	(5)	0.12	309.49	(10)	0.12	309.49
380	Services	80,363,819.98	(50)	1.21	972,402.22	(60)	1.17	940,256.69
381	Meters	11,782,894.09	0	0.00	0.00	0	0.00	0.00
382	Meter Installations	7,818,665.10	(5)	0.19	14,855.46	(10)	0.37	28,929.06
383	House Regulators	3,575,312.32	(5)	0.15	5,362.97	(5)	0.25	8,938.28
384	House Regulator Installations	2,327,988.32	0	0.00	0.00	0	0.00	0.00
385	Industrial Meas and Reg Equipment	2,717,196.56	(5)	0.17	4,619.23	(5)	0.26	7,064.71
	Other Equipment							
387.2	Odorization	28,895.00	0	0.00	0.00	(5)	1.93	557.67
387.4	Customer Information Services	3,224,772.73	0	0.00	0.00	(5)	0.23	7,416.98
	Total Account 387	3,253,667.73			0.00			7,974.65
	TOTAL DISTRIBUTION PLANT	264,694,112.96			1,306,607.58			1,374,092.99
	GENERAL PLANT							
	Office Furniture and Equipment							
391.1	Furniture	1,213,530.11	0	0.00	0.00	0	0.00	0.00
391.11	Equipment	13,816.01	0	0.00	0.00	0	0.00	0.00
391.12	Information Systems							
	Fully Amortized	17,258.23						
	Amortized	252,455.59	0	0.00	0.00	0	0.00	0.00
		269,713.82			0.00			0.00
	Total Account 391	1,497,059.94						
392.2	Transportation Equipment - Trailers	116,618.37	0	0.00	0.00	0	0.00	0.00
	Tools, Shop and Garage Equipment							
394	Equipment	1,974,686.20	0	0.00	0.00	0	0.00	0.00
394.11	CNG Facilities	335,308.07	0	0.00	0.00	0	0.00	0.00
	Total Account 394	2,309,994.27			0.00			0.00
395	Laboratory Equipment	10,307.98	0	0.00	0.00	0	0.00	0.00
396	Power Operated Equipment	653,814.37	25	0.00	0.00	25	0.00	0.00
398	Miscellaneous Equipment							
	Fully Amortized	3,290.19						
	Amortized	75,641.98	0	0.00	0.00	0	0.00	0.00
	Total Account 398	78,932.17			0.00			0.00
	TOTAL GENERAL PLANT	4,666,727.10			0.00			0.00
	TOTAL DEPRECIABLE PLANT	269,360,840.06			1,306,607.58			1,374,092.99

PSC Case No. 2009-00141
AG DR Set 1-178
Respondent(s): Robert Kriner

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 178:

With respect to the Regulatory Liability relating to cost of removal obligations which Columbia reclassified out of accumulated depreciation:

a. Do you agree that this constitutes a regulatory liability for regulatory purposes in Kentucky? If not, please explain why not.
b. Do you agree that this amount is a refundable obligation to ratepayers until it is spent on its intended purpose (cost of removal)? If not, why not?
c. Please explain the repayment provisions associated with this regulatory liability.
d. Please explain when you expect to spend this money for cost of removal.
e. Please explain what you have done with this money as you have collected it. If you claim that it has been spent on plant additions, please provide evidence of same.
f. Identify and explain all other similar examples of Columbia's advance collections of estimated future costs for which it does not have a legal obligation.
g. Does Columbia agree that the KY PSC will never know whether or not Columbia will actually spend all of this money for cost of removal until and if Columbia goes out of business? If not, why not?
h. Does Columbia believe that amounts recoded in accumulated depreciation represent capital recovery? If not, why not?
i. Whose capital is reflected in accumulated depreciation – shareholders' or ratepayers'?

Response:

a) No, the reclassification relating to the cost of removal under SFAS 143 was made for financial reporting purposes and has no impact on regulatory reporting or regulatory depreciation.
b) No, please refer to the response to part (a) of this request.
c) Please refer to the response to part (a) of this request.
d) Columbia expends cash associated with cost of removal as actual costs are incurred in the removal/retirement of assets during the normal rendition of gas utility service.

e) Please refer to the response to part (d) of this request.
f) Columbia uses accrual accounting as required by the uniform system of accounts. The recognition of expenses and revenues are not coincident with cash payments.
g) No, as explained in the response to part (d) of this request, Columbia expends cash associated with the removal of assets. This information is recorded in the fixed asset system as costs are incurred.
h) No. Depreciation is a process of allocating costs over time and not a process of recovering capital. Depreciation accounting distributes the cost of assets less salvage over the asset's estimated useful life in a systematic and rational manner. The entry to record depreciation expense for an asset also records accumulated depreciation reducing the net book value of that asset.
i) Please refer to the response to part (h) of this request.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 179:

Does Columbia agree to remove each asset for which it is collecting cost of removal and does it agree to spend all of the money it is collecting for cost of removal, on cost of removal? If the answer is yes, explain why Columbia does not have legal AROs under the principal of promissory estoppel. Please explain.

Response:

Columbia will remove/retire assets as required/necessary in the normal course of rendering gas utility service. Please refer to the response to AG DR Set 1-178 regarding expending funds for cost of removal.

Columbia objects to the last two parts of the question on the grounds that the question calls for the rendering of a legal opinion.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 180:

Does Columbia consider that it is bound by SEC regulations to record accruals for future costs of removal as regulatory liabilities?

a. If so, please provide a record of those accruals in as much account detail as is available along with the workpapers used to develop those accruals.
b. If not, please explain why not.
c. State whether the Company proposes to separate retirement cost accounting from depreciation accounting, with separate rates and reserves. If the Company does not propose such separation, please state fully the reasons for not doing so.

Response:

Columbia is bound by SEC regulations to record cost of removal as regulatory assets for financial reporting purposes only. Columbia is not bound by SEC reporting to record cost of removal as regulatory assets for regulatory reporting purposes.

a) Please refer to the response to the first part of this request above.
b) Please refer to the response to the first part of this request above.
c) Columbia is unfamiliar with the terms "retirement cost accounting" and "depreciation accounting". Never the less, Columbia does not anticipate changing the current accounting.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 181:

Please provide any forecasts of environmental remediation costs included in the depreciation study. Describe fully the nature of each project. Identify the site, the amount of the cost, the timing of the expenditure, and the reason(s) for the expenditure.

Response:

No forecasts of environmental remediation costs are included in the depreciation study. Environmental remediation costs are not capitalized for Columbia Gas of Kentucky.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 182:

Identify all directives from the Environmental Protection Agency or state environmental agencies that affect or might affect the Company's obligations to incur environmental remediation costs. Describe fully the likely effect on Columbia. Quantify any associated costs.

Response:

At this time the company is not conducting any environmental remediation under direction from the US Environmental Protection Agency (USEPA) or the Kentucky Department of Environmental Protection (KYDEP).

The company, as with any gas distribution company that has operated for decades, could be identified as a potentially responsible party at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws. In addition, the company could also be responsible for corrective action under the Resource Conservation and Recovery Act (RCRA) for closure and clean up costs associated with underground storage tanks, and under Toxic Substance Control Act for clean up of PCBs. At this time The Toxic Substance Control Act is undergoing USEPA review and revisions could prompt the company to assess distribution pipelines for PCB impacts, however at this time the timing and scope of any potential agency requirements is not known.

In summary at this time there are not any environmental remediation activities at the company and thus no associated costs.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 183:

Please identify and describe the level of detail, e.g. by account, functional category, at which the Company computes the depreciation expense for purposes of financial reporting, Commission reporting, and ratemaking in this case. Explain fully any differences among these three depreciation calculations.

Response:

The Company computes depreciation expense by specific gas utility account and categorizes the utility accounts by functional category. There are no differences in the way depreciation is calculated for financial reporting, Commission reporting, or ratemaking purposes.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 184:

State whether the Company has forecast any non-legal ARO's that it does not regard as regulatory liabilities. Please describe these costs in detail, state fully the reason(s) for your belief that such forecast costs are not regulatory liabilities, and identify the forecast amounts of such removal costs in as much detail as is available. Provide the supporting documentation for each forecast amount.

Response:

The Company has not forecast any non-legal AROs. The transfer of cost of removal to regulatory liabilities and AROs under SFAS 143 is for financial reporting purposes only.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 185:

Please provide copies of all presentations made to rating agencies and/or investment firms by NiSource, Columbia Energy Group, and/or Columbia Gas of Kentucky, Inc. between January 1, 2007 and the present.

Response: Columbia Gas of Kentucky, Inc.

Columbia Gas of Kentucky, Inc. (Company) is a wholly owned subsidiary of Columbia Energy Group, which is a subsidiary of NiSource Inc. (Parent). All debt of the Company is held by the Parent and is not publicly traded or rated.

Response: NiSource Inc.

Presentations made by the Company in 2007 are included in attachments A and B.

Presentations made by the Company in 2008 are included in attachments C, D and E.

Presentations made by the Company in 2009 are included in attachments F, G, H, I and J.

NiSource®

Bob Skaggs, President & CEO

UBS 2007 Natural Gas & Electric Utilities Conference
March 1, 2007

Forward-Looking Statement

"Safe Harbor" Statement
March 1, 2007

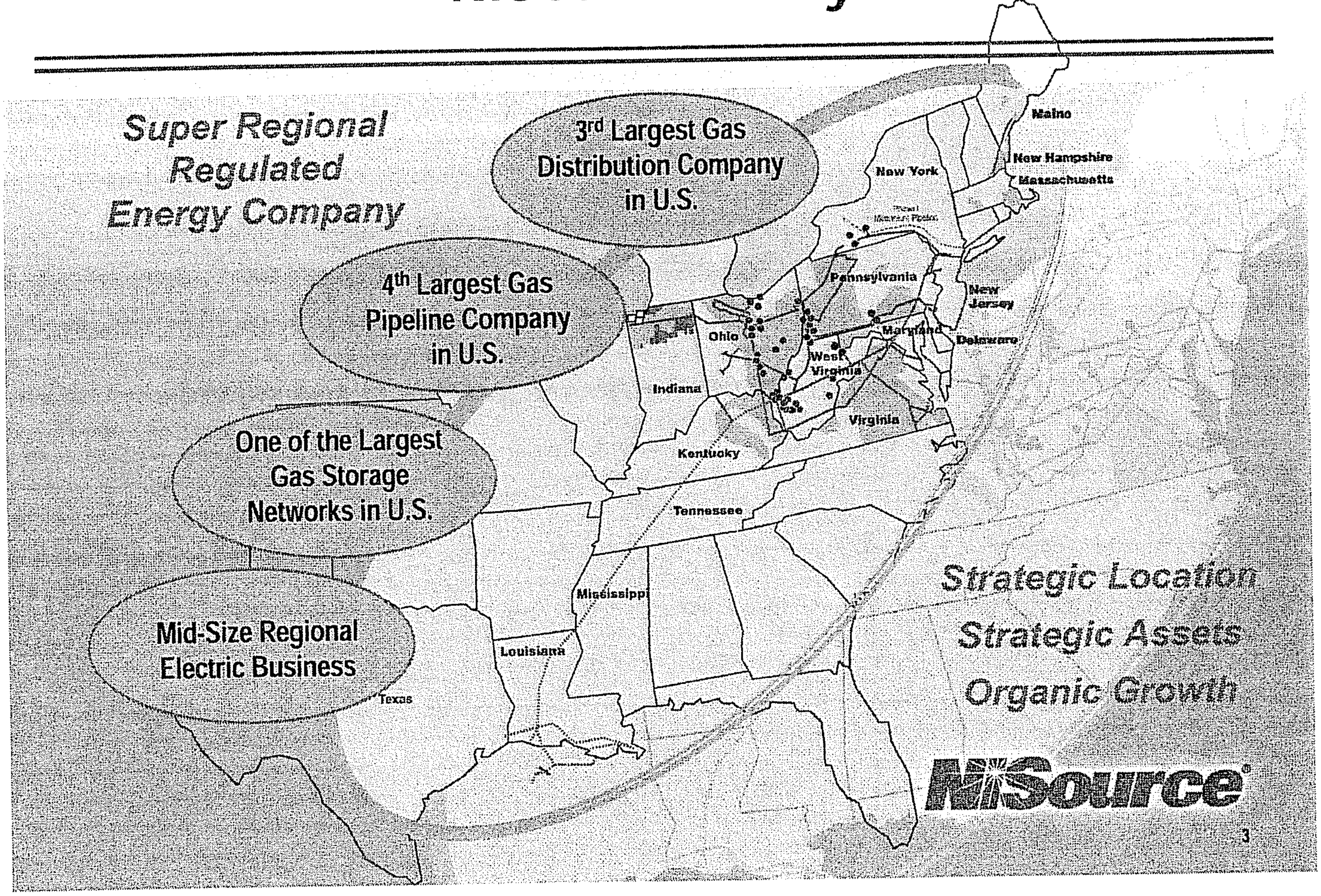
Some of the statements made in this document will be forward-looking statements within the meaning of the safe-harbor provisions of the U.S. federal securities laws. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Information concerning factors that could cause actual results to differ materially is included in the Management's Discussion and Analysis section of our Form 10-Q quarterly report for the third quarter 2006, which was filed November 2, 2006, with the SEC.

Reg G Disclosure

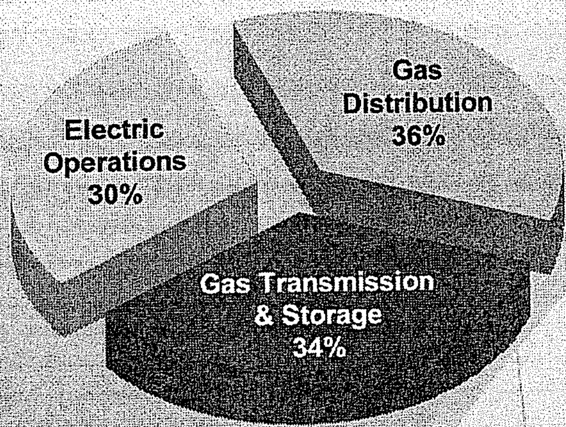
In addition, this document and today's discussion include certain non-GAAP financial measures as defined by the SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is contained in Schedules 1 and 2 of the attached news release dated January 30, 2007. This release is also available on our Investor Relations website at www.nisource.com

NiSource®

NiSource Today



Balanced/Low Risk Portfolio



100% of Operating Earnings From Regulated Businesses

Stable Credit Ratings

Moody's – Baa3 | **S&P – BBB** | **Fitch - BBB**

NiSource®

2006 Financial Performance

- Solid 2006 Performance
  - 2006 Operating Earnings (non-GAAP) of $388.5 Million, or $1.43 Per Share (3.6% Increase Over 2005)
    - Increased Pipeline Optimization Revenue
    - Electric Operations Earnings Growth; Strong Industrial Markets
    - Reduced Interest Expense
- 2006 Challenges
  - LDC Customer Usage/Attrition Issue
  - Increased WCE Losses

NiSource®

Destination: Premier Regulated Energy Company

A Solid Four-Point Strategy with a Clear Path Forward

2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011

Stabilization

- Strengthening the Balance Sheet
- Managing Regulatory & Commercial Transitions

Four-Point Platform for Growth

- Expansion and Commercial Growth of our Pipeline and Storage Business
- Regulatory and Commercial Initiatives
- Financial Management of the Balance Sheet
- Process & Expense Management

Strategic Review

Path Forward

Long-Term Sustainable Growth

Gas Transmission & Storage Expansion and Commercial Growth

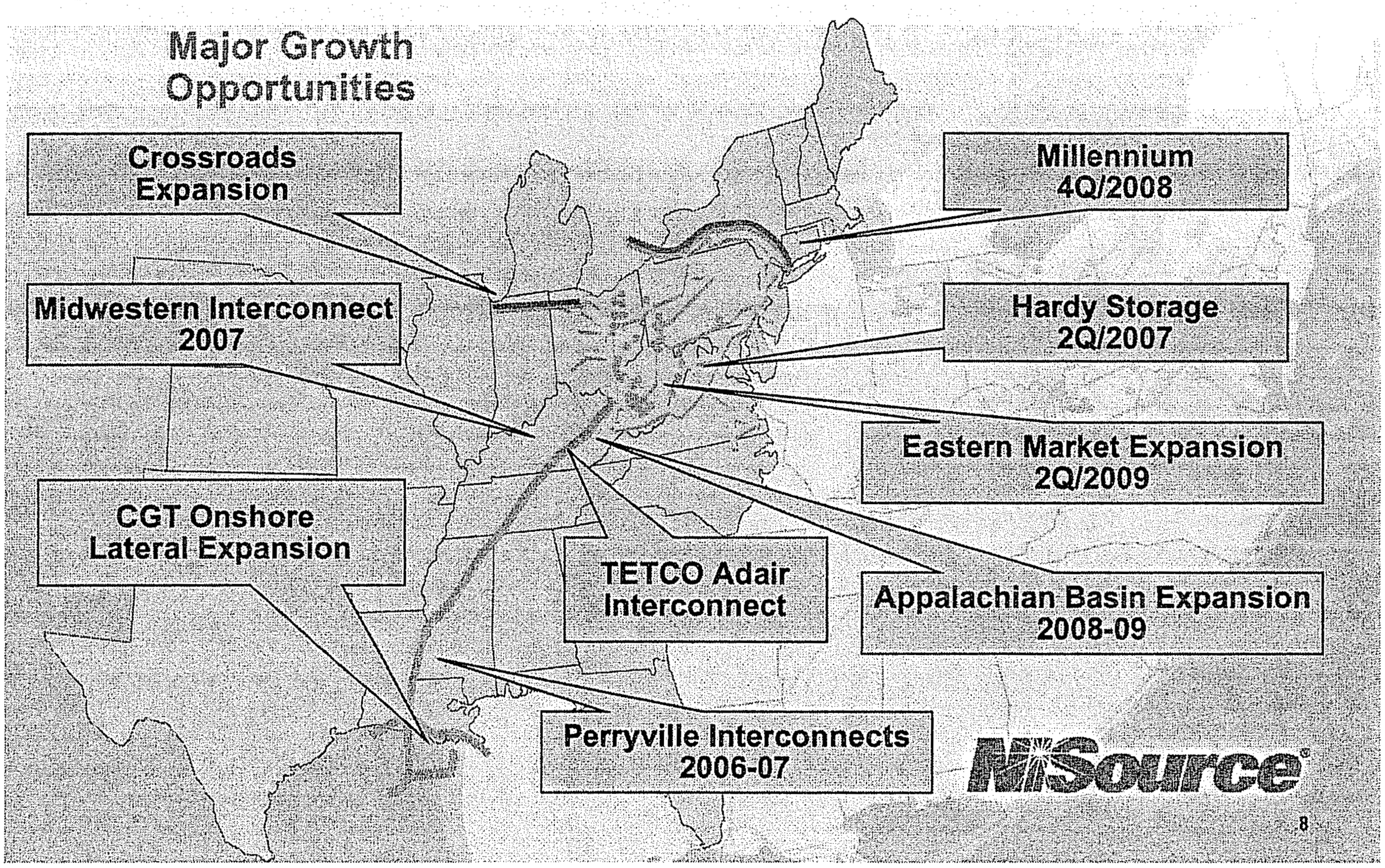
- Maximize Value from Existing GT&S Assets
- Disciplined Investment in Storage and Pipeline Expansion Projects

2006 Progress

- Nearly $50M in Pipeline Optimization
- Millennium Pipeline FERC Approval
- Hardy Storage on Schedule for April 2007
- Fully Subscribed Eastern Market Expansion
- TETCO Adair Interconnect Completed
- Progress on Additional Growth Projects

NiSource

GT&S Expansion and Commercial Growth



Regulatory and Commercial Initiatives

- Optimization and Logistics Growth
  - GT&S, LDC's
- Significant Long-term Infrastructure Investments
- Targeted Regulatory Initiatives
  - Rate Design Changes
  - Infrastructure Trackers
  - Base Rate Cases

- ✓ Bay State Gas Rate Increase (12/2005)
- ✓ Virginia (Settlement 12/2006)
- Indiana-Gas (~ 2Q/2007)
- Kentucky (Filed 2/2007)
- Pennsylvania (1Q/2008)
- Indiana-Electric (2007/2008)
- Ohio (2007/2008)

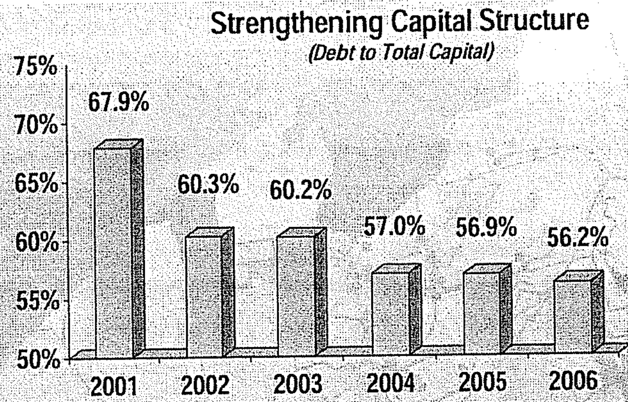
2006 Progress

- Deferral / Recovery of MISO Charges
- Comprehensive Settlement Agreement in Virginia
- NIPSCO Rate Simplification Filing
- Approval of Bay State's PBR Adjustment
- Laying Groundwork For Future Rate Initiatives

NiSource®

Financial Management of the Balance Sheet

- Maintain / Improve Financial Flexibility
- Maintain Competitive Cost of Capital
- Ensure Stable Investment Grade Ratings



2006 Progress

- $33 Million of Annual Interest Expense Savings
- New Amendment to Revolving Credit Facility
- Reaffirmed Investment Grade Credit with Stable Outlook

NiSource

Process and Expense Management

- Provide Safe, Reliable and Cost-Effective Service
- Relentless Focus on Continuous Improvement
- Capital Allocation Discipline

2006 Progress/2007 Update

- Unified Distribution Operating Model
- IBM Agreement
  - Commitment to Transform Systems & Processes
  - Currently Assessing Potential Adjustments
- GT&S Commercial System Upgrade
- Completed Corporate Streamlining Effort
- Refined Capital Allocation Standards

NiSource®

Unlocking Shareholder Value

2006 Corporate Initiatives

- WCE Reached a New Definitive Agreement with BP
  - Redefined Steam Pricing – Improved Financial Results in 2007
  - BP Will Seek Alternative Steam Sources by the End of 2009
- Financial / Strategic Review
  - Comprehensive Review
  - Commitment to Investment Grade
  - Transparent and Timely Communications - Update Progress in Early 2007

NiSource®

NiSource Strategic Destination

Premier Regulated Energy Company

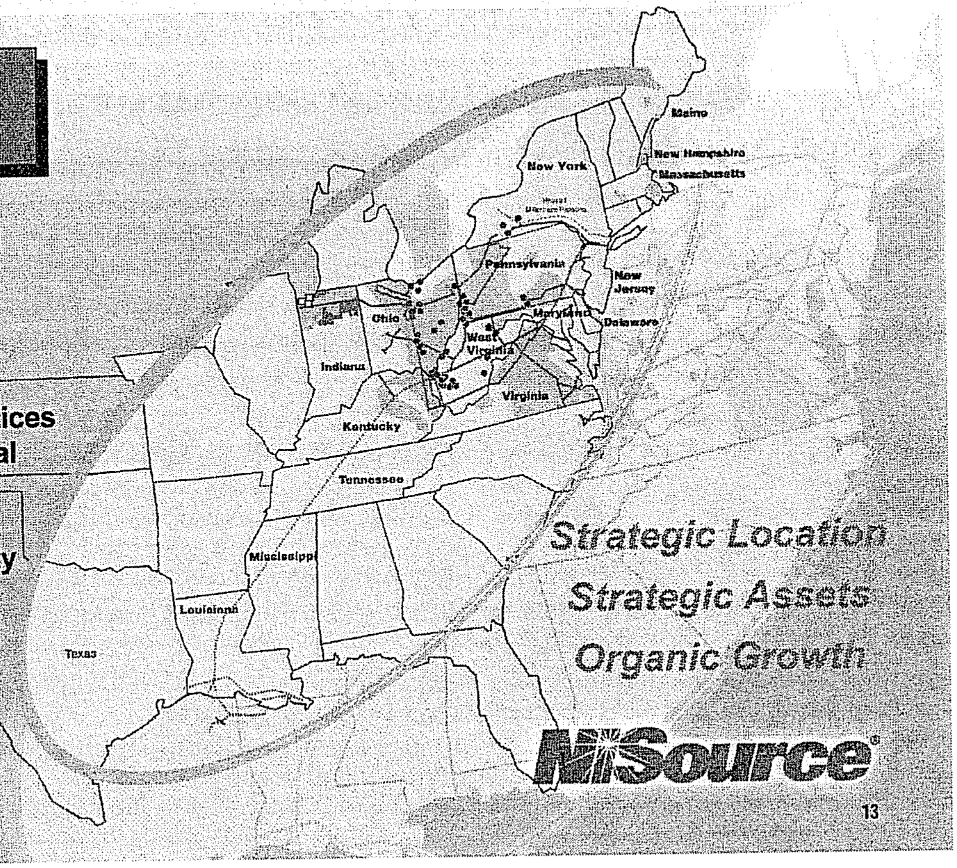
Strong Financial Profile

Robust, Sustainable Earnings Growth

Innovative Regulatory Practices and Constructive External Relationships

Premier Safety, Reliability and Service

Strong Foundation of Engaged, Aligned and Safe Employees



Strategic Location

Strategic Assets

Organic Growth

NiSource

NiSource®

Forward Looking Statement

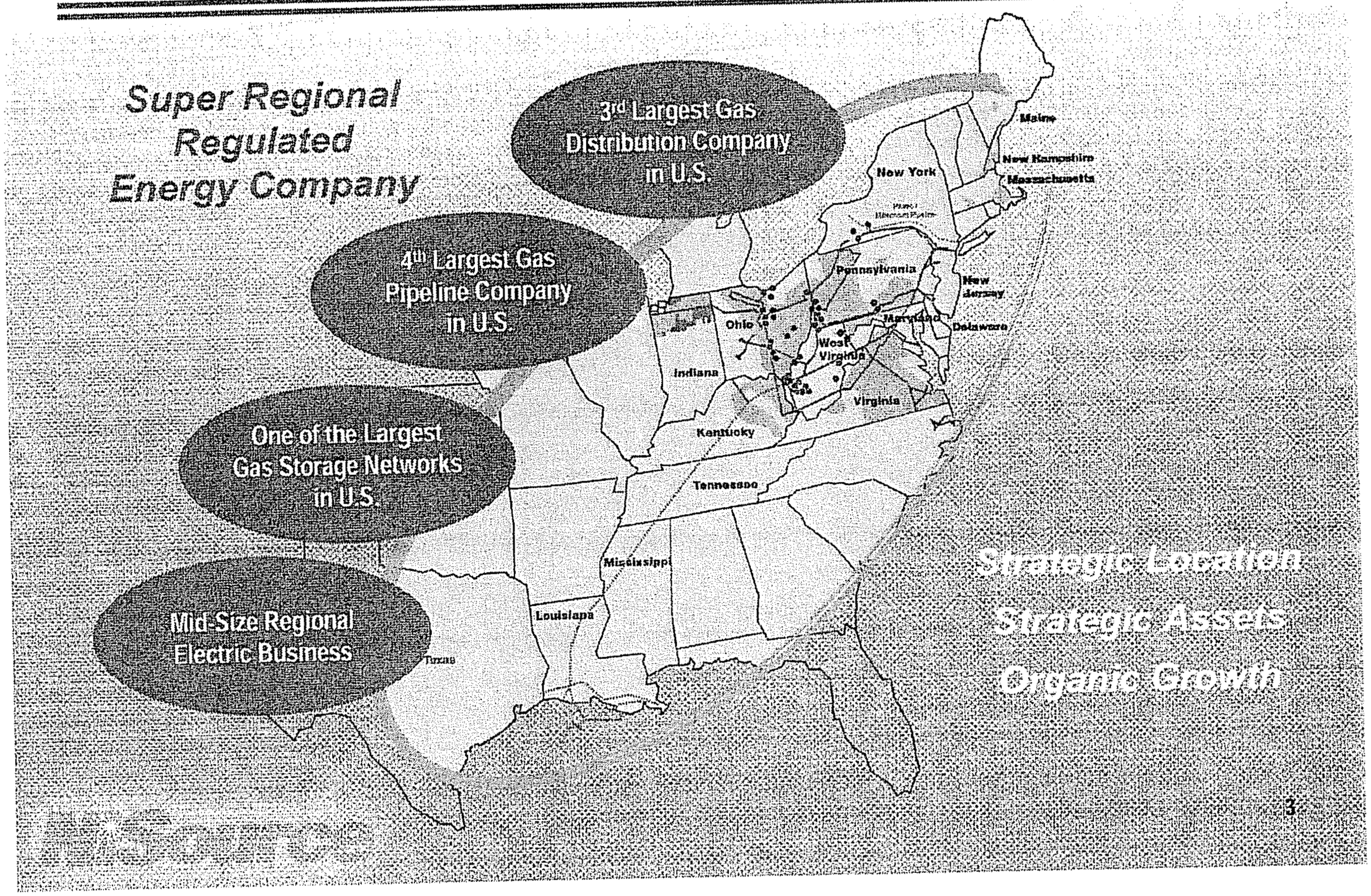
"Safe Harbor" Statement - May 8, 2007

Some of the statements made in this document will be forward-looking statements within the meaning of the safe-harbor provisions of the U.S. federal securities laws. These forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in the forward-looking statements. Information concerning factors that could cause actual results to differ materially is included in the Management's Discussion and Analysis section of our Form 10-K quarterly report for the year 2006, which was filed March 31, 2007, with the SEC and the quarterly 10-Q report filed May 4, 2007.

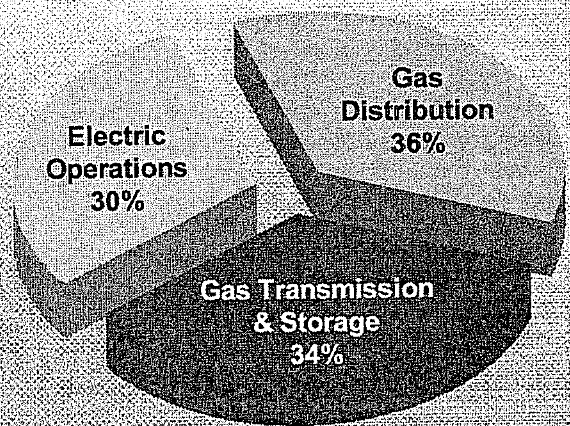
Reg G Disclosure

In addition, this document and today's discussion include certain non-GAAP financial measures as defined by the SEC Regulation G. A reconciliation of those measures to the most directly comparable GAAP measures is contained in Schedules 1 and 2 of the attached news release dated January 30, 2007. This release is also available on our Investor Relations website at
www.nisource.com

NiSource Today



Balanced Low/Risk Portfolio



100% of Operating Earnings From Regulated Businesses

2006 Financial Performance

- Solid 2006 Performance
  - 2006 Operating Earnings (non-GAAP) of $388.5 Million, or $1.43 Per Share (3.6% Increase Over 2005)
    - Increased Pipeline Optimization Revenue
    - Electric Operations Earnings Growth; Strong Industrial Markets
    - Reduced Interest Expense
- 2006 Challenges
  - LDC Customer Usage/Attrition Issue
  - Increased WCE Losses

Destination: Premier Regulated Energy Company

2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012

Four-Point Platform for Growth

- **Expansion and Commercial Growth of Pipeline and Storage Business**
- **Regulatory and Commercial Initiatives**
- **Financial Management of the Balance Sheet**
- **Process & Expense Management**

Strategic Review → Path Forward → Long-Term Sustainable Growth

- **Robust Infrastructure-Driven Growth**
- **Targeted Regulatory & Commercial Programs**
- **Strong Equity and Debt Currencies**

Gas Transmission & Storage Expansion & Commercial Growth

- Maximize Value from Existing GT&S Assets
- Disciplined Investment in Storage and Pipeline Expansion Projects

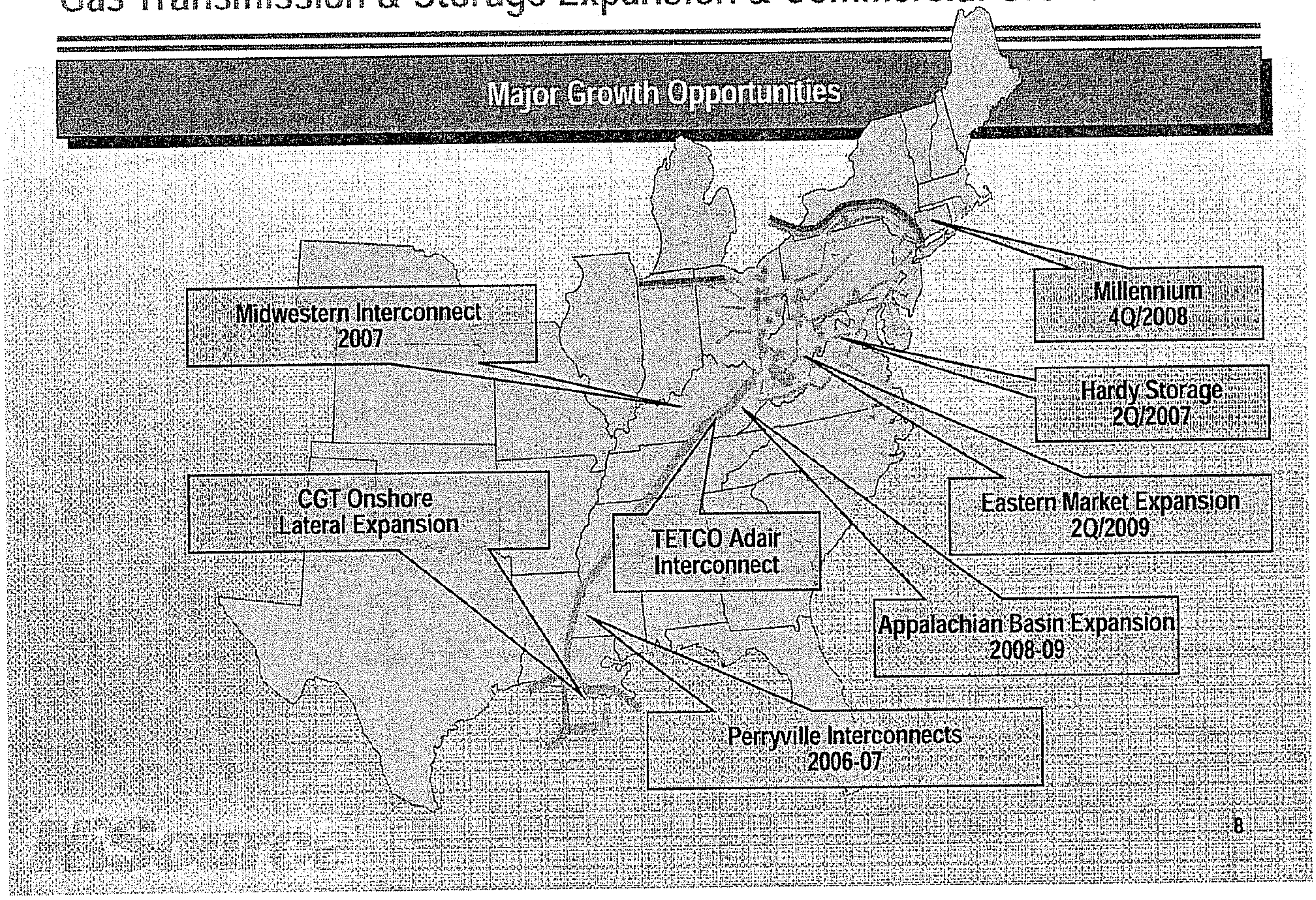
2006 Progress

- Nearly $50M in Pipeline Optimization
- Millennium Pipeline FERC Approval
- Hardy Storage on Schedule for April 2007
- Fully Subscribed Eastern Market Expansion
- TETCO Adair Interconnect Completed

Path Forward

- Hardy Service Commenced April 1, 2007
- Eastern Market Expansion Certificate Application Filed With FERC May 3, 2007
- Build Project Inventory
- Millennium on track for 2008 in-service

Gas Transmission & Storage Expansion & Commercial Growth



Regulatory and Commercial Initiatives

- Optimization and Logistics Growth
  - GT&S, LDC's
- Significant Long-term Infrastructure Investments
- Targeted Regulatory Initiatives
  - Revenue Increases
  - Rate Design Changes
  - Infrastructure Trackers

2006 Progress

- Deferral / Recovery of MISO Charges
- Comprehensive Settlement Agreement in Virginia
- NIPSCO Rate Simplification Filing
- Approval of Bay State's PBR Adjustment
- Laying Groundwork For Future Rate Initiatives

Path Forward

- Indiana-Gas (~ 2Q/2007)
- Kentucky (Filed 2/2007)
- Bay State (3Q/2007)
- Pennsylvania (1Q/2008)
- Indiana-Electric (2007/2008)
- Ohio (2007/2008)

Process & Expense Management

- Relentless Focus on Continuous Improvement
- Unwavering Capital Allocation Discipline

2006 Progress/2007 Update

- Unified Distribution Operating Model
- IBM Agreement
  - Commitment to Transform Systems & Processes
  - Currently Assessing Potential Adjustments
- GT&S Commercial System Upgrade
- Completed Corporate Streamlining Effort
- Refined Capital Allocation Standards

Path Forward

- Adjusted IBM Agreement – Fully Transformed Systems and Processes
- New Processes and Capabilities to Support Elevated Infrastructure Investment Levels
- New Distribution Operating Model

Financial Management of the Balance Sheet

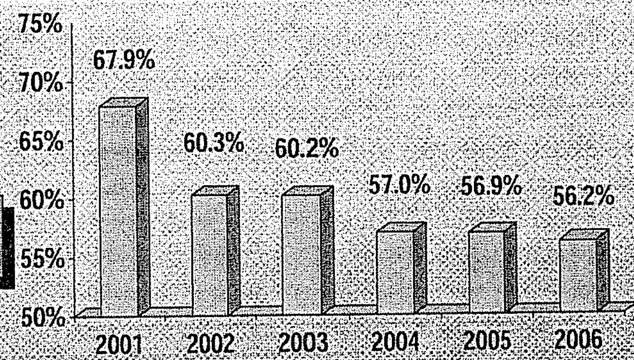
- Optimize Financial Flexibility
- Strengthen Equity and Debt Currencies

2006 Progress

- $33 Million of Annual Interest Expense Savings
- New Amendment to Revolving Credit Facility
- Reaffirmed Investment Grade Credit with Stable Outlook

Strengthening Capital Structure

(Debt to Total Capital)



Path Forward

- Financial/Strategic Review

Unlocking Shareholder Value

2006 Corporate Initiatives

- WCE Reached a New Definitive Agreement with BP
  - Redefined Steam Pricing – Improved Financial Results in 2007
  - BP Will Seek Alternative Steam Sources by the End of 2009
- Financial / Strategic Review
  - Enhance Financial Strength/Flexibility
  - Position NI for Long-Term Sustainable Growth

NiSource Strategic Direction

Premier Regulated Energy Company

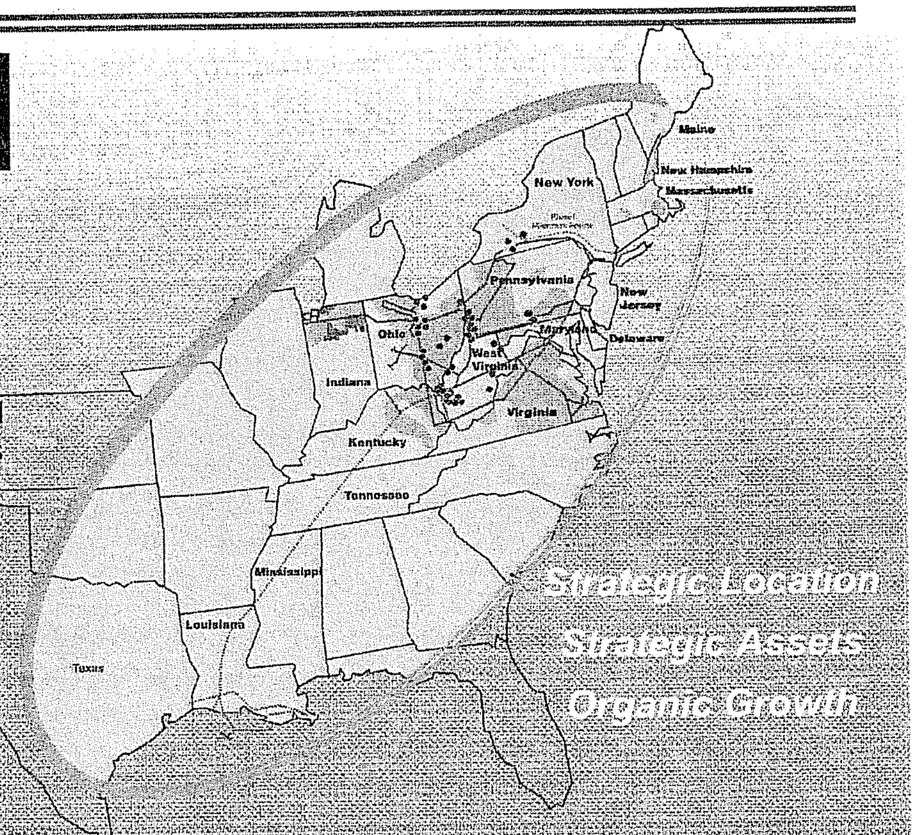
Strong Financial Profile

Robust, Sustainable Earnings Growth

Innovative Regulatory Practices and Constructive External Relationships

Premier Safety, Reliability and Service

Strong Foundation of Engaged, Aligned and Safe Employees

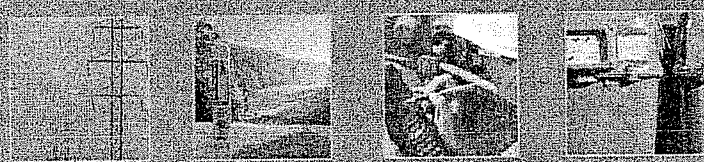


Strategic Location

Strategic Assets

Organic Growth

NiSource®



Strength Commitment Service Value

ASPIRATION

The Premier Regulated Energy Company in North America

Midwest Utilities Seminar

Bob Skaggs – President & CEO

April 10, 2008

NiSource®

Forward Looking Statements

This document contains forward-looking statements within the meaning of federal securities laws. These forward-looking statements are subject to various risks and uncertainties. The factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed herein include, among other things, weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the success of NiSource's restructured outsourcing agreement; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk, many of which are beyond the control of NiSource. These and other factors are detailed from time to time in the company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The company does not undertake any obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this presentation.

SERVICE

From the Gulf Coast through the Midwest to the Northeast, our portfolio of companies serves some of the nation's highest-value energy markets, with services ranging from natural gas transmission, storage and local distribution to electricity generation, transmission and distribution.

Gas Distribution

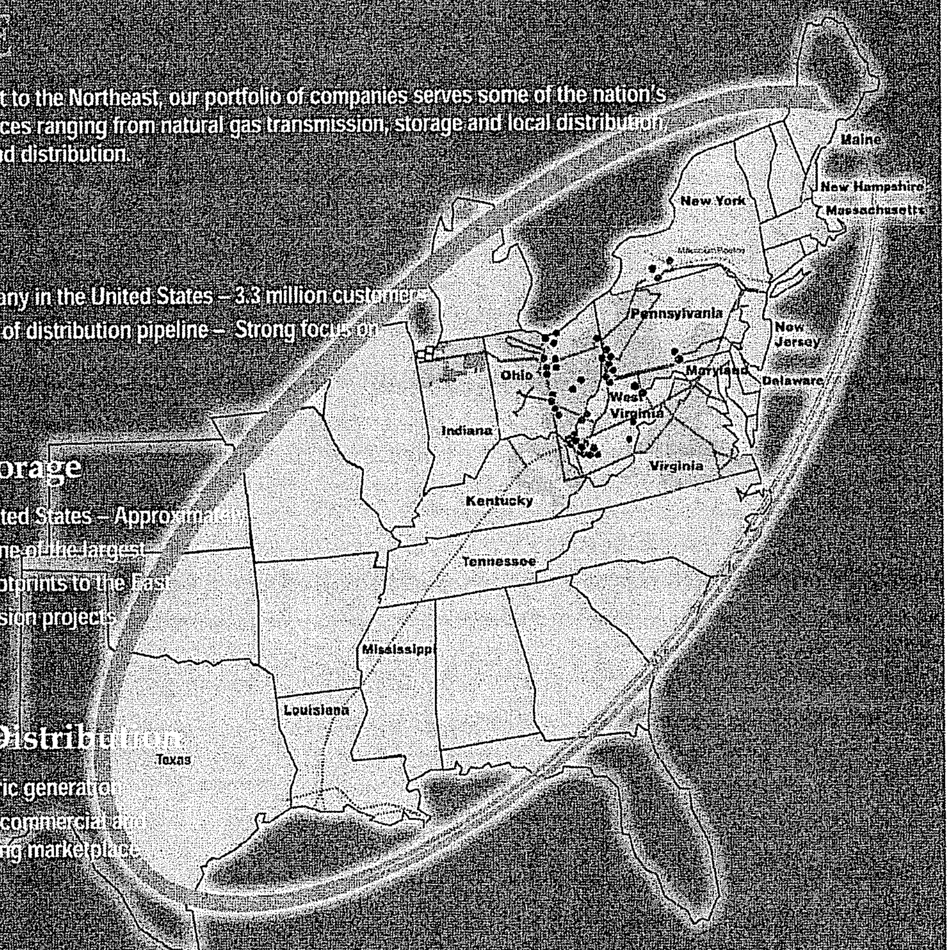
3rd largest natural gas distribution company in the United States – 3.3 million customers in 9 states – Approximately 58,000 miles of distribution pipeline – Strong focus on infrastructure

Gas Transmission & Storage

4th largest natural gas pipeline in the United States – Approximately 16,000 miles of pipeline in 16 states – One of the largest natural gas storage networks – Prime footprints to the East Coast – Wide array of growth and expansion projects

Electric Generation & Distribution

Environmentally compliant fleet of electric generation facilities – More than 450,000 industrial, commercial and residential electric customers in a growing marketplace



Overview

Aspiration: The Premier Regulated Energy Company in North America

Four-Part Strategy

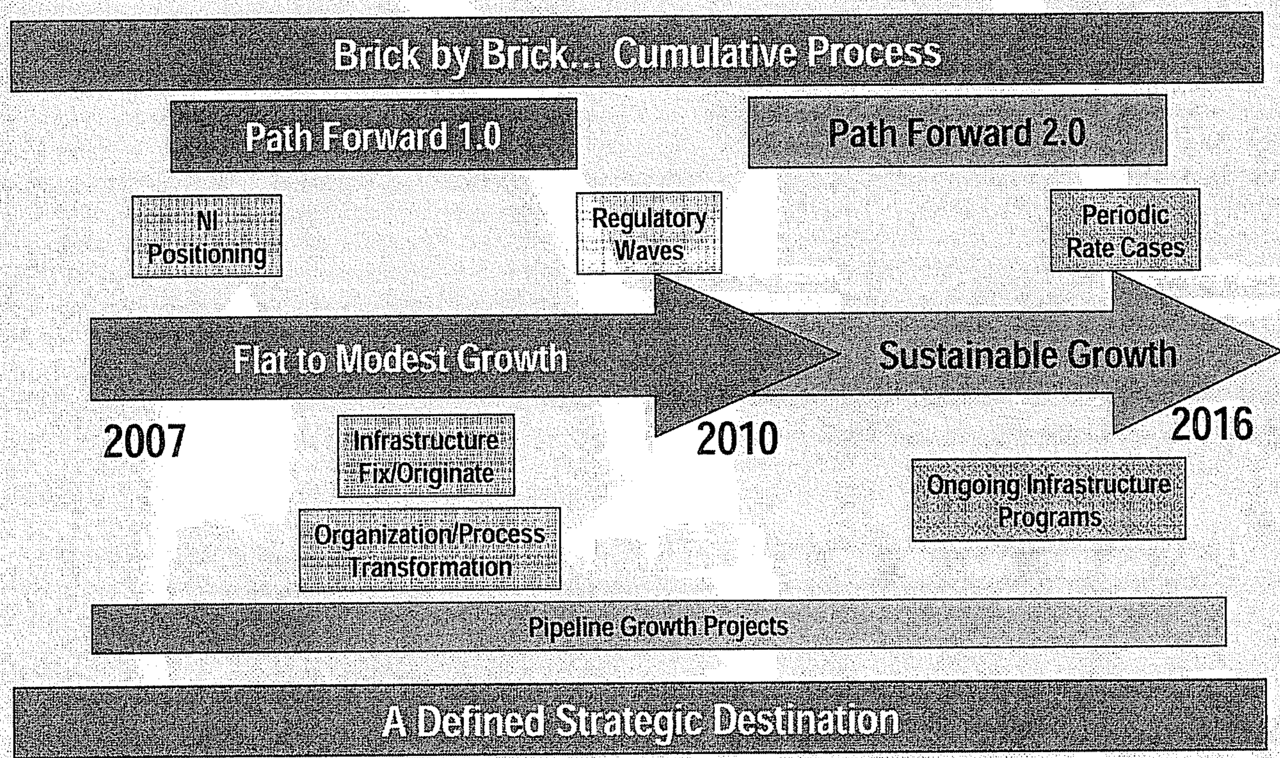
- Expansion and Commercial Growth of our Pipeline and Storage Business
- Regulatory and Commercial Initiatives
- Financial Management of the Balance Sheet
- Process & Expense Management

Path Forward: Five Key Strategic Initiatives

- NIPSCO Electric Global Resolution
- Gas LDC Infrastructure Programs & Complementary Regulatory Strategies
- GT&S Continuing Development of Growth Projects
- Whiting Clean Energy Self-Sustaining Strategy
- Restructured IBM Agreement

Low Risk, Long-Term Infrastructure Driven Growth

Positioning for Sustainable Growth



Significant Progress on Strategic Initiatives for Long-Term Growth

✓ 2007 Accomplishments	➢ 2008 Priorities
NIPSCO Electric	
✓ Request For Proposal (RFP) / Integrated Resource Plan (IRP)	➢ Adding Generating Capacity (CPCN Approval)
✓ Fuel Adjustment Clause (FAC) Settlement	➢ Electric Rate Case
✓ Reliability Enhancements	
✓ Certificate For Public Convenience & Necessity (CPCN) Filed	
Gas LDC's	
✓ NIPSCO Rate Simplification Approval	➢ Columbia Gas of Pennsylvania Rate Case
✓ Columbia Gas of Kentucky Rate Case Settlement	➢ Columbia Gas of Ohio Rate Case
✓ Bay State Gas PBR Adjustment	➢ BSG Special Rate Adjustment
✓ Columbia Gas of Ohio Joint Stipulation (Risers)	➢ Launch of Infrastructure Programs
✓ Columbia Gas of Ohio Stakeholder Agreement	
✓ Columbia Gas of Virginia Non-Traditional Revenue Approval	

Eliminating Overhang, De-Risking the Business & Positioning for Sustainable Growth

Significant Progress on Strategic Initiatives for Long-Term Growth

✓ 2007 Accomplishments	➢ 2008 Priorities
Gas Transmission & Storage	
✓ Hardy Storage & Transportation Operational	➢ Master Limited Partnership IPO
✓ Millennium Pipeline Begins Construction	➢ Florida Gas Transmission Interconnect
✓ Columbia Gulf Interconnections	➢ Millennium Pipeline In-Service
✓ Eastern Market Expansion FERC Certificate	➢ Eastern Market Expansion Construction
✓ Master Limited Partnership S-1 Filed with SEC	➢ Approval of Appalachian Basin Expansion Project
	➢ Continued Development of "Pipeline" of Projects
Whiting Clean Energy	
✓ Revised BP Agreement	➢ Successful Disposition
✓ Improved Operating Results	
Restructured IBM Agreement	
✓ Restructured Agreement	➢ Successful Transition
✓ Stabilized Service Platforms	

Eliminating Overhang, De-Risking the Business & Positioning for Sustainable Growth

Business Unit Review
Gas Distribution

Gas LDCs' – Infrastructure Investment Opportunities

Age & Condition Investment Coupled with Regulatory Action

- Initiating & Funding 15 to 30 Year Bare Steel Replacement Programs
  - Columbia Gas of Pennsylvania (~$60M per Year)
  - Columbia Gas of Ohio (~$40M in '08, ~$75M in '09 Forward)
  - Columbia Gas of Kentucky (~$10M per Year)
  - Bay State Gas (~$20M per Year)

- Executing & Funding Ohio Riser Replacement Program
  - ~$160M between 2008 and 2010

Low Risk, High Quality Investment & Income Streams

Gas LDCs' – Regulatory Initiatives

Infrastructure & Rate Design Driven

- Targeted Regulatory Initiatives
  - Infrastructure & Cost Trackers
  - Rate Design Enhancements
  - Revenue Increases

- Launching Multiple Rate Cases
  - Kentucky Rate Case Settlement: $7.25M – 100% in Customer Charge
  - NIPSCO Gas' Rate Simplification Plan
  - Rate Case Filings
    - Bay State Gas Special Adjustment – 10/07
    - Columbia Gas of Pennsylvania Rate Case – 01/08
    - Columbia Gas of Ohio Rate Case – 03/08

Closure by Year-End '08

Business Unit Review
Electric

NIPSCO's Electric Global Resolution Strategy

Eliminating the Operational & Regulatory Overhang

- Restoring NIPSCO's Generating Reliability
  - ~$55M 3-Year Investment Program ('05 – '07)
- Ensuring Environmental Compliance
  - $290M of $321M for NOx Compliance Spent through 2007
- Resolving Legacy Regulatory Issues
  - Fuel Adjustment Clause (FAC) Complaints
  - D.H. Mitchell Situation
- Adding Generating Capacity & Establishing an Appropriate Reserve Margin
- Settling NIPSCO's 2008 Rate Case

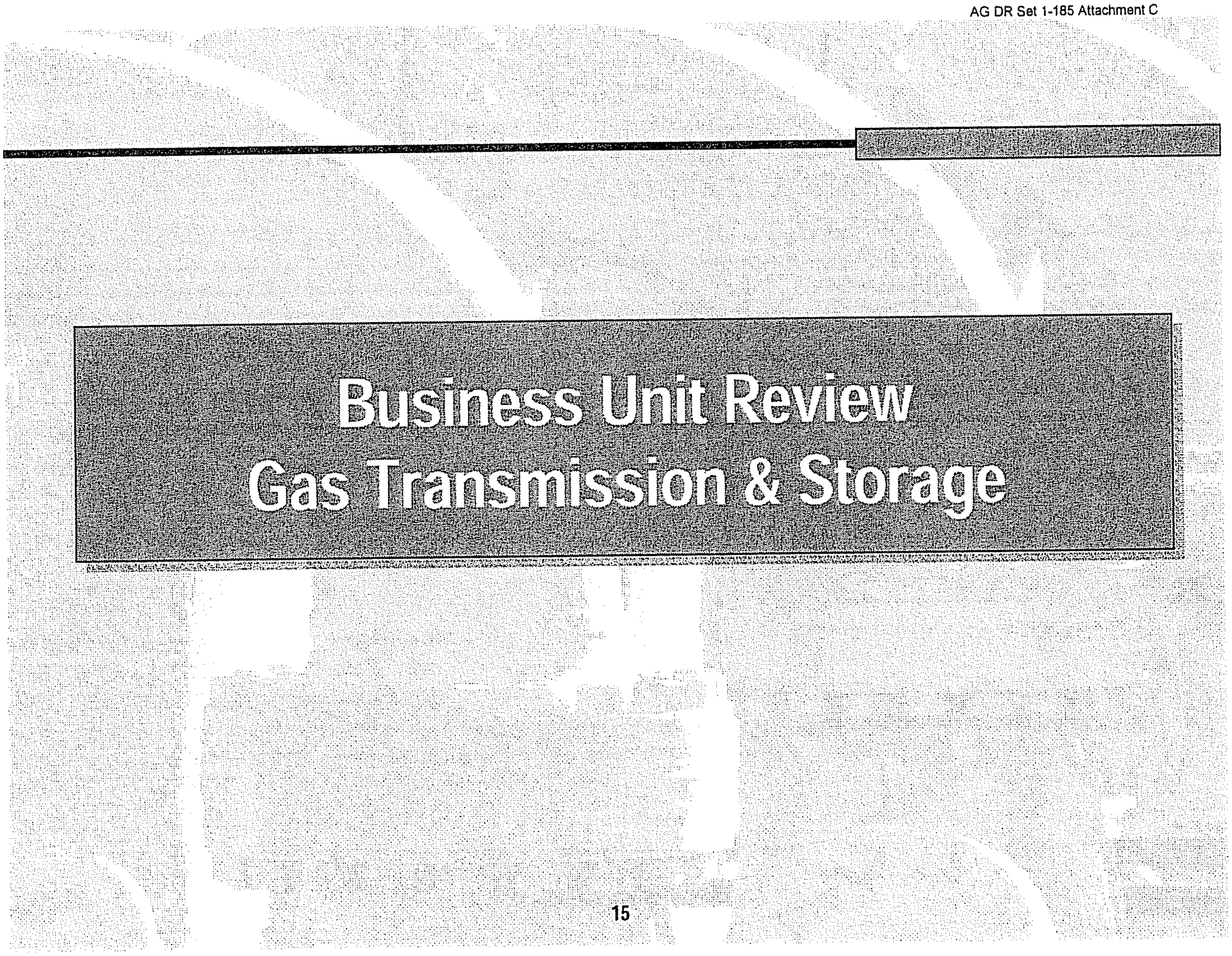
Repositioning & De-Risking NIPSCO

NIPSCO Electric

Global Resolution Strategy

- Rate Base Investment Drives Future Earnings
- Resolves Capacity Shortfall & Reduces Reliance on Power Purchases
- Eliminates Major Regulatory Exposure/Distraction
- Facilitates Timely Resolution of 2008 Rate Case

Repositioning & De-Risking NIPSCO


Business Unit Review
Gas Transmission & Storage

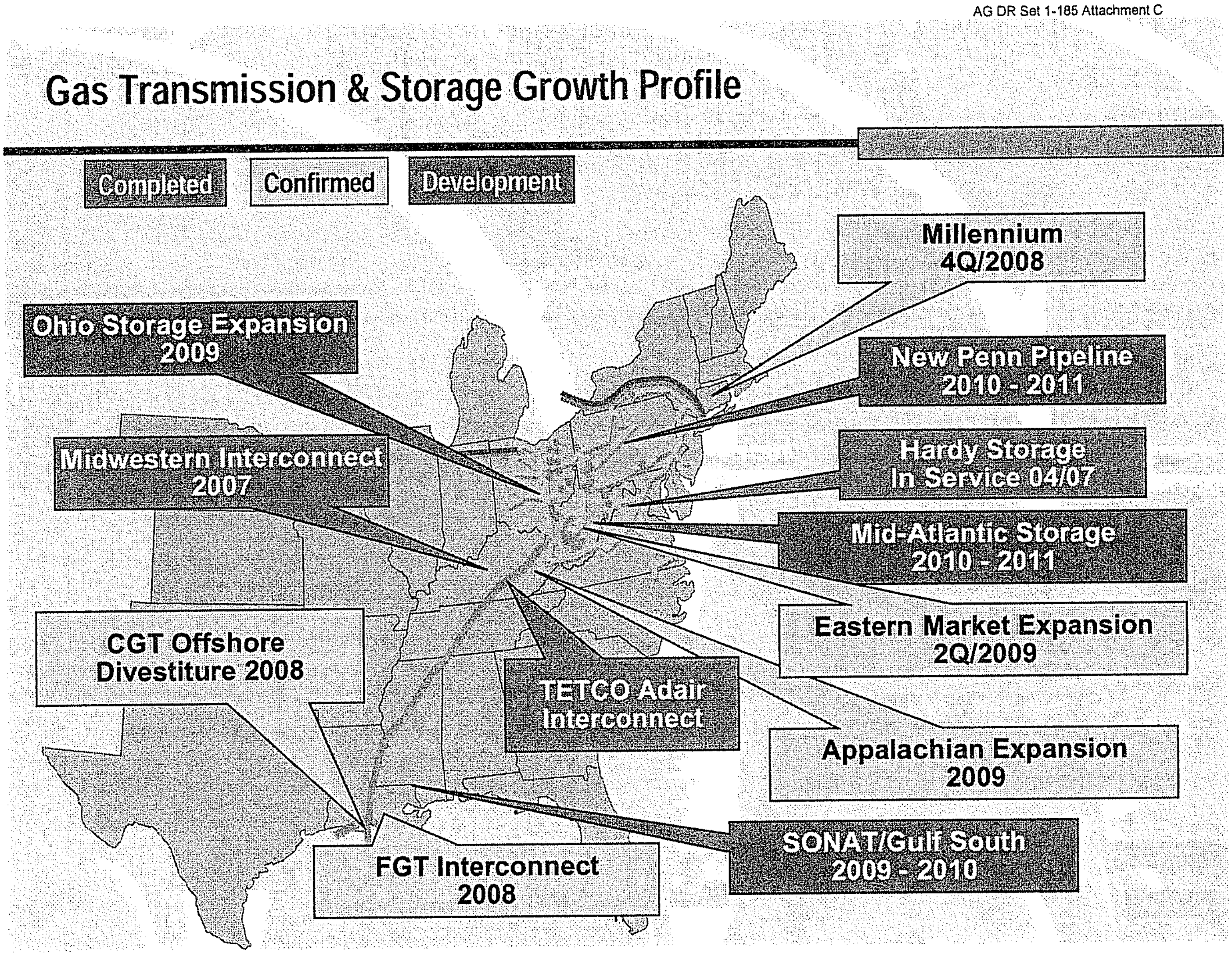
Gas Transmission & Storage Disciplined Growth

Increasing Growth Capital to $265M

- Delivering Growth Projects
  - Hardy Storage & Transportation Complete
  - Millennium Scheduled for 11/08 In-Service
  - Gulf Interconnections 2006, 2007, 2008
  - Eastern Market Expansion In-Service 2Q 2009
  - Florida Gas Transmission Interconnect In-Service in June 2008
  - Appalachian Expansion Targeted In-Service 4Q 2009
- Creating an Inventory of Projects
  - East & West of Appalachians
  - Columbia Gulf
- Divesting Columbia Gulf Offshore Assets
  - Eliminate a High Risk/Low Return Portion of the Columbia Gulf System
  - Accretive to Earnings

Creating a Growth Platform

AG DR Set 1-185 Attachment C



Conclusion

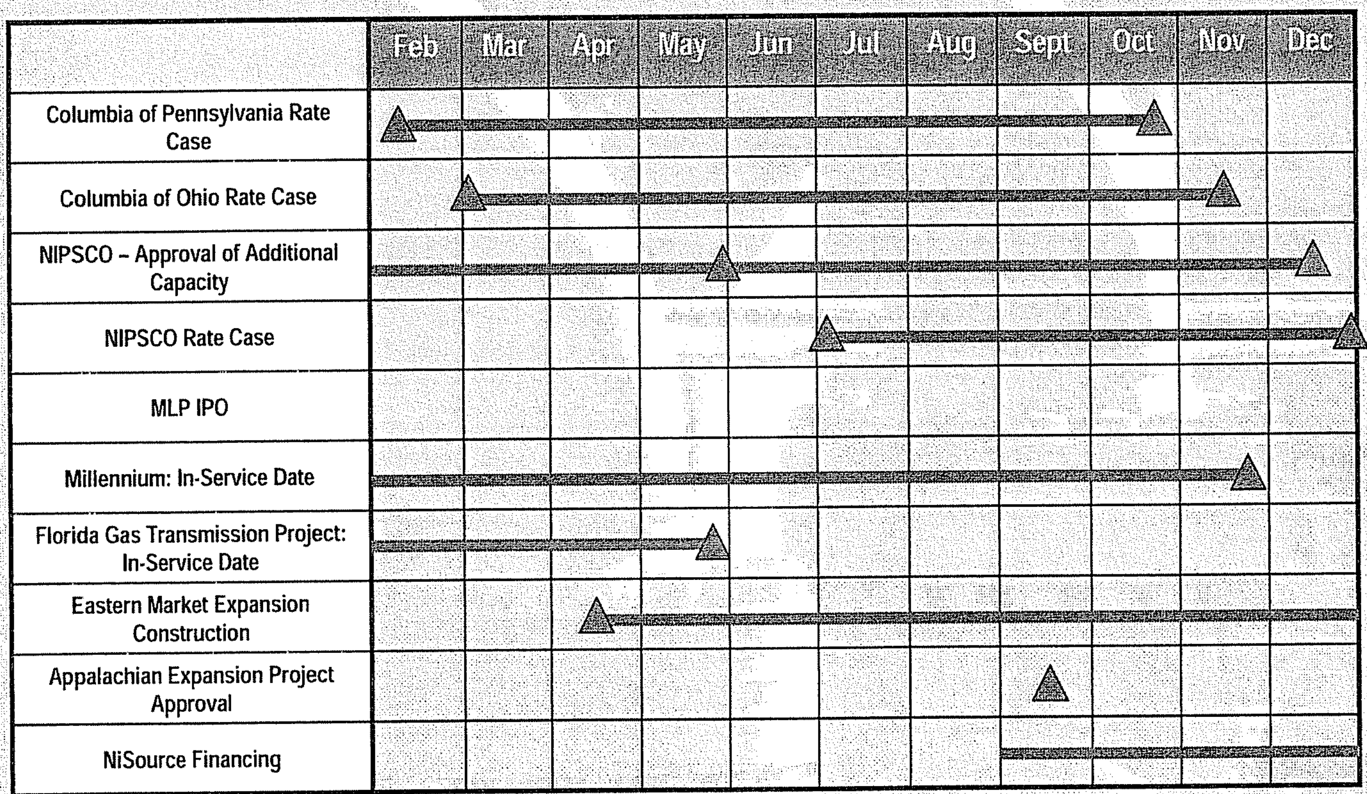
NiSource's Improving Strategic Profile

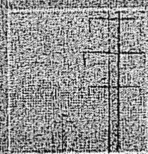
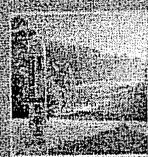
De-Risking the Business & Repositioning for Growth

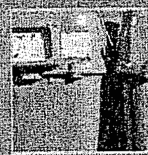
- Gas LDCs' Infrastructure Investment & Rate Design-Driven Strategy
- NIPSCO Electric's Global Resolution Strategy
- GT&S Balanced, Targeted Growth Approach
- Whiting Clean Energy's Self-Sustaining Strategy

$1B+ Annual Capital Investment Program Drives Long-Term Earnings & Cash Flow Growth

Path Forward 2008: Key Markers





Strength Commitment Service Value

ASPIRATION

The Premier Regulated Energy Company in North America

2008 Annual Shareholders Meeting

Bob Skaggs – President & CEO

May 13, 2008

NiSource®

Forward Looking Statements

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Gas Distribution

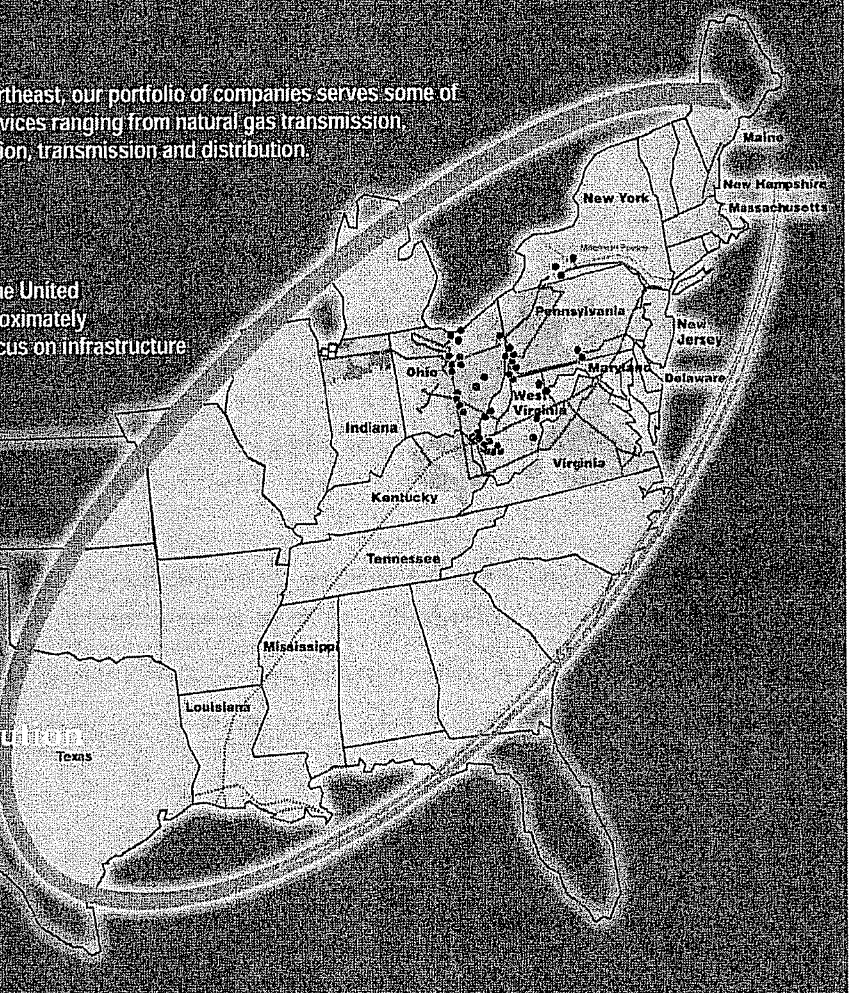
3rd largest natural gas distribution company in the United States – 3.3 million customers in 9 states – Approximately 58,000 miles of distribution pipeline – Strong focus on infrastructure

Gas Transmission & Storage

4th largest natural gas pipeline in the United States – Approximately 16,000 miles of pipeline in 16 states – One of the largest natural gas storage networks – Prime footprints to the East Coast – Wide array of growth and expansion projects

Electric Generation & Distribution

Environmentally compliant fleet of electric generation facilities – More than 450,000 industrial, commercial and residential electric customers in a growing marketplace



2007 Financial Performance

2007 Performance

- 2007 Operating Earnings (Non-GAAP) of $375.8 Million, or $1.37 Per Share
  - Higher Revenues from Regulated Natural Gas and Electric Operations
  - Key Growth Projects Advanced at NGT&S
  - Legacy Issues Addressed
  - Investment Grade Credit Ratings Maintained

Earnings Outlook of $1.25 to $1.35 for 2008-2010

Aspiration: The Premier Regulated Energy Company in North America

Four-Part Strategy

- Expansion and Commercial Growth of our Pipeline and Storage Business
- Regulatory and Commercial Initiatives
- Financial Management
- Process & Expense Management

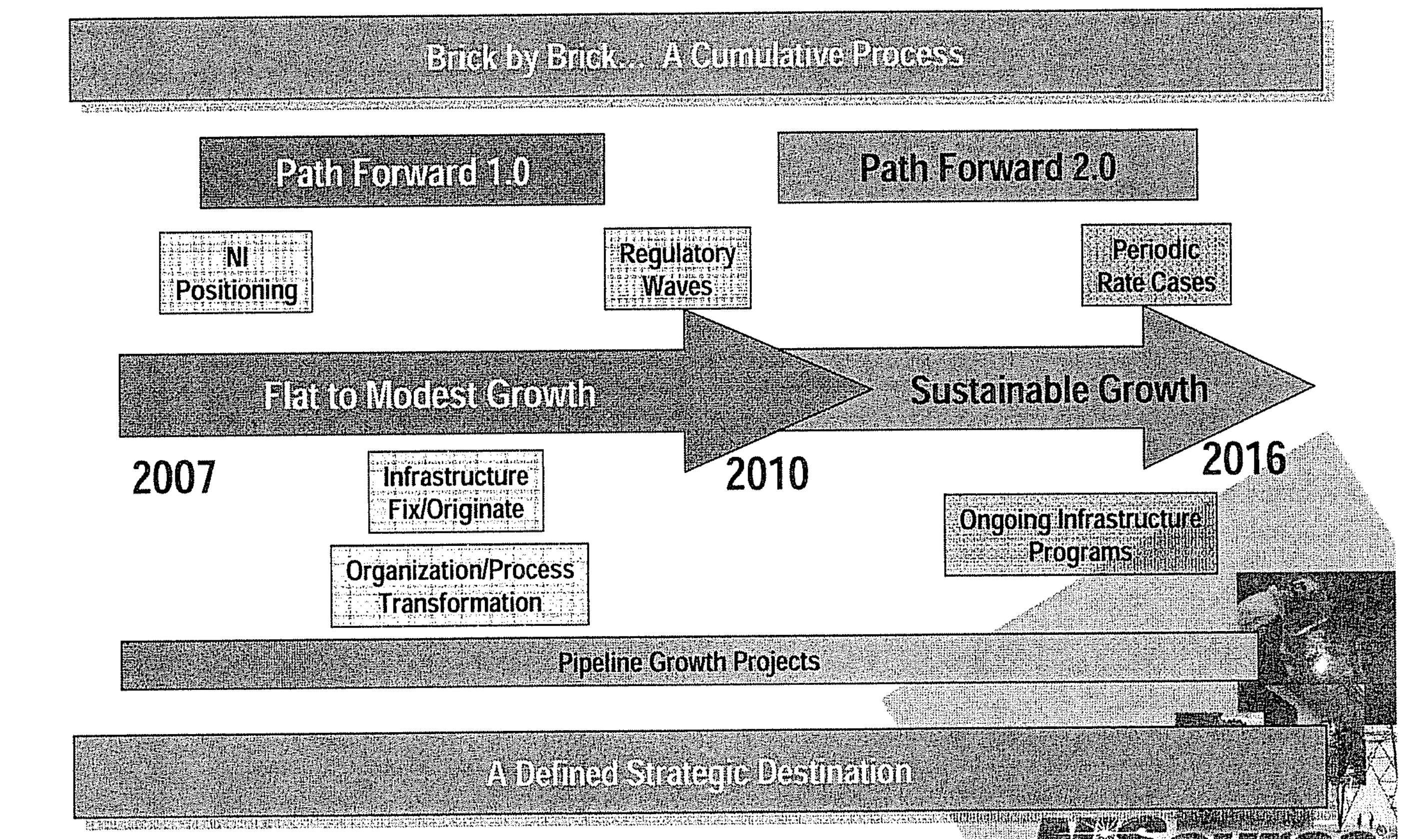
Path Forward: Five Key Strategic Initiatives During 2007

- NIPSCO Electric Regulatory Initiative
- Gas LDC Infrastructure Programs & Complementary Regulatory Strategies
- NGT&S Continuing Development of Growth Projects
- Whiting Clean Energy Disposition
- Restructured IBM Agreement

Long-Term, Sustainable Infrastructure Driven Growth

NiSource

Positioning for Sustainable Growth



Significant Progress on Strategic Initiatives for Long-Term Growth

2007 Accomplishments

NIPSCO Electric

- ✓ Request For Proposal (RFP) / Integrated Resource Plan (IRP)
- ✓ Fuel Adjustment Clause (FAC) Settlement
- ✓ Reliability Enhancements
- ✓ Certificate of Public Convenience & Necessity (CPCN) Filed

Gas LDC's

- ✓ NIPSCO Rate Simplification Approval
- ✓ Columbia Gas of Kentucky Rate Case Settlement
- ✓ Bay State Gas PBR Adjustment
- ✓ *Columbia Gas of Ohio Joint Stipulation* (Risers)
- ✓ Columbia Gas of Ohio Stakeholder Agreement
- ✓ Columbia Gas of Virginia Non-Traditional Revenue Approval

2008 Priorities

NIPSCO Electric:

- Adding Generating Capacity (CPCN Approval)
- Electric Rate Case

Gas LDC's:

- *Columbia Gas of Pennsylvania Rate Case*
- Columbia Gas of Ohio Rate Case
- Launch of Infrastructure Programs
- Closing NU/Granite State Disposition

Eliminating Overhang, De-Risking the Business & Positioning for Sustainable Growth

Significant Progress on Strategic Initiatives for Long-Term Growth

2007 Accomplishments

Gas Transmission & Storage

- ✓ Hardy Storage & Transportation Operational
- ✓ Millennium Pipeline Begins Construction
- ✓ Columbia Gulf Interconnections
- ✓ Eastern Market Expansion FERC Certificate
- ✓ Master Limited Partnership S-1 Filed with SEC

Whiting Clean Energy

- ✓ Revised BP Agreement
- ✓ Improved Operating Results

Restructured IBM Agreement

- ✓ Restructured Agreement
- ✓ Stabilized Service Platforms

2008 Priorities

Gas Transmission & Storage:

- Master Limited Partnership IPO
- Florida Gas Transmission Interconnect
- Millennium Pipeline In-Service
- Eastern Market Expansion Construction
- Approval of Appalachian Basin Expansion Project
- Continued Development of an Inventory of Pipeline Projects

Whiting Clean Energy:

- Successful Disposition

Restructured IBM Agreement:

- Successful Transition

Eliminating Overhang, De-Risking the Business & Positioning for Sustainable Growth

NiSource

Gas LDC's: Infrastructure Investment Opportunities

Age & Condition Investment Coupled with Proactive Regulatory Agenda

- Initiating & Funding 15 to 30 Year Bare Steel Replacement Programs
  - Columbia Gas of Pennsylvania (~$60M per Year)
  - Columbia Gas of Ohio (~$40M in '08, ~$75M in '09 Forward)
  - Columbia Gas of Kentucky (~$10M per Year)
  - Bay State Gas (~$20M per Year)

- Executing & Funding Ohio Riser Replacement Program
  - ~$120M between 2008 and 2010

Low Risk, High Quality Investment & Income Streams

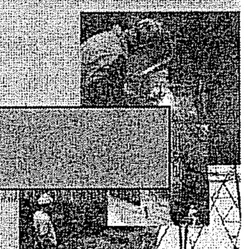
Gas LDC's: Regulatory Initiatives

Infrastructure & Rate Design Driven

- Targeted Regulatory Initiatives
  - Infrastructure & Cost Trackers
  - Rate Design Enhancements
  - Revenue Increases

- Launching Multiple Rate Cases
  - Columbia Gas of Pennsylvania Rate Case – 01/08
  - Columbia Gas of Ohio Rate Case – 03/08

Closure by Year-End '08



NiSource

NIPSCO: Enhancing Long-Term Service & Performance

Addressing Operational & Regulatory Overhang

- Enhancing NIPSCO's Generating Reliability
  - ~$55M 3-Year Investment Program ('05 – '07)
- Ensuring Environmental Compliance
  - $315M NOx Compliance Program Nearing Completion
- Resolving Legacy Regulatory Issues
  - Fuel Adjustment Clause (FAC) Challenges
  - D.H. Mitchell Situation
- Adding Generating Capacity & Establishing an Appropriate Reserve Margin
- Filing and Resolving NIPSCO's 2008 Electric Rate Case

Repositioning NIPSCO

Gas Transmission & Storage Disciplined Growth

Increasing Growth Capital to $265M

- Delivering Growth Projects
  - Hardy Storage & Transportation Complete
  - Millennium Scheduled for 11/08 In-Service
  - Gulf Interconnections: 2006, 2007, 2008
  - Eastern Market Expansion In-Service 2Q 2009
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  - Appalachian Expansion Targeted In-Service 4Q 2009

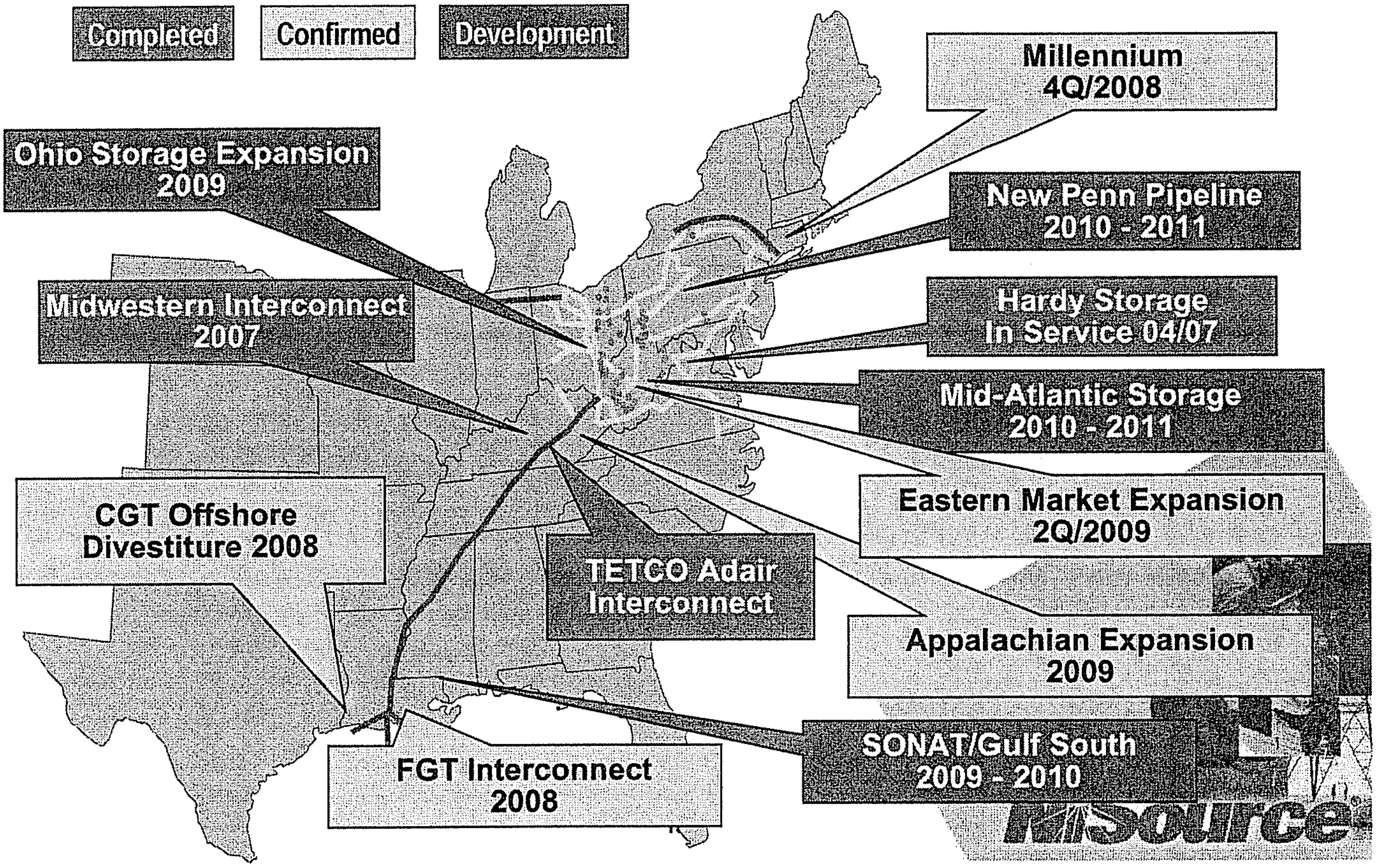
- Creating an Inventory of Projects
  - East & West of Appalachians
  - Columbia Gulf

– Formation of Master Limited Partnership
  - NiSource Energy Partners, LP: SEC S-1 Filed December 2007
  - Initial Public Offering (IPO) by Year-End 2008

Creating a Growth Platform

NiSource

Gas Transmission & Storage Growth Profile

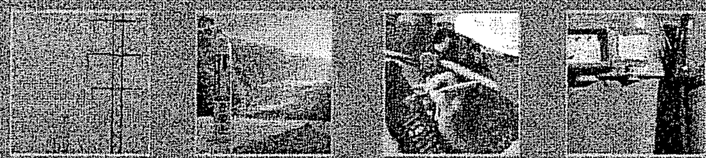


NiSource's Improving Strategic Profile

2008: A Pivotal Year

- Recommitting to Our Core Regulated Assets and Our Strategic Plan
- Executing on Our Four-Part Plan
- Synchronizing Infrastructure-Driven Investments and Regulatory Activity
- Resolving Legacy Issues
- Maintaining Investment Grade Credit Ratings

$1B+ Annual Capital Investment Program Drives Long-Term Earnings & Cash Flow Growth



Strength Commitment Service Value

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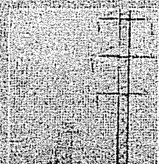
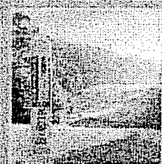
The Premier Regulated Energy Company in North America

Thank You for Your Support

NiSource®


Strength


Commitment


Service


Value

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The Premier Regulated Energy Company in North America

Bob Skaggs – President & CEO
2008 EEI Conference

NiSource®

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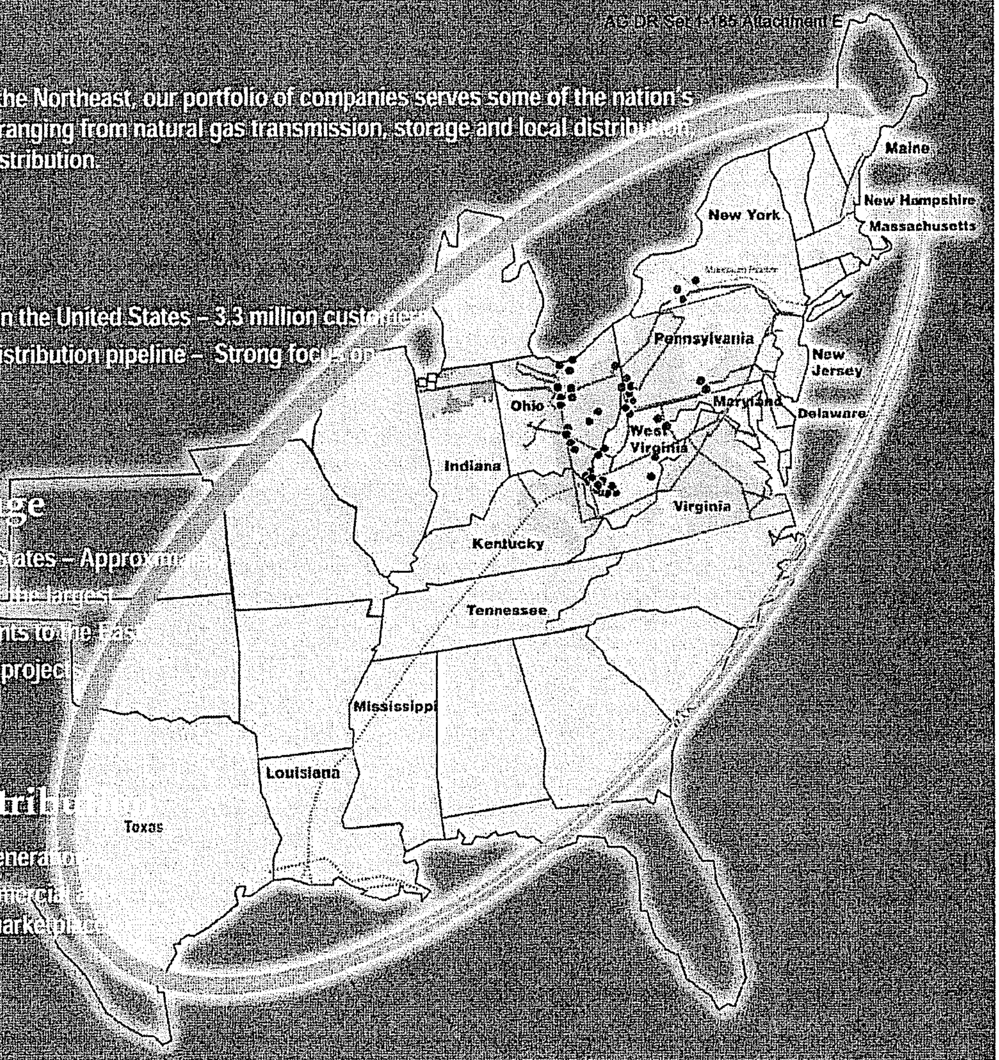


NiSource Business Unit Focus

Sustainable Growth of 100% Regulated Business Portfolio

- Gas Distribution
  - Targeted Investment and Regulatory Opportunities
    - Infrastructure Programs & Cost Trackers
    - Rate Design Enhancements
    - Revenue Increases
- Electric Operations
  - Generation Investments & Regulatory Initiatives
    - Maintaining Reliability
    - Ensuring Environmental Compliance
    - Adding Generation Capacity
    - Resolving NIPSCO Rate Case
- Gas Transmission & Storage
  - Disciplined Growth
    - Delivering Growth Projects
    - Optimizing Existing Assets

Low Risk, High Quality Investment & Income Streams

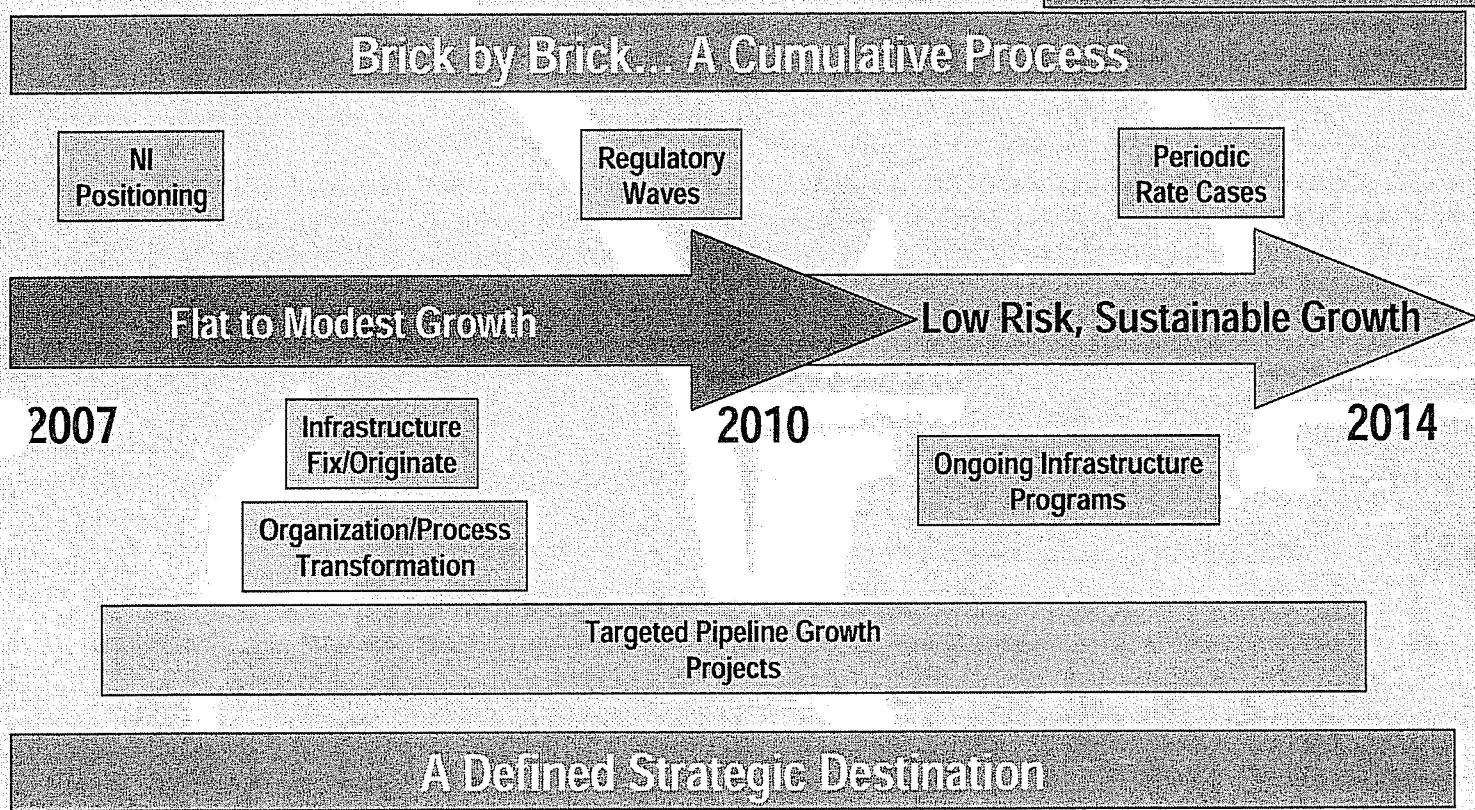
NiSource's Four-Part Strategic Plan

Consistent and Compelling Approach

- Expansion & Commercial Growth of Gas Transmission & Storage Business
- Regulatory & Commercial Initiatives at Utility Businesses
- Financial Management
- Process & Expense Management

Focus on Executing, De-Risking and Positioning for Sustainable Growth

NI's Strategic Approach



Executing on Specific Initiatives

Investing in the Business & Reducing Risk

- Gas LDC's – Disciplined Investments "Synched" with Regulatory Initiatives
- GT&S – Targeted Growth Projects
- NIPSCO – Repositioning and Investment
- Process Management, Rationalization & Leadership

Significant Progress During 2008

Gas Distribution Business Unit

Accomplishments

- ✓ Columbia Gas of Ohio Settlements
  - GCR Proceedings
  - "Riser" Replacement Program
  - Demand Side Management Program
  - 2008 Rate Case
- ✓ Columbia Gas of Pennsylvania
  - 2008 Rate Case Settlement
  - "Disc" Legislation Advanced
- ✓ Columbia Gas of Virginia
  - Non-Traditional Revenue Approval
  - Weather Normalization Clause
- ✓ Columbia Gas of Kentucky
  - Rate Case Settlement
- ✓ Bay State Gas Company
  - Approval of PBR Adjustment

Going-Forward Priorities

- Execute Flawlessly on Infrastructure Replacement Programs
- Passage of PA "DISC" Legislation
- Successfully Manage Next Rate Case "Wave"
  - Maryland
  - Massachusetts
  - Kentucky
  - Pennsylvania

Low-Risk Investments & High-Level Regulatory Execution

Gas Transmission & Storage Business Unit

Accomplishments

- ✓ Hardy Storage & Transportation Operational
- ✓ Millennium Construction Nearing Completion
- ✓ Columbia Gulf Interconnects
- ✓ Eastern Market Expansion Under Construction
- ✓ Appalachian Expansion Project Approved
- ✓ Ohio Storage Project Filed/Pending Approval
- ✓ MarkWest Appalachian Joint Venture
- ✓ Columbia Penn Corridor (Marcellus Shale) Projects

Going-Forward Priorities

- ▶ Complete Construction of "In-Process" Growth Projects
- ▶ Continue to Maximize Short-Term Revenue/Service Opportunities
- ▶ Execute Contract Renewal Strategy
- ▶ Successfully Manage Development "Pipeline" Through Current Economic Environment
- ▶ Position for Market Rebound

Capturing Moderately-Sized, Low Risk Growth Opportunities

Northern Indiana Energy Business Unit

Accomplishments

- ✓ NIPSCO Electric Repositioning Initiative
  - RFP/IRP
  - FAC Settlement
  - Reliability Enhancements
  - Sugar Creek Approval/Acquisition
  - Secured Wind Power Purchase Agreement
- ✓ NIPSCO Rate Case Filing
- ✓ Demand Side Management Program
- ✓ New IRP & RFP Process

Going-Forward Priorities

- ▶ Successful Resolution of 2008 Rate Case
  - Revenue Levels
  - Investment Opportunities
  - Rate Design
  - IURC/Stakeholder Relationships
- ▶ Successfully Implement RFP/IRP Process
- ▶ Continued Improvement in Reliability
- ▶ Successfully Manage 2009 Labor Negotiations

Resolving Outstanding Issues & Creating Clarity Going Forward

Process Management, Rationalization & Leadership

Eliminating Distractions & Re-Positioning NiSource

- ✓ Tawney Litigation Settlement
- ✓ IBM Transition Completed
- ✓ Selected Asset Dispositions Nearing Completion
- ✓ Senior Leadership Team in Place

Focus, Discipline, Execution

Financial Management

Disciplined, Balanced Approach

- Maintain Solid Liquidity Position
  - Adequate Capacity Under Revolver/Short-Term Facility
  - Manageable Debt Maturity Profile → Pre-Funding
- "Recalibrate" 2009-12 Cap-Ex Spend
- Focus on Cash Management & Cost Containment

Continue to Evaluate Opportunities to Enhance Financial Flexibility

Plan is Working

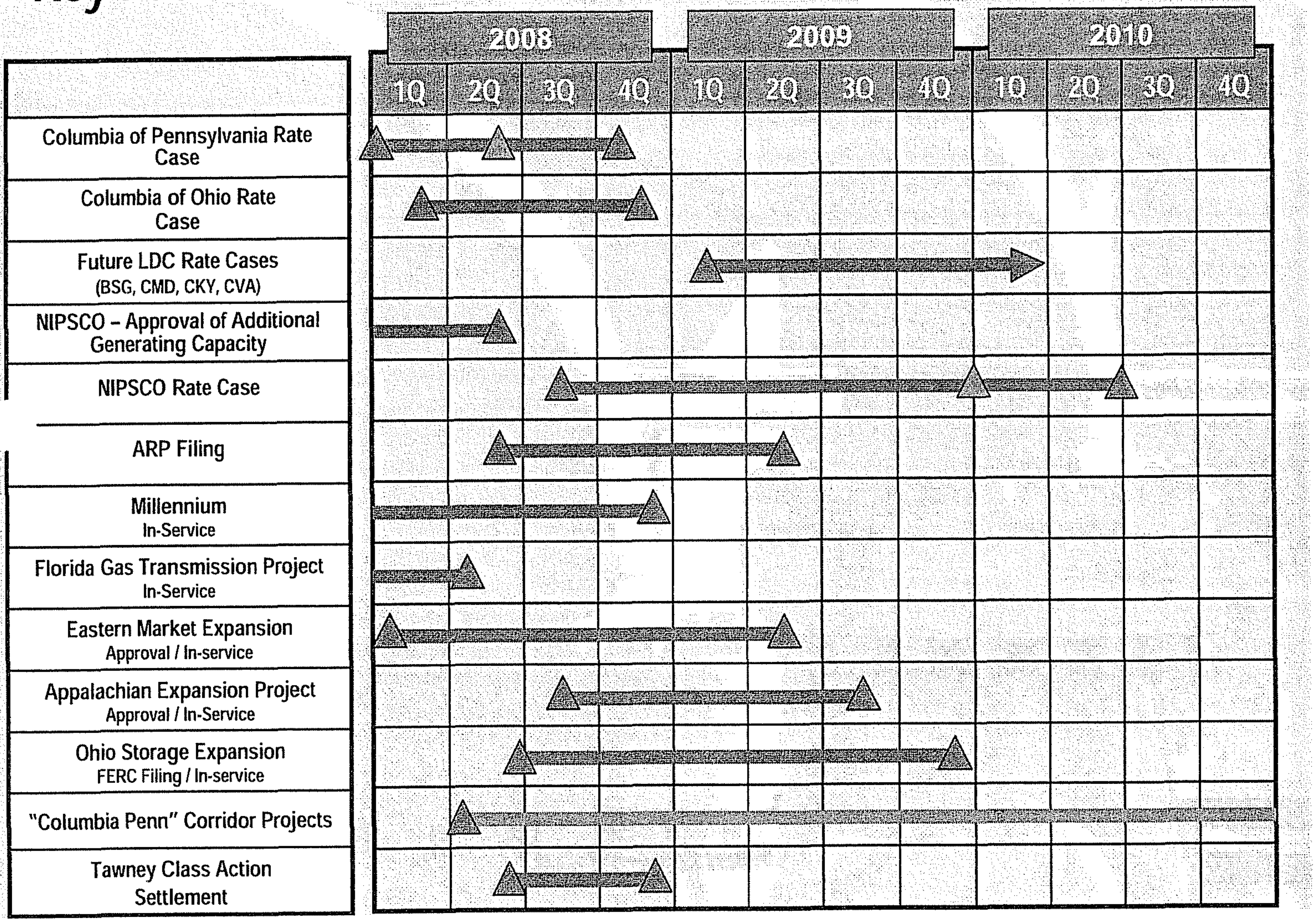
Performance Remains Solid

- Reaffirmed 2008 Guidance
- Updated Outlook to be Provided Mid-Q1 2009
  - Managing Near-Term Pressures
    - Pension Expense
    - Interest Rates
    - Industrial Margins
    - Customer Additions & Usage

Building Platform for Low Risk, Long-Term Growth

Key Path Forward Markers

AG DR Set 1-185 Attachment E



Strength Commitment Service Value

ASPIRATION

The Premier Regulated Energy Company in North America

Edward Jones Conference
Bob Skaggs – President & CEO
February 2009

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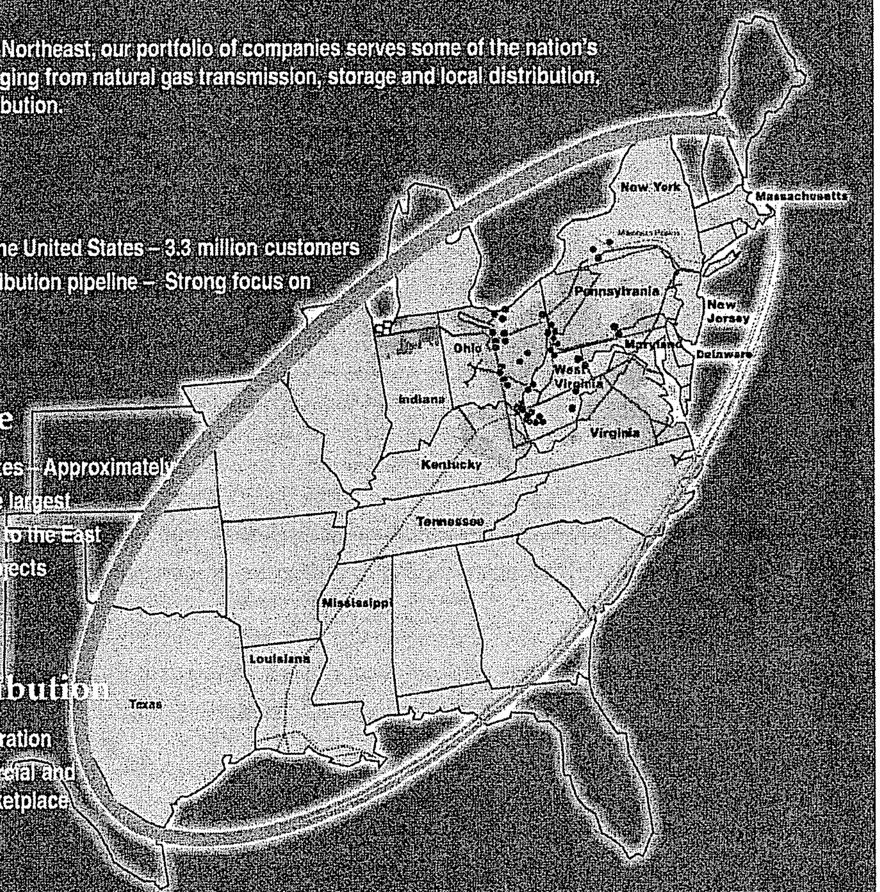
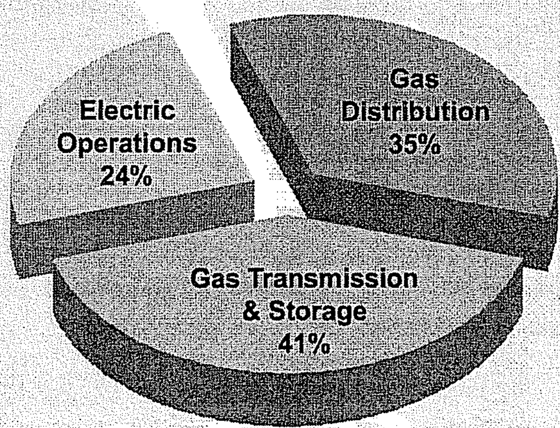
Electric Generation & Distribution

Environmentally compliant fleet of electric generation facilities – More than 455,000 industrial, commercial and residential electric customers in a growing marketplace



Balanced / Low Risk Portfolio

100% of Operating Earnings From Regulated Businesses



Credit Ratings

Moody's: Baa3 **S&P: BBB-** **Fitch: BBB-**

Aspiration: The Premier Regulated Energy Company in North America

Four-Part Strategy

- Expansion and Commercial Growth of Our Pipeline and Storage Business
- Regulatory and Commercial Initiatives
- Financial Management of the Balance Sheet
- Process & Expense Management

Path Forward: Key Strategic Initiatives

- NIPSCO Electric Global Resolution
- Gas LDC Infrastructure Programs & Complementary Regulatory Strategies
- GT&S Continuing Development of Growth Projects
- Focusing on Core Assets
  - Divesting Non-Core Assets / Businesses

Low Risk, Long-Term Infrastructure Driven Growth

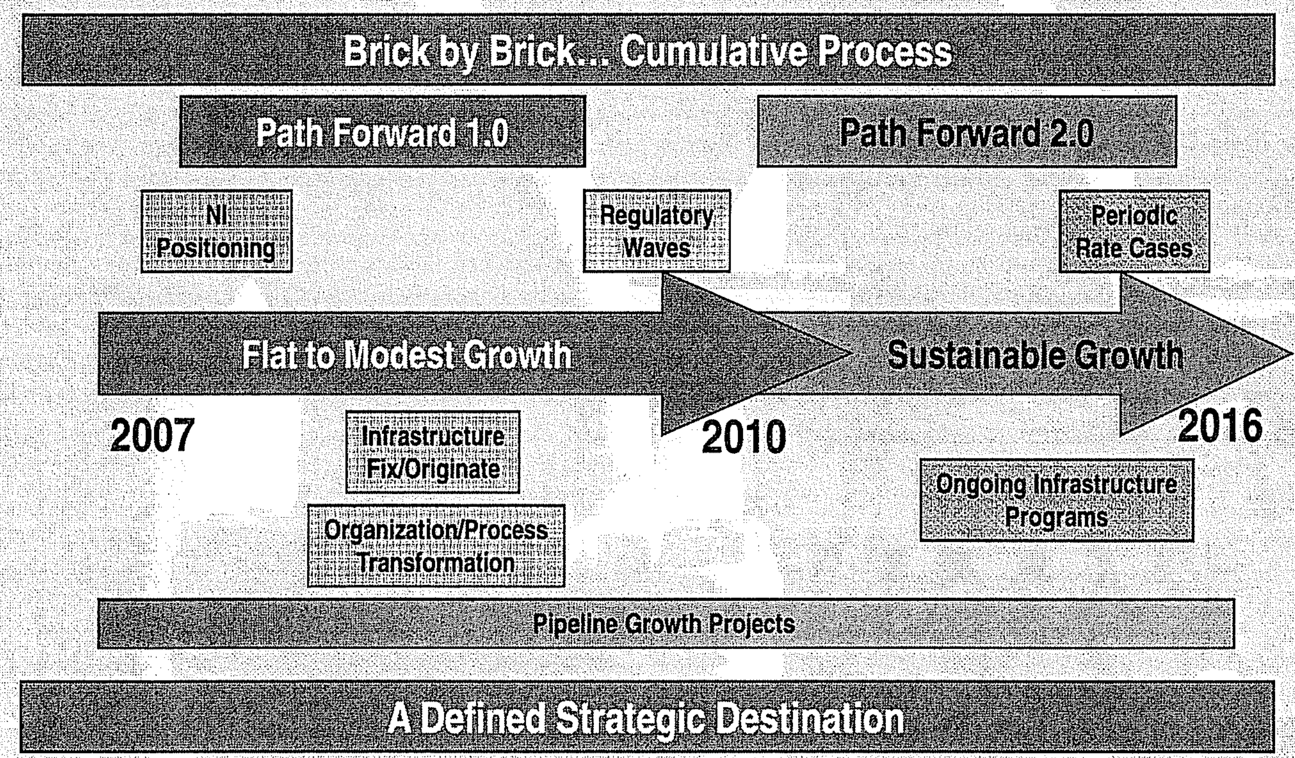
NiSource Business Unit Focus

Sustainable Growth of 100% Regulated Business Portfolio

- **Gas Distribution**
  - **Targeted Investment and Regulatory Opportunities**
    - Infrastructure Programs & Cost Trackers
    - Rate Design Enhancements
    - Revenue Increases
- **Electric Operations**
  - **Generation Investments & Regulatory Initiatives**
    - Maintaining Reliability
    - Ensuring Environmental Compliance
    - Adding Generation Capacity
    - Resolving NIPSCO Rate Case
- **Gas Transmission & Storage (GT&S)**
  - **Disciplined Growth**
    - Delivering Growth Projects
    - Optimizing Existing Assets

Low Risk, High Quality Investment & Income Streams

Positioning for Sustainable Growth



Significant Progress on Strategic Initiatives for Long-Term Growth

✓ 2008 Accomplishments

Gas Distribution

- ✓ Columbia Gas of Pennsylvania – $41.5M Settlement
- ✓ Columbia Gas of Ohio – $47.1M Settlement
- ✓ Launch of Infrastructure Programs
  - Columbia Gas of Ohio – 25 year / $2B
  - Columbia Gas of Pennsylvania – 20 year / $1.4B

Electric Operations

- ✓ Added Generating Capacity - $330M Sugar Creek (CPCN)
- ✓ Purchased 100MW of Wind Power
- ✓ Filed NIPSCO Rate Case

Gas Transmission & Storage

- ✓ Millennium Pipeline – In Service
- ✓ Florida Gas Transmission Interconnect – In Service
- ✓ Eastern Market Expansion – Construction
- ✓ Appalachian Expansion Project – Approval
- ✓ Ohio Storage Expansion Project – Construction

Other

- ✓ Completed the Sale of Whiting Clean Energy
- ✓ Divested Northern Utilities
- ✓ Resolved "Legacy" Issues

Creating Platform for Long-Term, Sustainable Growth

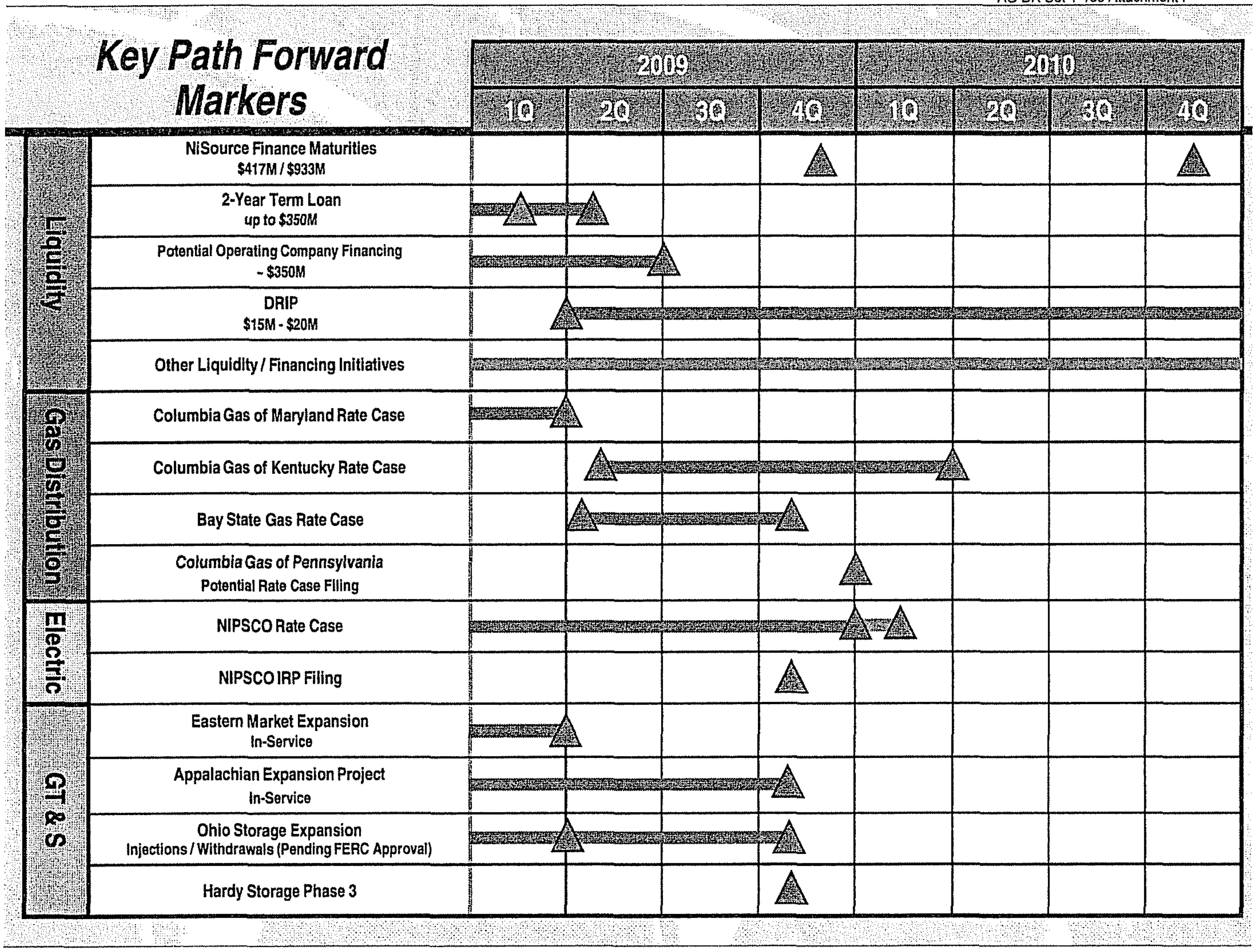
2009 Focus

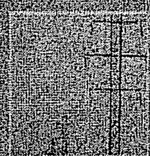
Balanced, Disciplined Approach

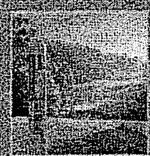
- Maintaining Financial Flexibility and Adequate Liquidity
- Gas Distribution: Continued Execution on Regulatory Initiatives
- Electric Operations: Successful Resolution of NIPSCO Rate Case (Late 2009 / Early 2010)
- NGT&S: Execute Growth Projects and Maximize Value from Existing Assets

Creating Platform for Long-Term, Sustainable Growth

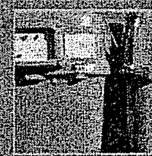
Appendix


Key Path Forward Markers
2009
2010
1Q
2Q
3Q
4Q
1Q
2Q
3Q
4Q
Liquidity
NiSource Finance Maturities
$417M / $933M
2-Year Term Loan
up to $350M
Potential Operating Company Financing
~ $350M
DRIP
$15M - $20M
Other Liquidity / Financing Initiatives
Gas Distribution
Columbia Gas of Maryland Rate Case
Columbia Gas of Kentucky Rate Case
Bay State Gas Rate Case
Columbia Gas of Pennsylvania
Potential Rate Case Filing
Electric
NIPSCO Rate Case
NIPSCO IRP Filing
GT & S
Eastern Market Expansion
In-Service
Appalachian Expansion Project
In-Service
Ohio Storage Expansion
Injections / Withdrawals (Pending FERC Approval)
Hardy Storage Phase 3


Strength


Commitment


Service


Value

ASPIRATION

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NiSource Fourth Quarter 2008 Results & Business Update

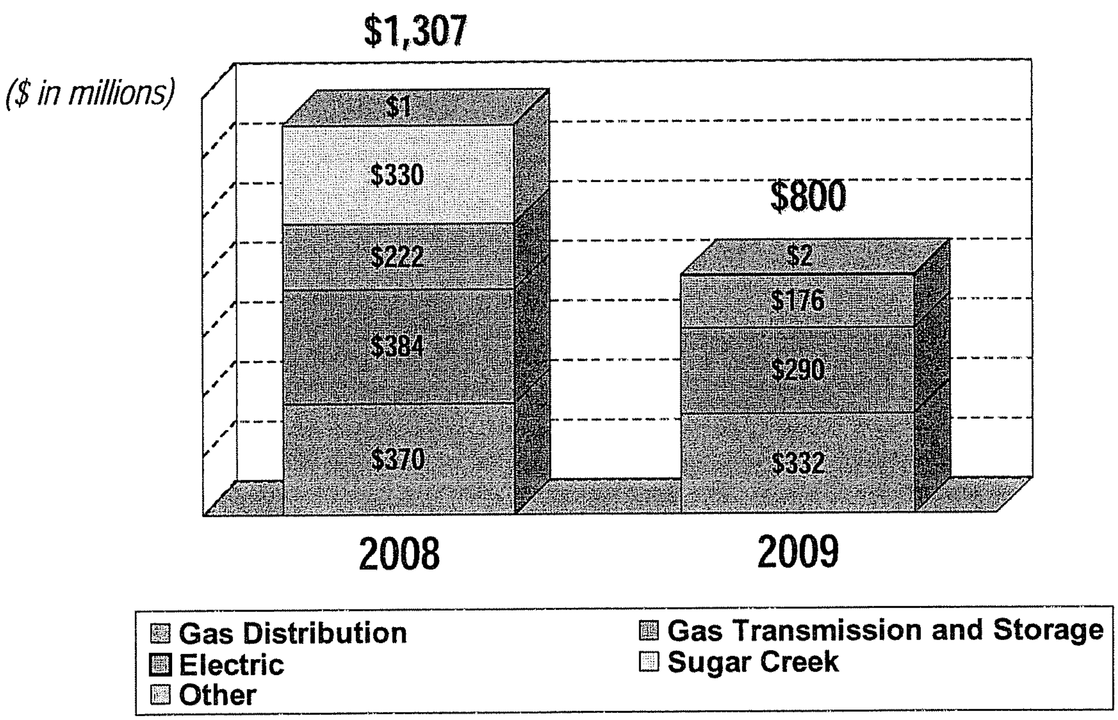
Supplemental Information

February 4, 2009

NiSource®

Capital Expenditures

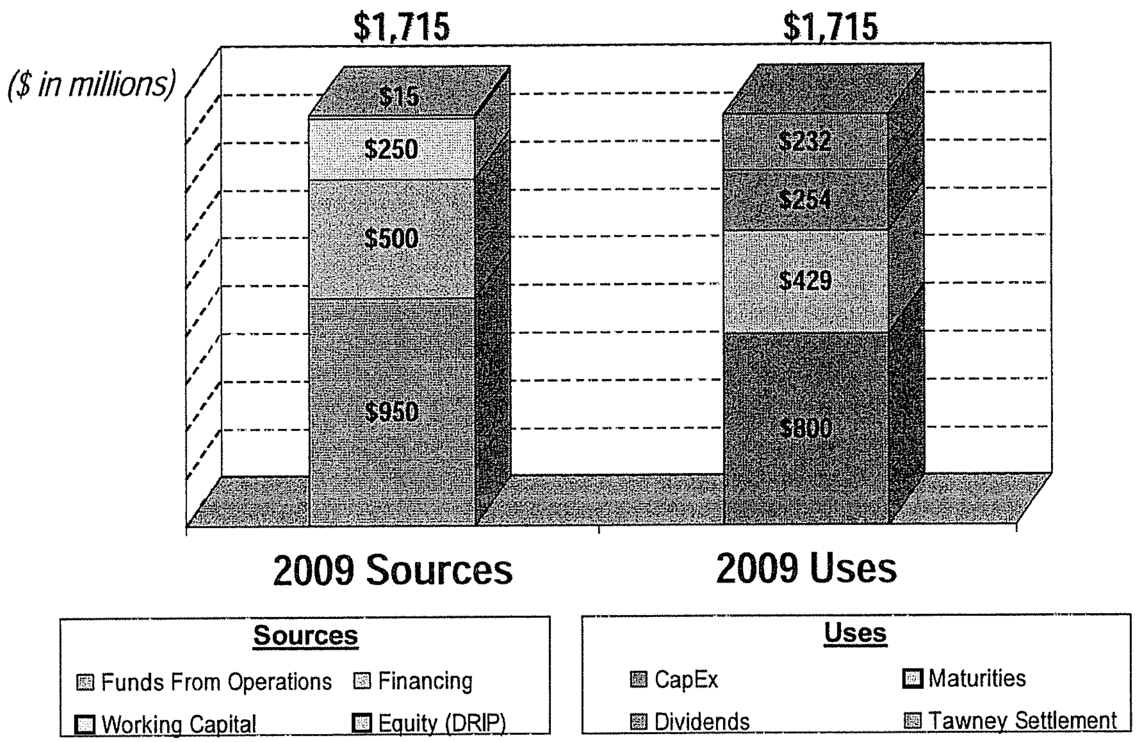
2009 Capital Expenditures Evenly Split Between Growth and Maintenance



NiSource®

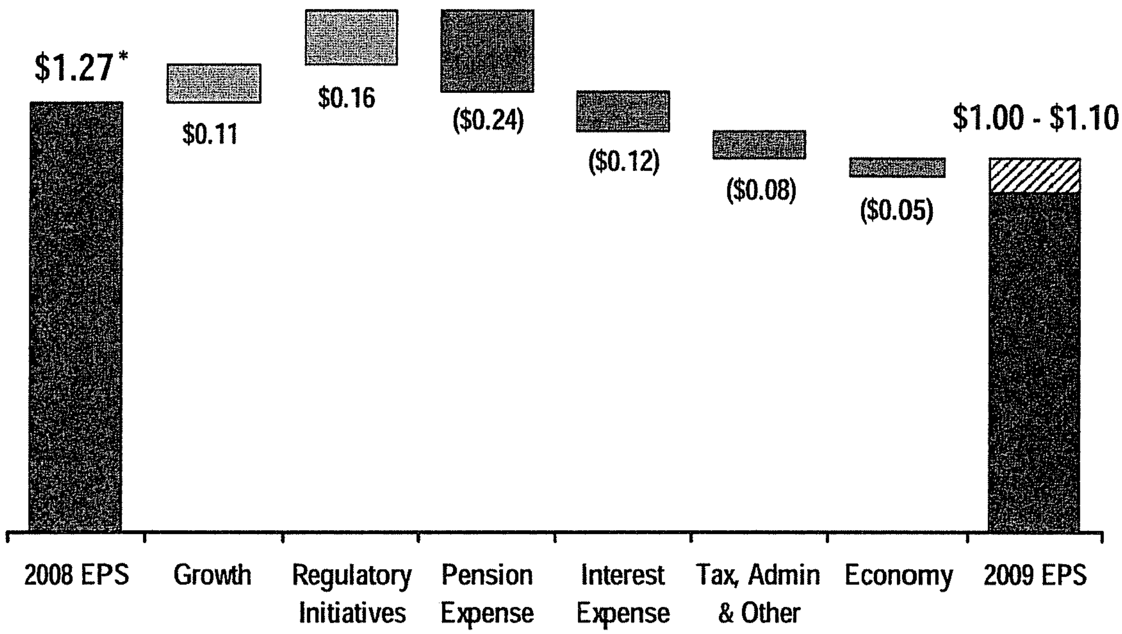
Sources and Uses of Cash

2009 Financing Requirement Reduced to $500 Million



NiSource®

Net Operating Earnings Per Share

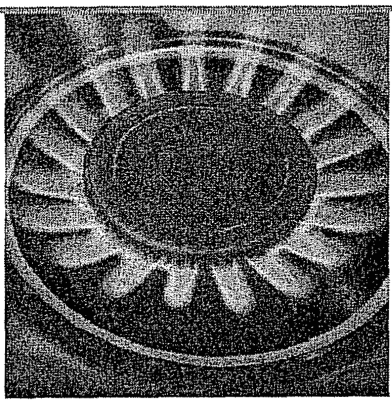


Financial Markets/Economic Downturn Drive New EPS Baseline

* See Schedule 1 to NiSource's February 4, 2009 news release for a reconciliation of GAAP to Non-GAAP financial results.

NiSource®

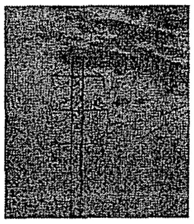
AG DR Set 1-185 Attachment H



NiSource

Commitment

2009 Annual Stockholder's Meeting

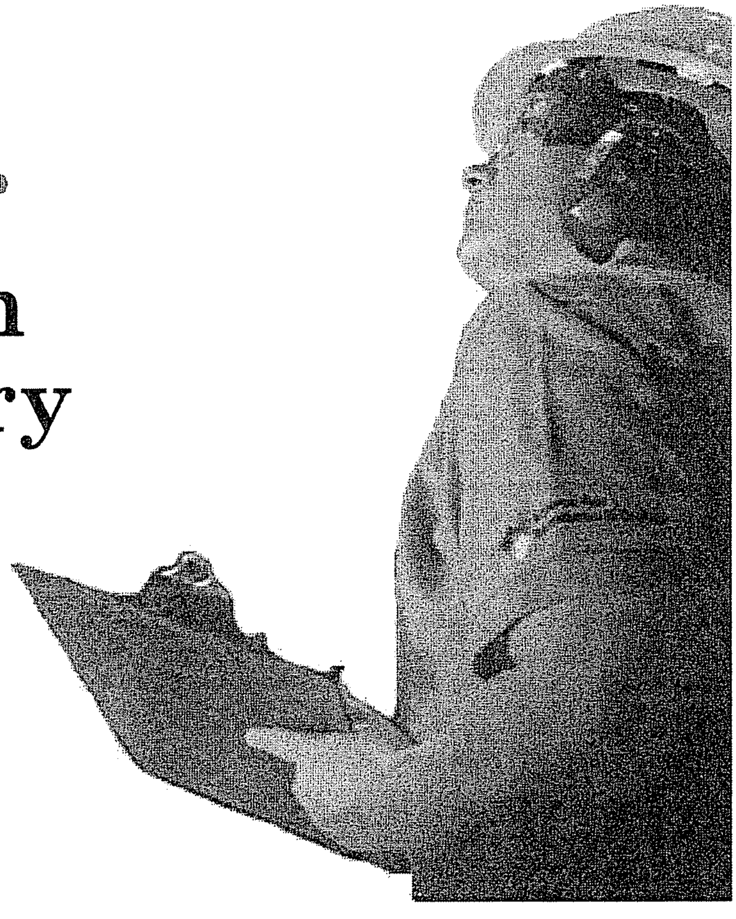
Bob Skaggs
President & CEO

Forward Looking Statements

This document contains forward-looking statements within the meaning of federal securities laws. These forward-looking statements are subject to various risks and uncertainties. The factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed herein include, among other things, weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the success of NiSource's restructured outsourcing agreement; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk, many of which are beyond the control of NiSource. These and other factors are detailed from time to time in the company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The company does not undertake any obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this presentation.

Our Aspiration

Become the Premier company in our industry



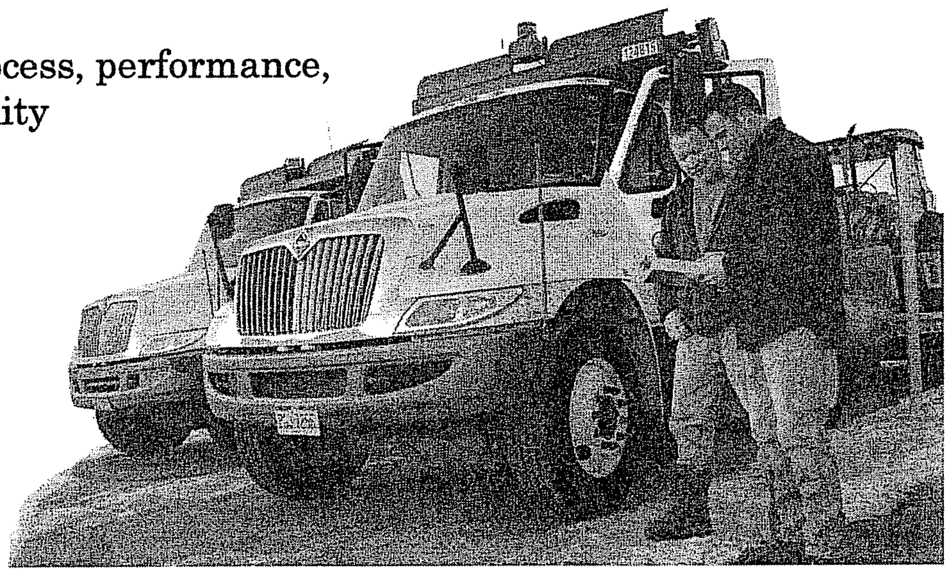
Our Strategy

Execute on regulatory and infrastructure programs

Expand and Grow gas transmission & storage

Strengthen our financial foundation

Enhance process, performance, safety and reliability



Our Commitments

Operate safely and in an environmentally sound manner

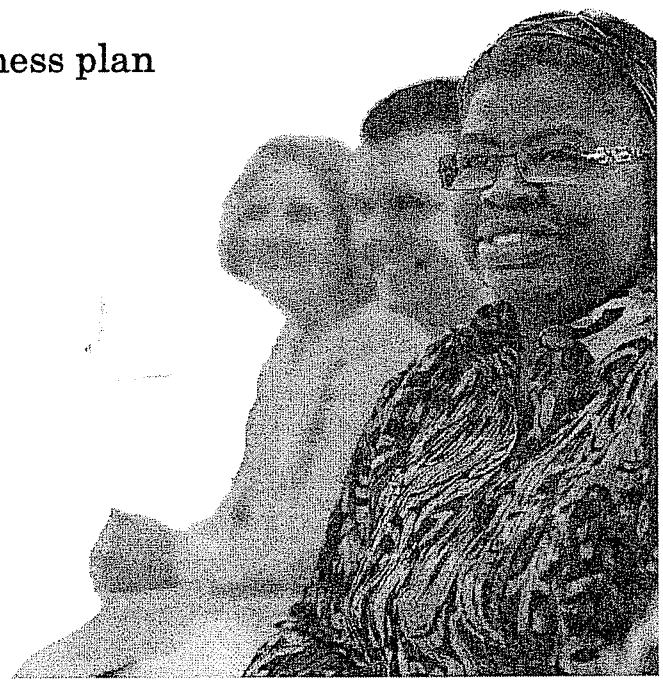
Deliver reliable service to our customers

Execute on our balanced business plan

Generate long-term, investment-driven growth

Maintain our dividend and investment grade credit ratings

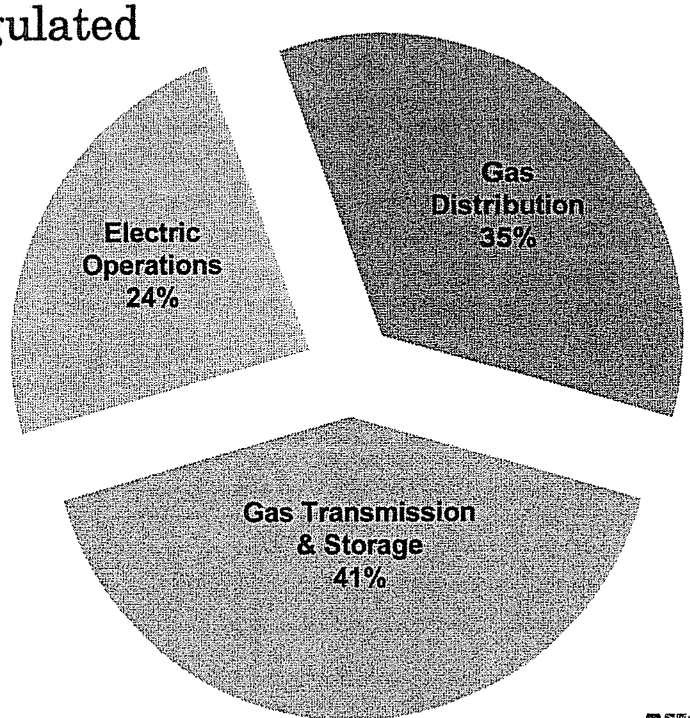
Communicate in a transparent and timely manner



Our Business Unit Focus

Sustainable Growth
of a 100 percent regulated
business portfolio

Low-Risk,
High-Quality
investment
and income
streams



NiSource

Our 2008 Accomplishments

Gas Distribution

Columbia Gas of Pennsylvania $41.5M Settlement

Columbia Gas of Ohio $47.1M Settlement

Long-Term Infrastructure Programs

Gas Transmission & Storage

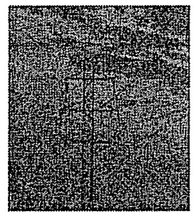
Millennium Pipeline In Service

Florida Gas Interconnect

Eastern Market Expansion Construction

Appalachian Expansion Approval

Ohio Storage Expansion Construction



Electric Operations

Added Generating Capacity: $330M Sugar Creek Plant

Purchased 100MW of Wind Power

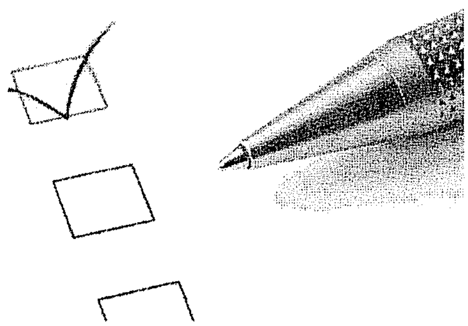
Advanced NIPSCO Rate Case

Also...

Whiting Clean Energy Disposition

Divested Northern Utilities

Resolved Various "Legacy" Issues



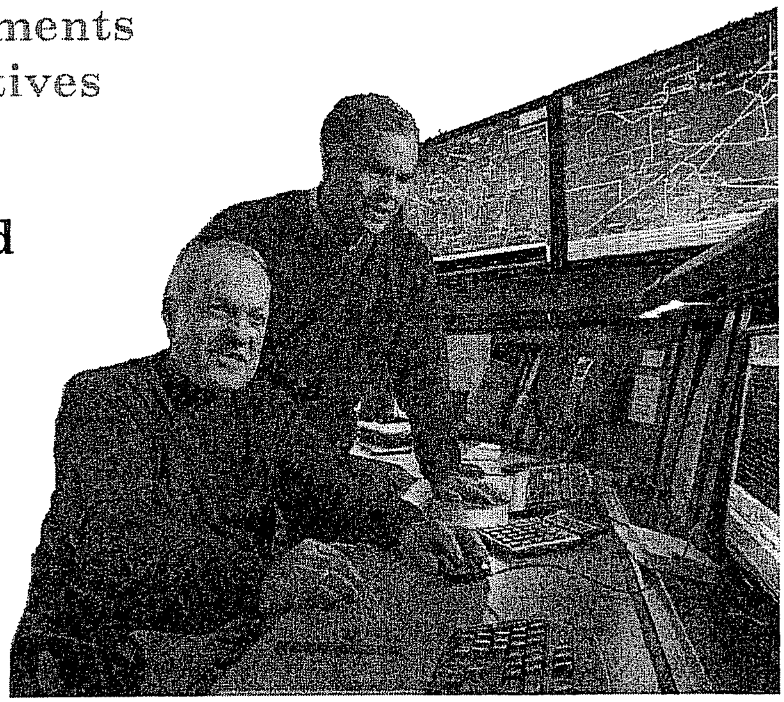
Our 2009 Areas of Focus

Maintain financial flexibility **and liquidity**

Continue to execute on gas distribution infrastructure investments and regulatory initiatives

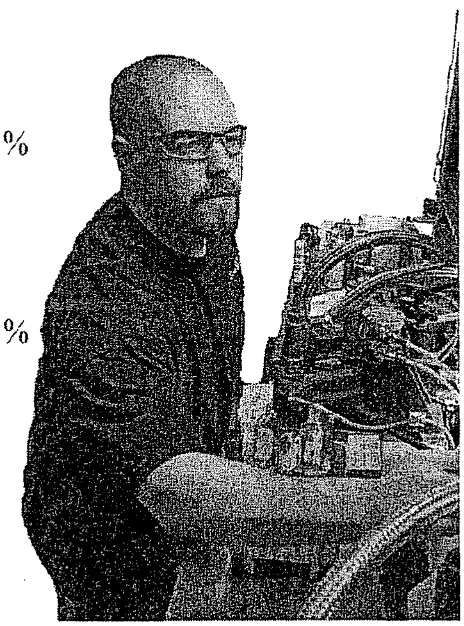
Successfully resolve NIPSCO rate case **and position for growth**

Execute NGT&S growth projects **and maximize value from existing assets**



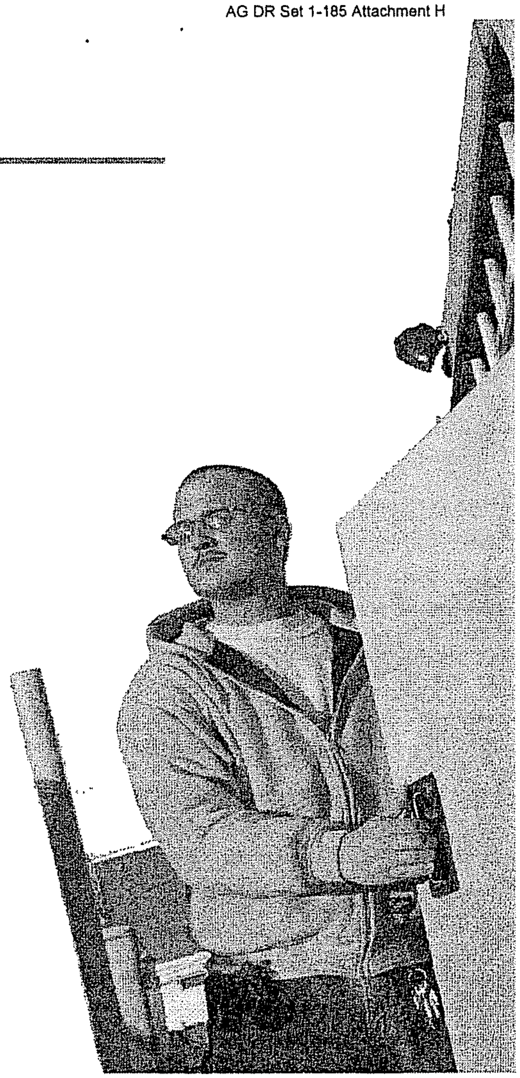
Our Early Results

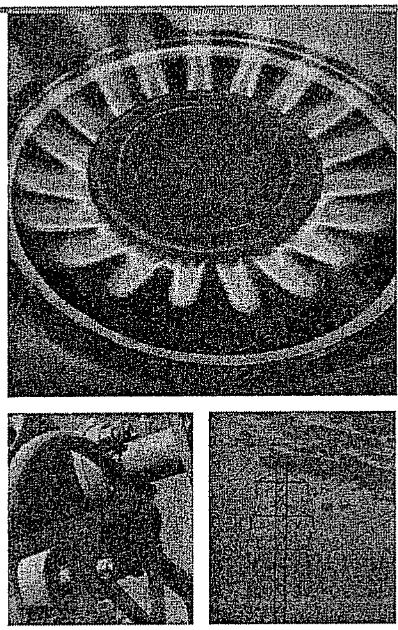
Earnings	On Track
Cash	$500 Million @ Year End $1.3 Billion @ March 31
Year-to-Date Stock Performance	▲+3.9% vs. Peers ▼-12.1%
Year-to-Date Shareholder Return	▲+6.7% vs. Peers ▼-10.3%



Our Balanced, Disciplined Approach

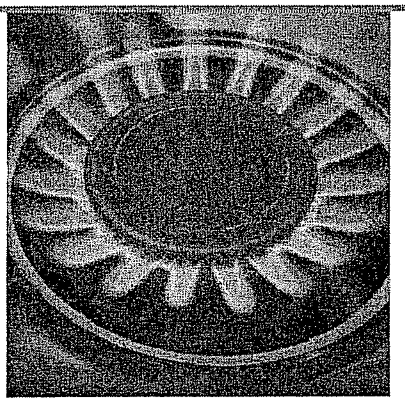
Creating a Platform for Long-Term, Sustainable Growth





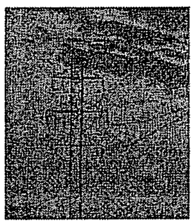
NiSource

Thank You



NiSource®

Midwest Utilities Seminar



Bob Skaggs
President & CEO
April 2009

Forward Looking Statements

This document contains forward-looking statements within the meaning of federal securities laws. These forward-looking statements are subject to various risks and uncertainties. The factors that could cause actual results to differ materially from the projections, forecasts, estimates and expectations discussed herein include, among other things, weather; fluctuations in supply and demand for energy commodities; growth opportunities for NiSource's businesses; increased competition in deregulated energy markets; the success of regulatory and commercial initiatives; dealings with third parties over whom NiSource has no control; the success of NiSource's restructured outsourcing agreement; actual operating experience of NiSource assets; the regulatory process; regulatory and legislative changes; changes in general economic, capital and commodity market conditions; and counter-party credit risk, many of which are beyond the control of NiSource. These and other factors are detailed from time to time in the company's SEC reports. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. The company does not undertake any obligation to publicly release any revision to these forward-looking statements to reflect events or circumstances after the date of this presentation.

From the Gulf Coast through the Midwest to the Northeast, our portfolio of companies serves some of the nation's highest-value energy markets, with services ranging from natural gas transmission, storage and local distribution, to electricity generation, transmission and distribution.

Gas Distribution

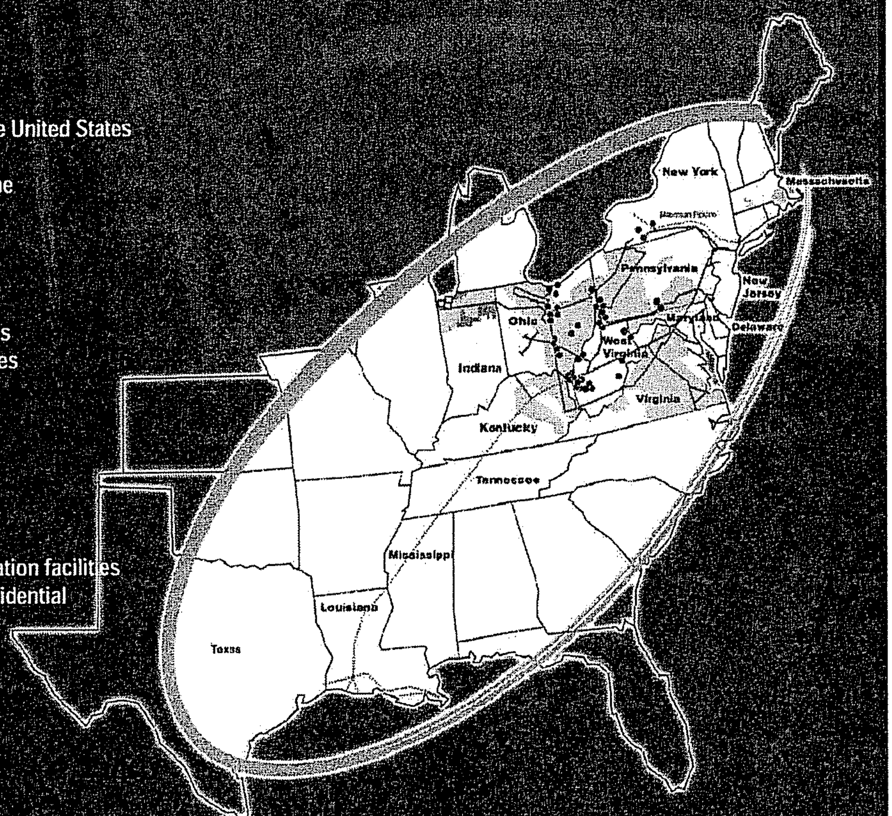
- 3rd largest natural gas distribution company in the United States
- 3.3 million customers in 7 states
- Approximately 57,000 miles of distribution pipeline
- Strong focus on infrastructure

Gas Transmission & Storage

- 4th largest natural gas pipeline in the United States
- Approximately 16,000 miles of pipeline in 16 states
- One of the largest natural gas storage networks
- Prime footprint to the East Coast
- Wide array of growth and expansion projects

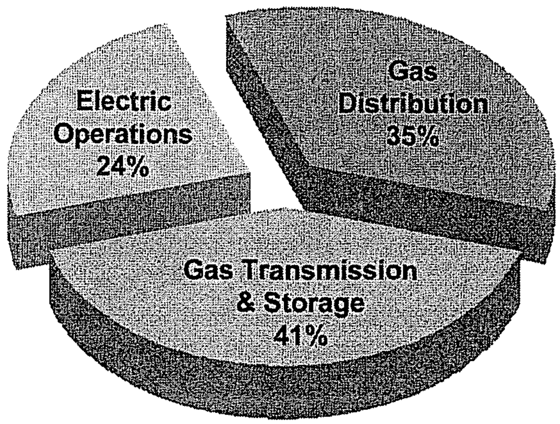
Electric Generation & Distribution

- Environmentally compliant fleet of electric generation facilities
- More than 450,000 industrial, commercial and residential electric customers in a growing marketplace



Balanced / Low Risk Portfolio

100% of Operating Earnings From Regulated Businesses



Credit Ratings

Moody's: Baa3 **S&P: BBB-** **Fitch: BBB-**

Aspiration: The Premier Regulated Energy Company in North America

Four-Part Strategy

- Expansion and Commercial Growth of Our Pipeline and Storage Business
- Regulatory and Commercial Initiatives
- Financial Management of the Balance Sheet
- Process & Expense Management

Path Forward: Key Strategic Initiatives

- NIPSCO Electric Repositioning
- Gas LDC Infrastructure Programs & Complementary Regulatory Strategies
- GT&S Continuing Development of Growth Projects

Low Risk, Long-Term Infrastructure Driven Growth

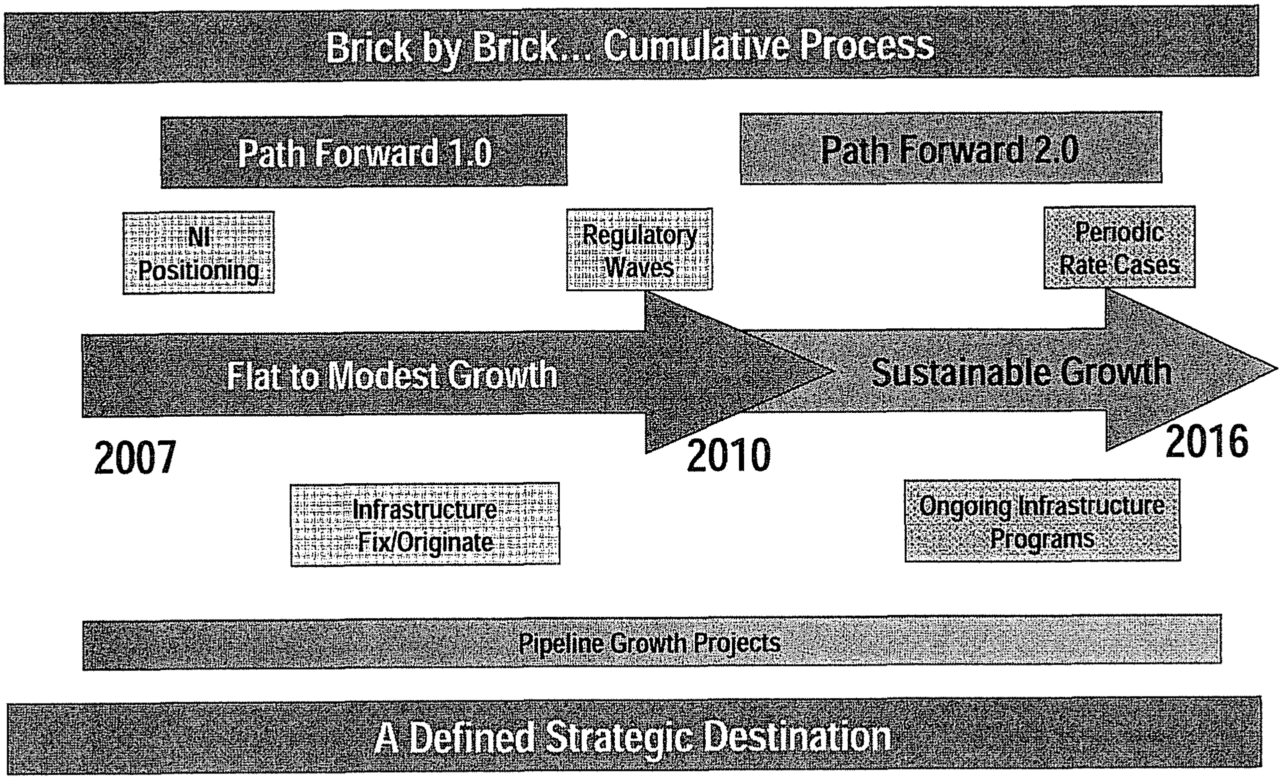
NiSource Business Unit Focus

Sustainable Growth of 100% Regulated Business Portfolio

- Gas Distribution
  - Targeted Investment and Regulatory Opportunities
    - Infrastructure Programs & Cost Trackers
    - Rate Design Enhancements
    - Revenue Increases
- Electric Operations
  - Generation Investments & Regulatory Initiatives
    - Maintaining Reliability
    - Ensuring Environmental Compliance
    - Adding Generation Capacity
    - Successfully Resolving NIPSCO Rate Case
- Gas Transmission & Storage (GT&S)
  - Disciplined Growth
    - Delivering Growth Projects
    - Optimizing Existing Assets

Low Risk, High Quality Investment & Income Streams

Positioning for Sustainable Growth



Financial Update

Near-Term Focus on Liquidity

Solid 2008 Results

- 2008 Net Operating Earnings ($1.27 per share) In-Line with Guidance

February 4, 2009 Earnings Release

- Provided 2009 Net Operating Earnings Guidance Range ($1.00 - $1.10 per share)
  - Key Driver: Increased Pension Expense
- Outlined Aggressive Liquidity Plan
  - Capital Expenses Reduced to $800M
  - Two-Year Term Loan Announced ($350M to $500M)
  - Significant Improvement in Working Capital
  - Activated Dividend Reinvestment Plan ($15M-$20M Annually)
- Business Update to be Provided on 1Q Release/Earnings Call (May 1, 2009)

Financial Markets/Economic Downturn Drive New EPS Baseline

Significant Progress on Executing Business Plan

2008 Accomplishments

Gas Distribution

- ✓ Columbia Gas of Pennsylvania – $41.5M Settlement
- ✓ Columbia Gas of Ohio – $47.1M Settlement
- ✓ Launch of Infrastructure Programs
  - Columbia Gas of Ohio – 25 year / $2B
  - Columbia Gas of Pennsylvania – 20 year / $1.4B

Gas Transmission & Storage

- ✓ Millennium Pipeline – In Service
- ✓ Florida Gas Transmission Interconnect – In Service
- ✓ Eastern Market Expansion – Construction
- ✓ Appalachian Expansion Project – Approval
- ✓ Ohio Storage Expansion Project – Construction

Electric Operations

- ✓ Added Generating Capacity - $330M Sugar Creek
- ✓ Purchased 100MW of Wind Power
- ✓ Advancing NIPSCO Rate Case

Other

- ✓ Completed the Sale of Whiting Clean Energy
- ✓ Divested Northern Utilities
- ✓ Resolved "Legacy" Issues

Creating Platform for Long-Term, Sustainable Growth

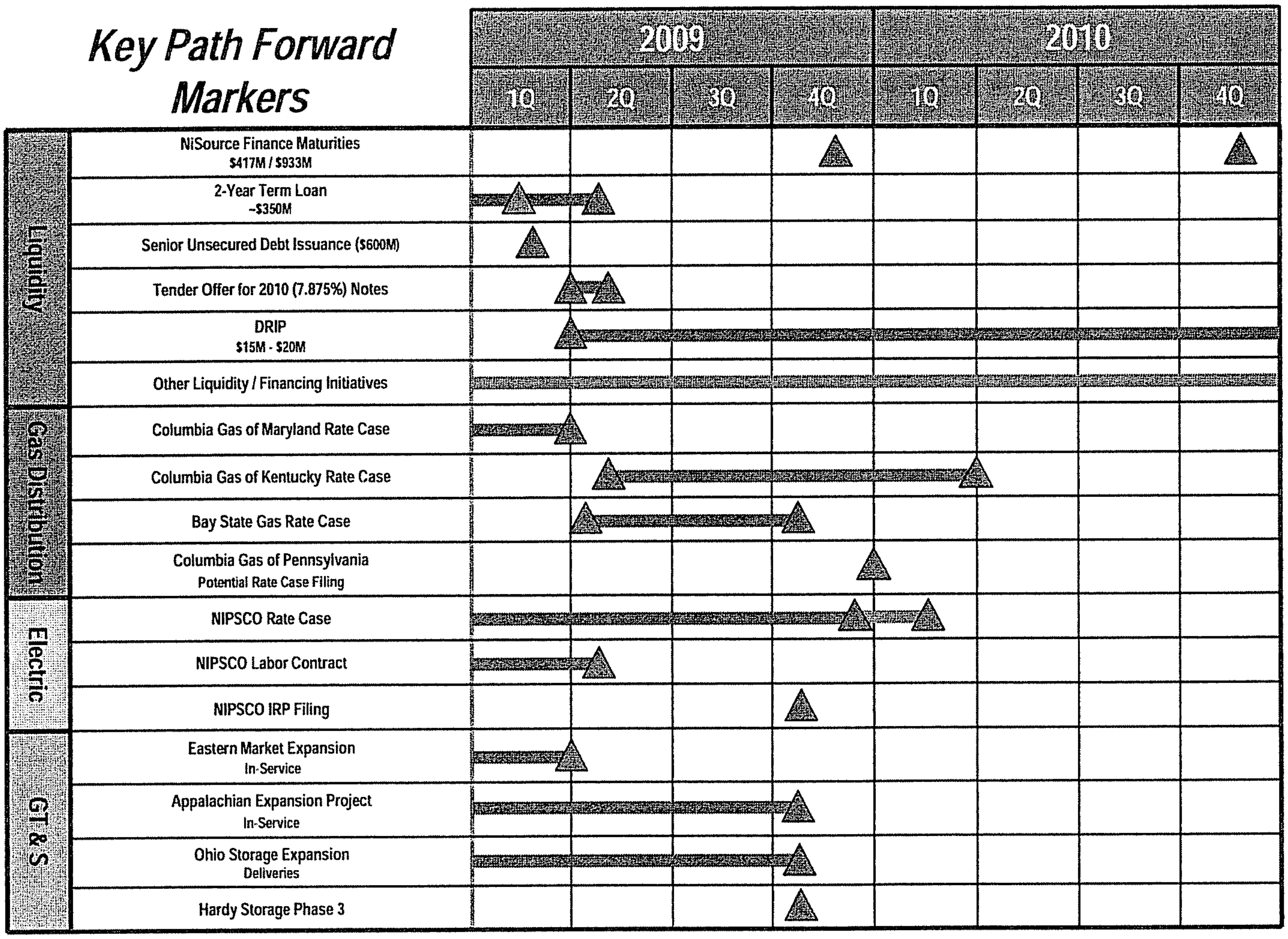
2009 Key Areas of Focus

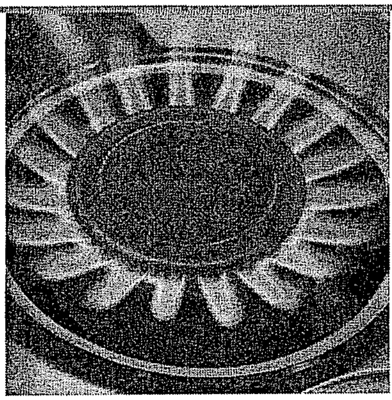
Balanced, Disciplined Approach

- Maintaining Financial Flexibility and Adequate Liquidity
- Gas Distribution: Continued Execution on Infrastructure Investments and Regulatory Initiatives
- Electric Operations: Successful Resolution of NIPSCO Rate Case
- NGT&S: Execute Growth Projects and Maximize Value from Existing Assets

Creating Platform for Long-Term, Sustainable Growth

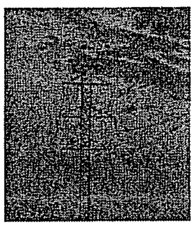
Appendix


Key Path Forward Markers
2009
2010
1Q
2Q
3Q
4Q
1Q
2Q
3Q
4Q
Liquidity
NiSource Finance Maturities
$417M / $933M
2-Year Term Loan
~$350M
Senior Unsecured Debt Issuance ($600M)
Tender Offer for 2010 (7.875%) Notes
DRIP
$15M - $20M
Other Liquidity / Financing Initiatives
Gas Distribution
Columbia Gas of Maryland Rate Case
Columbia Gas of Kentucky Rate Case
Bay State Gas Rate Case
Columbia Gas of Pennsylvania
Potential Rate Case Filing
Electric
NIPSCO Rate Case
NIPSCO Labor Contract
NIPSCO IRP Filing
GT & S
Eastern Market Expansion
In-Service
Appalachian Expansion Project
In-Service
Ohio Storage Expansion
Deliveries
Hardy Storage Phase 3



NiSource

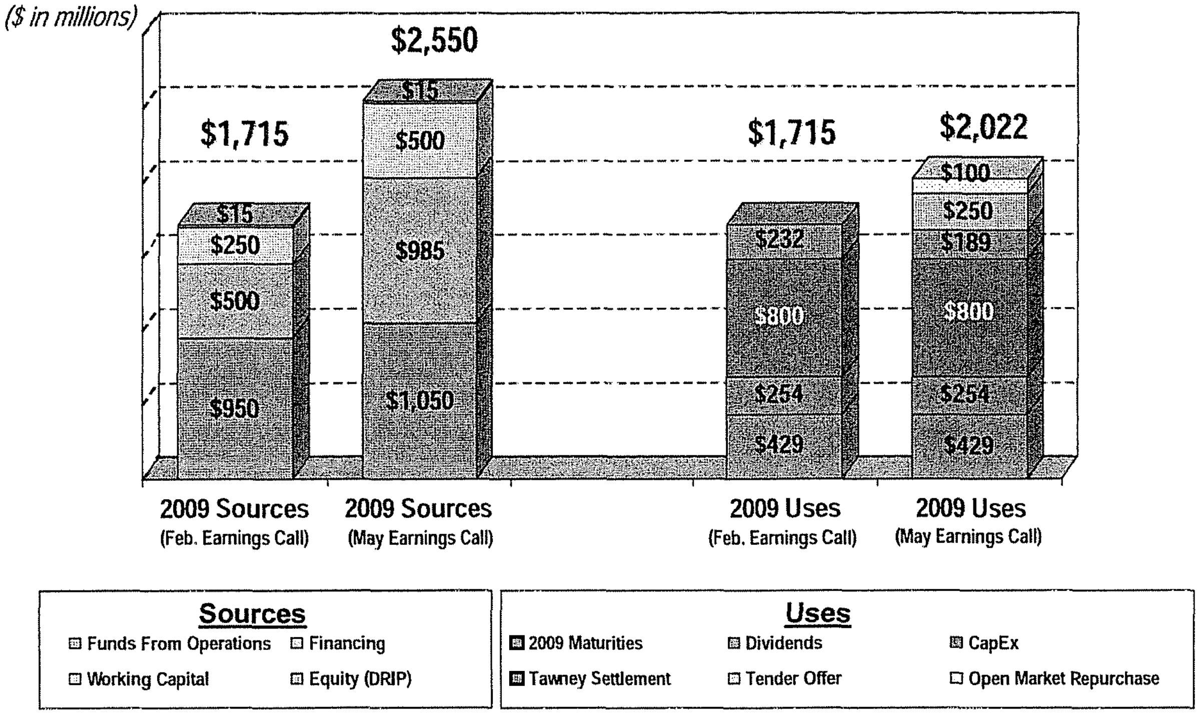
NiSource First Quarter 2009 Results and Business Update

Supplemental Information
May 1, 2009

2009 Sources and Uses of Cash

More than $500M of Excess Liquidity in 2009



NiSource

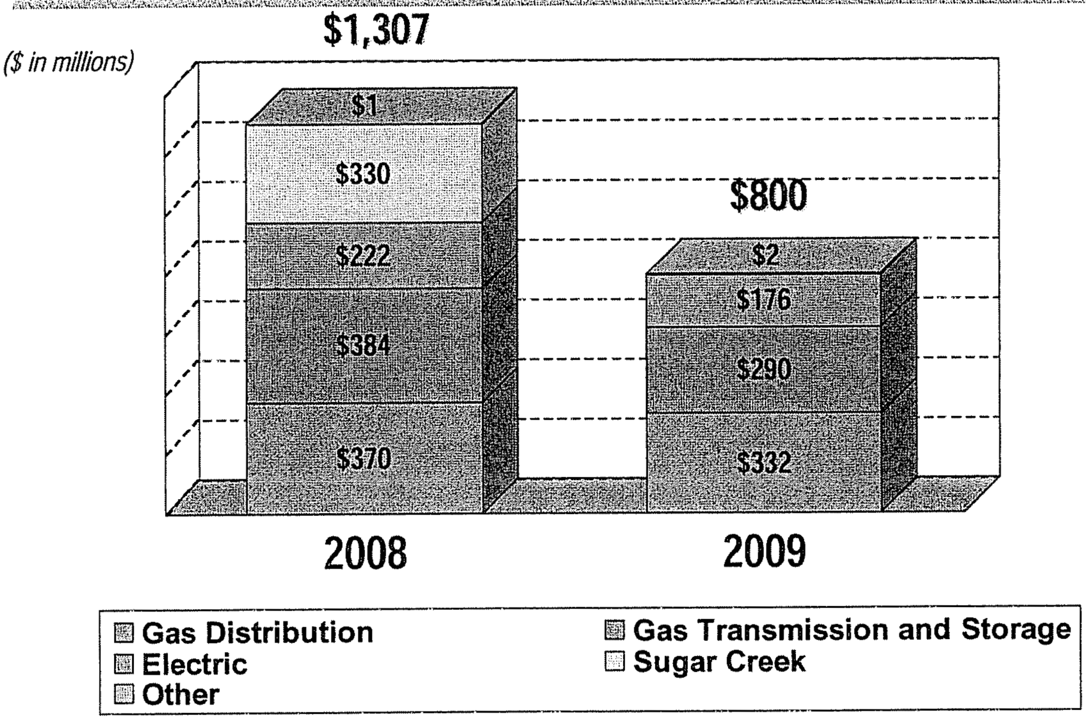
Current Liquidity (In Millions)

	Actual 3/31/09	Maturity
Committed Credit Facility	$1,500	Jul 2011
Less:		
Drawn on Credit Facility	-	
Letters of Credit (1)	(290)	
Add:		
Cash & Equivalents	135	
Net Available Liquidity	**$1,345**	

(1) Includes $254.0M LC for Tawney Settlement

Capital Expenditures

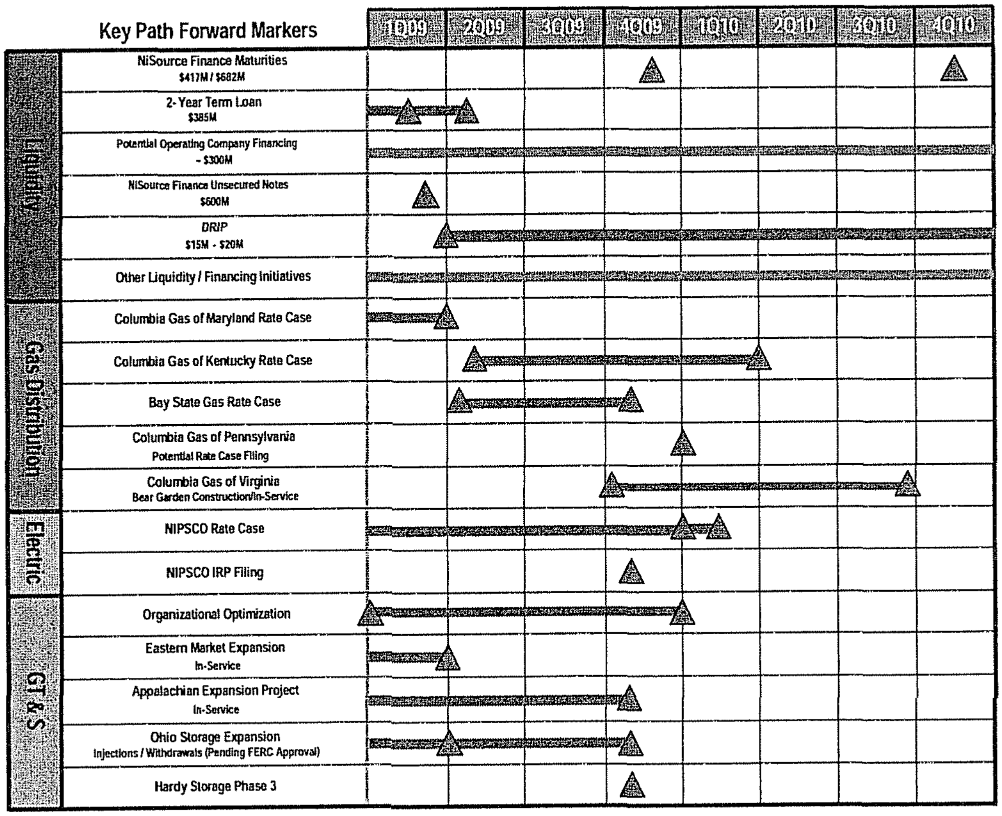
2009 Cap-Ex Program On-Track



Note: Average aggregate annual capital expenditures for the period 2003-2007 were approximately $620 million.

NiSource

Key Path Forward Markers



NiSource

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 186:

Please provide copies of all prospectuses for any security issuances by NiSource, Columbia Energy Group, and/or Columbia Gas of Kentucky, Inc. since January 1, 2007.

Response:

Please refer to Filing Requirement 6-p behind Tab 34 in Volume 2 of the Company's application.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 187:

Please provide copies of all studies performed NiSource, Columbia Energy Group, and/or Columbia of Kentucky, Inc. or by consultants or investment firms hired by NiSource, Columbia Energy Group, and/or Columbia Gas of Kentucky, Inc. to assess (1) the Columbia Gas of Kentucky, Inc.'s financial performance, (2) the performance of the Columbia Gas of Kentucky, Inc. relative to other utilities, or (3) the adequacy of the Columbia Gas of Kentucky, Inc.'s return on equity or overall rate of return.

Response:

Objection. Columbia objects to and declines to respond to this discovery request to the extent it is vague, ambiguous, or contains terms and/or phrases that are undefined and/or are subject to varying interpretations or meanings, and could, therefore, cause responses to be misleading and/or incorrect. Columbia also objects to and declines to respond to this discovery request to the extent that it causes annoyance, embarrassment, oppression, or undue burden or expense. There could be hundreds or thousands of documents that might be responsive to the question as currently worded, due to vagueness. In addition, the question is unreasonable because it contains no time parameters applicable to the data requested. Columbia is willing to work with the Attorney General's office to provide those documents that it truly needs to analyze this particular rate case.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 188:

Please provide copies of credit reports for NiSource, Columbia Energy Group, and/or Columbia Gas of Kentucky, Inc. from the major credit rating agencies published since January 1, 2007.

Response:

Columbia Gas of Kentucky, Inc. and CEG

Columbia Gas of Kentucky, Inc. is a wholly owned subsidiary of Columbia Energy Group, which is a subsidiary of NiSource Inc. (Parent). All debt of the Company is held by the Parent and is not publicly traded or rated.

NiSource Inc.

Attachments A through J AG1-188 are copies of the bond rating reports issued by Standard & Poors, Fitch and Moody's for NiSource Inc. during 2007 and 2008. Attachment A contains the Fitch reports, Attachments B – F contain the Standard & Poors reports and Attachments G – J contain the Moody's reports.

<MENU> to return to headlines. EquityNSE

Search [redacted] GO	Options	Related Info	FII May 14 2008 12:42:51

Fitch Affirms NiSource & Subsidiaries' IDRs at 'BBB' Page 1/6

FITCH AFFIRMS NISOURCE & SUBSIDIARIES' IDRS AT 'BBB'; OUTLOOK STABLE

Fitch Ratings-New York-14 May 2008: Fitch Ratings has affirmed the outstanding ratings for NiSource Inc. (NI) and its subsidiaries as follows:

NI

--Issuer Default Rating (IDR) at 'BBB'.

NiSource Capital Markets, Inc. (NI Capital Markets)

--IDR at 'BBB';

--Senior unsecured debt at 'BBB'.

NiSource Finance Corp. (NI Finance)

--IDR at 'BBB';

<MENU> to return to headlines. EquityNSE

Search [redacted] GO Options Related Info FII May 14 2008 12:42:51

Fitch Affirms NiSource & Subsidiaries' IDRs at 'BBB' Page 2/6

--Senior unsecured debt at 'BBB';

--Short-term Issuer Default Rating (IDR) at 'F2';

--Commercial paper (CP) at 'F2'.

Northern Indiana Public Service Co. (NIPSCO)

--IDR at 'BBB';

--Senior unsecured debt at 'BBB+'.

Approximately $5.3 billion of outstanding long-term debt is affected. The Rating Outlook for NI and its subsidiaries is Stable.

NI's ratings and Stable Outlook reflect the low business risk and stable operating performance generated by its geographically diverse mix of regulated operations. Virtually 100% of NI's earnings now come from its utility and pipeline subsidiaries. With the anticipated sale of the Whiting Clean

Energy co-generation facility to BP Alternative Energy North America Inc., NI will complete the divestiture of its higher risk and least profitable businesses. Natural gas and electric utility operations serve 3.3 million customers across nine states. Combined, the state regulated utilities will generate approximately 60% of 2008 operating income. FERC regulated interstate pipelines and storage will generate approximately 40% of 2008 operating income. Regulatory mechanisms have generally provided timely cost recovery and resulted in stable credit measures. Growth initiatives have modest risk and are complementary to existing core operations. Capital expenditures are manageable.

While much has been accomplished in recent years to refine the company's operating focus, major challenges remain across its operations. Several important regulatory issues are expected to be addressed over the next several months. Of note, recent natural gas utility rate filings in Ohio and Pennsylvania, NI's largest gas jurisdictions, have included requests for recovery of substantial future infrastructure rehabilitation costs including funding replacement of bare steel pipe. Given the

<MENU> to return to headlines. EquityNSE

Search [redacted] GO | Options | Related Info | FII May 14 2008 12:42:51

Fitch Affirms NiSource & Subsidiaries' IDRs at 'BBB' Page 4/6

materiality of the filings, adverse regulatory rulings could lead to an erosion in consolidated financial performance over time and contribute to a negative rating action. Also, NI faces a large potential financial penalty related to a class action suit that has been appealed to the West Virginia Supreme Court and is likely to be resolved in 2009.

NIPSCO is expected to make an electric utility rate filing in Indiana this summer as part of its ongoing power cost recovery proceedings. The filing will follow recent actions taken by the company to define its long-term capacity requirements and mitigate economic exposure to power purchase costs. Under an integrated resource plan filed with the Indiana Utility Regulatory Commission (IURC) in November 2007, NIPSCO identified a future generating capacity short-fall of approximately 1,000 megawatts (mw). In January 2008, the IURC approved a settlement to implement a benchmarking standard for recovery of future power purchase costs. Utilizing the new benchmark, NIPSCO was required to absorb $3.8 million in purchase power costs in Q1 2008. To help meet its capacity shortfall, NIPSCO has signed an agreement to purchase the 535mw

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Fitch Affirms NiSource & Subsidiaries' IDRs at 'BBB' Page 5/6

Sugar Creek combined-cycle gas turbine from LS Power Group for $329 million and is awaiting certification by Indiana regulators before completing the transaction. Operation of the Sugar Creek facility will reduce the company's purchased power requirements and limit the amount of costs it will absorb.

NI's consolidated credit measures generally fall within the middle-to-low range for its 'BBB' utility parent company peer group. Given NI's current business mix and the predictability provided by its regulatory schemes, Fitch does not anticipate any material near-term change in its credit metrics, up or down. Management has moved beyond quick fix solutions to increase NI's earnings and is focused on improving operating results. Growth strategies are relatively modest and make sense. Current pipeline and storage expansion projects have favorable locational and contractual characteristics. Fitch views the planned eventual dropdown of Columbia Gulf to a master limited partnership (MLP) as a credit neutral event. However, the MLP provides management additional financial and operating flexibility.

<MENU> to return to headlines. EquityNSE

Search [redacted] GO | Options | Related Info | Fri May 14 2008 12:42:51

Fitch Affirms NiSource & Subsidiaries' IDRs at 'BBB' Page 6/6

Contact: Ralph Pellecchia +1-212-908-0586, New York or Karen Anderson +1-312-368-3165 or Joseph Sorce +1-312-368-3161, Chicago.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

Provider ID: 00267351
-0- May/14/2008 16:42 GMT

<MENU> to return to headlines. EquityNSE

Search [redacted] GO Options Related Info Fri May 23 2008 11:23:47

Fitch: NiSource Unaffected by W. Virginia Refusal to Hear Appeal Page 1/2

FITCH: NISOURCE RATINGS UNAFFECTED BY WEST VIRGINIA COURT'S REFUSAL TO HEAR APPEAL

Fitch Ratings-New York-23 May 2008: Fitch Ratings indicates that the potential for an adverse ruling by the Supreme Court of Appeals of West Virginia relating its class action suit was considered in its rating analysis of NiSource Inc. (NI, Issuer Default Rating 'BBB'/Stable). Fitch affirmed NI's ratings on May 14, 2008.

This morning, NI announced that the Supreme Court of Appeals of West Virginia voted to refuse to hear the company's appeal of a $404 million verdict rendered in a state class action lawsuit in 2007. It had been alleged that Columbia Natural Resources, a former subsidiary of NI, underpaid natural gas royalties. NI will seek a continuation of the stay of judgment in the case and will file an appeal with the U.S. Supreme Court. Fitch believes NI's liquidity is adequate to pay the full amount of the damages should it be required.

<MENU> to return to headlines. EquityNSE

Search	GO	Options	Related Info	Fri May 23 2008 11:23:47

Fitch: NiSource Unaffected by W. Virginia Refusal to Hear Appeal Page 2/2

Contact: Ralph Pellecchia +1-212-908-0586, New York or Joseph Sorce +1-312-368-3161, Chicago.

Media Relations: Brian Bertsch, New York, Tel: +1 212-908-0549.

Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.

Provider ID: 00268275
-0- May/23/2008 15:23 GMT

STANDARD
&POOR'S

RATINGSDIRECT®

December 18, 2007

Research Update:

NiSource Inc. Lowered To 'BBB-', Off Watch Re: New Corporate Strategy; Outlook Stable

Primary Credit Analyst:
Ralph A DeCesare, CFA, New York (1) 212-438-4682;ralph_decesare@standardandpoors.com

Secondary Credit Analyst:
Michael Messer, New York (1) 212- 438-1618;michael_messer@standardandpoors.com

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Research Update:

NiSource Inc. Lowered To 'BBB-', Off Watch Re: New Corporate Strategy; Outlook Stable

Rationale

On Dec. 18, 2007, Standard & Poor's Ratings Services lowered its corporate credit rating on utility holding company NiSource Inc. and its subsidiaries to 'BBB-' from 'BBB', and removed them CreditWatch, where we placed them with negative implications on Nov. 2, 2007. The outlook is stable.

The rating downgrade reflects NiSource's newly aggressive capital spending program, which will result in negative free cash flow and increased debt levels, reversing years of deleveraging. The company also announced the addition of two electric power plants, which it expects to add to rate base, and several pipeline expansions. Longer term, we expect these activities, in addition to initiatives to improve regulatory design at the gas distribution companies, to improve and stabilize cash flow.

The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group, Northern Indiana Public Service Co. (NIPSCO), and Bay State Gas Co. Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%). As of Sept. 30, 2007, NiSource had total adjusted debt, including operating leases and tax affected pensions and post-retirement obligations, of about $7.8 billion.

The stand-alone financial profiles of NiSource's subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, Standard & Poor's views the default risk as the same throughout the organization due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company.

NiSource's excellent business position is supported by the company's business plan that centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures. These strengths are tempered somewhat by NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy.

As part of its review, Standard & Poor's changed its business risk profile on NiSource to excellent from strong, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate design mechanisms. Rate design mechanisms that include "decoupling" reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. Furthermore, our business risk profile revision reflects our opinion that the Sugar Creek and Whiting power plants will likely be included in NIPSCO's rate base, which will increase regulated revenues and substantially improve electric reliability in northern

Indiana.

Although cash flows are expected to remain stable we anticipate the company's financial profile to deteriorate over the next few years. We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and pursuit of an MLP strategy, which will reduce consolidated cash flow from stable but strategic assets. NiSource had been improving its balance sheet after the debt-financed acquisitions of Bay State and Columbia, in 1999 and 2000, respectively. In November 2007, NiSource initiated a more aggressive growth plan, which includes capital spending of more than $1 billion a year, which is above its near-term cash flow generating capability. This means that debt leverage is likely to increase from its already weak levels to about 65%. For the next several years, we also expect funds from operations (FFO) to total debt to remain weak, at around 11%-12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying a power plant, and the regulatory lag in implementing a series of rate cases that will be filed in the next few months. Rapidly growing operating costs, especially at its gas distribution units, have hurt financial measures. Since debt will increase immediately and incremental cash flow growth will take some time, an already weak financial position will be stretched even further in the near term.

Liquidity

NiSource's liquidity in addition to its access to the debt and equity markets should be adequate to meet its ongoing operating and capital requirements. On Nov. 2, 2007, NiSource announced plans to boost capital spending to levels that will be above cash flows. For the past several years, NiSource had been reducing debt levels associated with the acquisitions of Bay State and Columbia with its operating cash flow. In addition to annual capital spending of at least $1 billion, other uses of cash flow include dividends of about $250 million. Given these spending levels and cash from operations of about $1 billion, we expect NiSource to have a negative free cash flow of $200 million to $300 million per year from 2009 and beyond. With the debt-financed purchase of Sugar Creek, free cash flow deficit in 2008 could be near $700 million in 2008.

NiSource Finance has a $1.5 billion five-year revolving credit facility that terminates in July 2011. As of Sept. 30, 2007, the company had $17 million in unrestricted cash and about $800 million available under NiSource Finance's $1.5 billion revolving credit facility, which matures in July 2011. Debt maturities of $29 million are minimal in 2008. However, maturities of $461 million in 2009 and $1 billion in 2010 substantially exceed cash flow estimates and will require refinancing.

Outlook

The stable outlook reflects our expectation of more supportive regulatory rate mechanisms related to weather-normalization and conservation, rate increases related to increased labor and other operating costs, and the addition of generation assets to NIPSCO's rate base, which should provide a more stable stream of cash flows. NiSource appears well positioned at the 'BBB-' rating level and is likely to remain investment grade for the foreseeable future. An outlook revision to negative could occur if the anticipated improvements in cash flow do not occur or the company's MLP plans become more aggressive than currently contemplated. An outlook revision to positive, which is not anticipated over the intermediate term, would require significantly deleveraging and considerably stronger cash flow metrics.

Ratings List

Downgraded; CreditWatch/Outlook Action

	To	From
NiSource Inc.		
NiSource Capital Markets Inc.		
Northern Indiana Public Service Co.		
NiSource Finance Corp.		
Bay State Gas Co.		
Corporate Credit Rating	BBB-/Stable/--	BBB/Watch Neg/--
Senior Unsecured		
Local Currency	BBB-	BBB/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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December 28, 2007

Summary:

NiSource Inc.

Primary Credit Analyst:
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Summary:
NiSource Inc.

Credit Rating: BBB-/Stable/NR

Rationale

The rating on utility holding company NiSource Inc. and its subsidiaries is 'BBB-', and the outlook is stable.

The rating on NiSource and its subsidiaries reflects NiSource's newly aggressive capital-spending program, which will result in negative free cash flow and increased debt levels, reversing years of deleveraging. The company also announced the addition of two electric power plants, which it expects to add to rate base, and several pipeline expansions. For the longer term, Standard & Poor's Ratings Services expects these activities, in addition to initiatives to improve regulatory design at the gas distribution companies, to improve and stabilize cash flow.

The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO), and Bay State Gas Co. Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%). As of Sept. 30, 2007, NiSource had total adjusted debt, including operating leases and tax-affected pensions and postretirement obligations, of about $7.8 billion.

The stand-alone financial profiles of NiSource's subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company.

NiSource's excellent business position is supported by the company's business plan that centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures. These strengths are tempered somewhat by NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy.

As part of its review, Standard & Poor's changed its business risk profile on NiSource to excellent from strong, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate design mechanisms. Rate design mechanisms that include "decoupling" reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. Furthermore, our business risk profile revision reflects our opinion that the Sugar Creek and Whiting power plants will likely be included in NIPSCO's rate base, which will increase regulated revenues and substantially improve electric reserve margins at NIPSCO.

Although we expect cash flows to remain stable, we anticipate the company's financial profile to deteriorate over the next few years. We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and pursuit of a master limited partnership (MLP) strategy, which will reduce consolidated cash flow from stable but strategic assets. NiSource had been improving its balance sheet after the debt-financed acquisitions of Bay State and Columbia, in 1999 and 2000, respectively. In November 2007, NiSource initiated a more aggressive growth plan, which includes capital spending of more than $1 billion a year, which is above its near-term cash flow generating capability. This means that debt leverage is likely to increase from its already weak levels to about 65%. For the next several years, we also expect funds from operations (FFO) to total debt to remain weak, at around 11% to 12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying a power plant, and the regulatory lag in implementing a series of rate cases that will be filed in the next few months. Rapidly growing operating costs, especially at its gas distribution units, have hurt financial measures. Because debt will increase immediately and incremental cash flow growth will take some time, an already weak financial position will be stretched even further in the near term.

Liquidity

NiSource's liquidity, in addition to its access to the debt and equity markets, should be adequate to meet its ongoing operating and capital requirements. On Nov. 2, 2007, NiSource announced plans to boost capital spending to levels that will be above cash flows. For the past several years, NiSource had reduced debt levels associated with the acquisitions of Bay State and Columbia with its operating cash flow. In addition to annual capital spending of at least $1 billion, other uses of cash flow include dividends of about $250 million. Given these spending levels and cash from operations of about $1 billion, we expect NiSource to have a negative free cash flow of $200 million to $300 million per year from 2009 and beyond. With the debt-financed purchase of Sugar Creek, the free cash flow deficit in 2008 could be near $700 million.

Funding vehicle NiSource Finance Corp. has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. As of Sept. 30, 2007, the company had about $800 million available under the facility and $17 million in unrestricted cash. Debt maturities in 2008 are $29 million. However, maturities of $461 million in 2009 and $1 billion in 2010 substantially exceed cash flow estimates and will require refinancing.

Outlook

The stable outlook reflects our expectation of more supportive regulatory rate mechanisms related to weather normalization and conservation, rate increases related to increased labor and other operating costs, and the addition of generation assets to NIPSCO's rate base, which should provide a more stable stream of cash flows. NiSource appears well positioned at the 'BBB-' rating level and the rating is likely to remain investment grade for the foreseeable future. An outlook revision to negative could occur, if the anticipated improvements in cash flow do not transpire or the company's MLP plans become more aggressive. An outlook revision to positive, which is not anticipated over the intermediate term, would require significant deleveraging and considerably stronger cash flow metrics.

Bulletin:

Subsidiary's Asset Sale Will Not Affect NiSource Inc.'s Ratings

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776; bill_ferara@standardandpoors.com

NEW YORK (Standard & Poor's) April 24, 2008--Standard & Poor's Ratings Services said today that NiSource Inc.'s (BBB-/Stable/--) announcement that its subsidiary PEI Holdings Inc. will sell its outstanding stock in subsidiary Whiting Clean Energy Inc. for $210 million does not affect the rating on the company or its subsidiaries. The 525 MW Whiting plant, a cogeneration facility located at BP's Whiting, Indiana refinery, is being purchased by BP Alternative Energy North America Inc., which had a right of first refusal on the plant. The Whiting facility was selected by Northern Indiana Public Service Co.'s (NIPSCO) as part of a request-for-proposal process conducted in 2007 to improve reliability and address anticipated capacity shortfalls in NIPSCO's service territory. BP's purchase of the plant will now require the company to explore other, longer-term options to replace this capacity. We expect immediate reliability concerns to be addressed as NiSource moves forward with buying the 535 MW Sugar Creek combined-cycle plant under a separate transaction. NiSource expects to use proceeds from selling Whiting to repay short-term borrowings, however, we don't expect the level of debt reduction to be significant enough to change the company's ratings or outlook. Ratings concerns could manifest if NiSource cannot identify a suitable long-term solution to the region's capacity requirements, or if the terms of interim purchased power agreements result in substantially higher levels of debt to be imputed to the company's consolidated balance sheet, although neither of these concerns are currently anticipated.

STANDARD &POOR'S

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May 15, 2008

Research Update:

NiSource Finance $700M Unsecured Notes Rated 'BBB-'; 'BBB-' Corp. Credit Rating Affirmed

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776;bill_ferara@standardandpoors.com

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Research Update:

NiSource Finance $700M Unsecured Notes Rated 'BBB-'; 'BBB-' Corp. Credit Rating Affirmed

Rationale

On May 15, 2008, Standard & Poor's Ratings Services assigned its 'BBB-' unsecured debt rating to NiSource Finance Corp.'s (NiSource Finance) $500 million senior unsecured notes due Jan. 15, 2019. At the same time, Standard & Poor's affirmed its 'BBB-' senior secured rating on NiSource Finance's incremental issuance of $200 million of senior unsecured notes due March 1, 2013. The company will use the proceeds to reduce short-term borrowings, fund capital expenditures, and for general corporate purposes. Standard & Poor's also affirmed the 'BBB-' corporate credit and senior unsecured credit ratings. The outlook on NiSource Finance is stable.

The rating on parent NiSource Inc. (BBB-/Stable/--) and its subsidiaries reflects NiSource's newly aggressive capital-spending program, which will result in negative free cash flow and increased debt levels, reversing years of deleveraging. The company also announced the addition of an electric power plant, which it expects to add to rate base, and several pipeline expansions. For the longer term, Standard & Poor's expects these activities, in addition to initiatives to improve regulatory design at the gas distribution companies, to improve and stabilize cash flow.

The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Stable/--), and Bay State Gas Co. (BBB-/Stable/--)

Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%). As of March 31, 2008, NiSource had total adjusted debt, including operating leases and tax-affected pensions and postretirement obligations, of about $7.1 billion.

The stand-alone financial profiles of NiSource's subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company.

NiSource's business plan, which centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures support the company's excellent business position. NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy somewhat temper NiSource's strengths.

Standard & Poor's business risk profile on NiSource is excellent, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate design mechanisms. Rate design mechanisms that include "decoupling" reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. Furthermore, our business risk profile revision reflects our opinion that the Sugar Creek power plant will likely be included in NIPSCO's rate base, which will increase regulated revenues and substantially improve electric reserve margins at NIPSCO. NiSource recently announced the sale of its Whiting Clean Energy facility for $210 million, which will now require the company to explore other, longer-term options to replace this capacity. NiSource will use sale proceeds to repay short-term borrowings.

Although we expect cash flows to remain stable, we anticipate the company's financial profile to deteriorate over the next few years. We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and pursuit of a master limited partnership (MLP) strategy, which will reduce consolidated cash flow from stable but strategic assets. NiSource had improved its balance sheet after the debt-financed acquisitions of Bay State and CEG, in 1999 and 2000, respectively. In November 2007, NiSource initiated a more aggressive growth plan, which includes capital spending of more than $1 billion a year, which is above its near-term cash flow generating capability. This means that debt leverage is likely to increase from its already weak levels to about 65%. For the next several years, we also expect funds from operations (FFO) to total debt to remain weak, at around 11% to 12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying Sugar Creek, and the regulatory lag in implementing a series of rate cases. Rapidly growing operating costs, especially at its gas distribution units, have hurt financial measures. Because debt will increase immediately and incremental cash flow growth will take some time, the company's already weak financial position will be stretched even further in the near term.

Liquidity

NiSource's liquidity, in addition to its access to the debt and equity markets, should be adequate to meet its ongoing operating and capital requirements. On Nov. 2, 2007, NiSource announced plans to boost capital spending to levels that will be above cash flows. For the past several years, NiSource had reduced debt levels associated with the acquisitions of Bay State and Columbia with its operating cash flow. In addition to annual capital spending of at least $1 billion, other uses of cash flow include dividends of about $250 million. Given these spending levels and cash from operations of about $1 billion, we expect NiSource to have a negative free cash flow of $200 million to $300 million per year from 2009 and beyond. With the debt-financed purchase of Sugar Creek, the free cash flow deficit in 2008 could be near $700 million.

Funding vehicle NiSource Finance has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. NiSource Finance's issuance of

$700 million of debt in May 2008 will reduce short-term borrowings as well as fund capital expenditures and general corporate purposes. As of March 31, 2008, the company had about $900 million available under the facility and $77 million in unrestricted cash. Debt maturities in 2008 are $34 million. However, maturities of $466 million in 2009 and $1 billion in 2010 substantially exceed cash flow estimates and will require refinancing.

Outlook

The outlook on NiSource Finance is stable. The stable outlook reflects our expectation of more supportive regulatory rate mechanisms related to weather normalization and conservation, rate increases related to increased labor and other operating costs, and the addition of generation assets to NIPSCO's rate base, which should provide a more stable stream of cash flows. NiSource appears well positioned at the 'BBB-' rating level, and the rating is likely to remain investment grade for the foreseeable future. An outlook revision to negative could occur if the anticipated cash flow improvements do not transpire or the company's MLP plans become more aggressive. An outlook revision to positive, which is not anticipated over the intermediate term, would require significant deleveraging and considerably stronger cash flow metrics.

Ratings List

Ratings Affirmed

NiSource Finance Corp.

Corp. credit rating	BBB-/Stable/--
Senior unsecured debt rating	BBB-

Rating Assigned

$500 mil senior unsecured notes due 2019	BBB-

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

STANDARD & POOR'S

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May 23, 2008

Bulletin:

Court Refusal Of NiSource Appeal Will Not Affect Rating Or Outlook

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776; bill_ferara@standardandpoors.com

NEW YORK (Standard & Poor's) May 23, 2008--Standard & Poor's Ratings Services said today that the recent announcement of the West Virginia's Supreme Court of Appeals' refusal to hear NiSource Inc.'s (BBB-/Stable/NR) appeal of a $404 million verdict by the state court's class action lawsuit related to the Tawney, et al. v. Columbia Natural Resources Inc. case will not affect the company rating or outlook. NiSource has adequate capacity under its bank facilities to fund the payment. While key financial measures may decline, NiSource's overall financial condition should remain suitable for investment-grade ratings. However, if the company ultimately has to pay in full and its financial profile deteriorates beyond current expectations for other reasons, we could revise the outlook to negative. NiSource will seek a continuation of the stay of the judgment and file with the U.S. Supreme Court in 90-120 days. It expects the court to decide whether to hear the appeal in early 2009.

Moody's Global Infrastructure Finance

Analysis

October 2008

NiSource Inc.

Merrillville, Indiana, United States

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Company Profile

NiSource Inc. is a holding company with regulated natural gas and electric utility subsidiaries in nine states and an interstate gas pipeline system that runs from the Gulf Coast through the Midwest to New England. These subsidiaries operate under three reported segments: Gas Distribution (LDC), Transmission and Storage (Pipelines), and Electric Operations. The majority of NiSource's debt is issued through finance vehicles (rated Baa3 senior unsecured) that are guaranteed by the holding company.

Two of NiSource's utility subsidiaries are rated: Bay State Gas Company (Baa2 senior unsecured) and Northern Indiana Public Service Company (NIPSCO, Baa2 senior unsecured). Bay State, based in Westborough, Massachusetts, is a rate-regulated local gas distribution company (LDC) serving nearly 300,000 customers in Massachusetts. NIPSCO is a combination electric and gas utility which conducts NiSource's electric operations.

NIPSCO is the second-largest electric utility and the largest LDC in the state of Indiana. It is the legacy subsidiary of NiSource, a holding company formerly known as NIPSCO Industries, Inc. NIPSCO was the primary subsidiary of NIPSCO Industries, which acquired Bay State in 1999 and other utilities outside its legacy service area, and invested in cogeneration and other unregulated businesses, substantially all which have since been divested. In November 2000, NiSource completed an $8 billion hostile takeover of The Columbia Energy Group (not rated), a larger, diversified gas company. The leverage associated with the transaction led to a downgrade of NiSource and its subsidiaries' ratings in 2002. NIPSCO's rating fell to the current level of Baa2 from A3 senior unsecured, and Bay State's which fell to the current level of Baa2 from A2 senior unsecured.

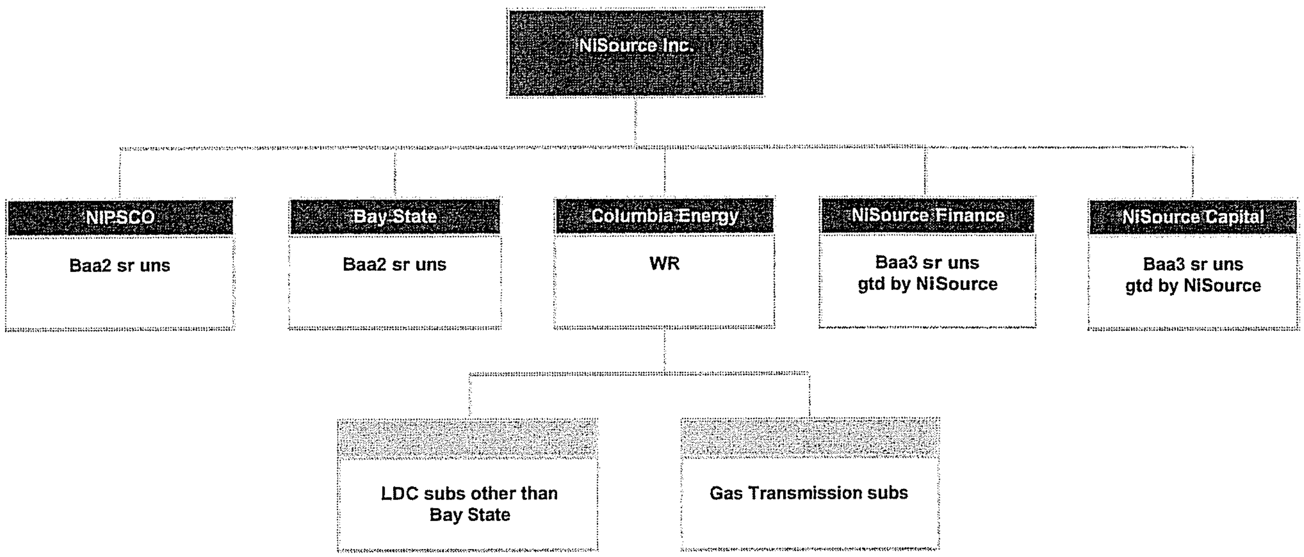
NiSource has been financially constrained since acquiring Columbia, and consequently, has been in maintenance mode for much of this decade. The company has struggled to realize earnings growth. After considering various strategic alternatives for most of 2007, the company unveiled a five-year growth plan (Plan), which caused Moody's to change NiSource's rating outlook to negative in December 2007.

Moody's Investors Service

NiSource Inc.

Table 1

NiSource's Corporate Family and Ratings



Rating Drivers

The negative outlook for NiSource and its subsidiaries reflects a credit profile under pressure over the near term and the potential for its credit metrics to weaken from current levels if the company fails to execute on the Plan that it announced at the end of 2007. Moody's changed NiSource's rating outlook to negative from stable because the Plan entailed a doubling of capital expenditures from recent historical levels, the resulting negative free cash flows would be mostly debt-financed, and earnings were not expected to increase meaningfully until 2011. In changing the outlook, Moody's took a longer than usual time horizon of 18 to 24 months to allow time for rate cases and pipeline projects to be completed.

Moody's Assessment of the Plan

The Plan holds a number of risks for NiSource's Baa3[1] senior unsecured ratings:

- With mature assets, NiSource is struggling to increase top-line margins, particularly because of demand erosion in its largest LDC segment. It remains to be seen whether the company will be successful in more than offsetting margin pressures with rate increases that account for roughly half of the revenue growth assumed in the Plan.
- Under the Plan, the company does not expect a meaningful increase in earnings until 2011, which increases execution risk in the interim.
- The Plan incorporates a round of rate cases that will take a few years to complete. A key rate case will be the one for NIPSCO in Indiana, which will be lengthy and could result in a rate decrease.
- Pipelines contribute about a third of revenue growth under the Plan, which assumes some prospective projects that may not go forward. Ongoing projects may produce lower-than-expected returns if they come in above budget.

[1] The Baa3 rating is implied, since the ultimate holding company is not rated.

- The remainder of expected revenue growth may not be achieved, depending on market conditions. Anticipated sources of revenue growth include utility customer and usage growth, capacity release and off-system sales, bulk power sales, park and loan services.
- NiSource may be unsuccessful in containing what had been a steady rise in operating costs.
- The Plan anticipates capital expenditures roughly doubling from near-maintenance levels in prior years, with the resulting negative free cash flow being largely debt-financed. Continuation of the downturn in the financial markets will make debt financing more uncertain and costly. The only equity the company plans to raise is $300 million in the master limited partnership (MLP) market through an initial public offering (IPO) of NiSource Energy Partners. The MLP market is currently not amenable to new entrants.

Since Moody's assigned the negative outlook and nearly a year into the Plan, a number of events have transpired which altogether have had a neutral credit impact so far:

- Tawney Contingency – In May 2008, the Supreme Court of Appeals of West Virginia denied the company's appeal of a $404 million verdict in a class action lawsuit relating to a royalty dispute against NiSource's former E&P subsidiary. On October 24, 2008, the company entered into a preliminary settlement of $339 million for its share of the litigation, subject to final approval in November 2008. Although a credit-negative event, this litigation was already incorporated in the negative outlook.
- Columbia of Pennsylvania (CPA) has a recent rate order and Columbia of Ohio (COH) has a favorable rate settlement, which are in line with Plan assumptions and help lend visibility to NiSource's future earnings.
- Bay State Gas was denied a rate increase, but the amount of that request was less significant than in the CPA and COH rate cases.
- NIPSCO's rate case has been broken out into two steps, which is somewhat credit-negative by extending the period of rate uncertainty.
- One aspect of the downturn in the financial markets that has affected NiSource specifically is the closing of the window to the MLP market. The company had hoped to raise $300 million through the IPO of NiSource Energy Partners, but unfavorable market conditions have kept it from doing so. Instead, NiSource will be incurring higher-than-expected short-term borrowings until it is able to access the MLP market.
- Although it is still early in Plan implementation, financial performance was on track in the first two reported quarters since the change in outlook. We have yet to see the financial results of the LDCs during the 2008-2009 heating season, when most of their earnings are generated.

Debt-Financed Capital Spending, Regulatory Lag Pressure Metrics in the Near Term

For much of the last five years, NiSource's capital expenditures remained around maintenance levels in the $500 million range, slightly above its depreciation and amortization expenses. This level of spending allowed it to stay near free cash flow neutral (before working capital changes) and to keep debt flat, while the company digested a leveraged acquisition. The Plan approximately doubles total annual capital expenditures to over $1 billion, which includes an increase in maintenance expenditures to roughly $700 million and about $300 million of organic growth capital, the majority of which is slated for the company's pipeline operations. The addition of growth capital to NiSource's financial model would create a funding gap of about the same amount, which the company plans to finance with debt (except for the proposed IPO, which has not occurred). The Plan anticipates that the additional debt and the lag in related cash flows from rate increases and pipeline projects will cause NiSource's credit metrics to weaken in the 2008-2009 period before improving from rate increases and pipeline projects coming on-line.

Regulatory Risk Key to Plan Execution

The execution risk entailed in NiSource's Plan lies largely in the round of rate cases the company has embarked on. About half of the increase in revenues forecast in the Plan is from rate increases that the company expects to obtain. The most significant rate cases on the horizon include those for its largest LDC operations in Ohio and Pennsylvania and for its electric operations at NIPSCO:

Table 2

Regulatory Risk in Plan in Key Subsidiaries

Subsidiary Breakdown	% '07 op inc	% '07 assts	% customers
Gas Distribution:			
Bay State	4%	9%	9%
Columbia of OH	14%	12%	30%
Columbia of PA	4%	5%	11%
Columbia of KY	2%	1%	4%
Columbia of MD	0%	0%	1%
Collumbia of VA	5%	4%	7%
Electric & Gas:			
NIPSCO	28%	25%	38%
- Electric	27%	17%	14%
- Gas	1%	8%	24%

Source: Company

CPA has recently concluded its rate case, and COH has a settlement which is awaiting final commission approval. These rate proceedings will result in rate increases that support NiSource's overall credit profile, lift the LDC segment, whose overall returns have been flagging, and help lend clarity to NiSource's future financial performance. The Public Utilities Commission of Ohio staff recommended a rate increase of $47 million to $56 million of the $79 million COH requested. Recommendations also included a straight-fixed-variable rate design and an infrastructure tracker, both rate mechanisms that would be credit-supporting if adopted in the final order. The Pennsylvania PUC approved a $42 million rate increase of the $59 million CPA had requested.

The largest looming unknown in the Plan, and a key driver for NiSource's ratings and outlook, is the ongoing NIPSCO electric base rate case. This proceeding is particularly significant to NiSource's overall credit profile, given that the electric operations are the third-largest contributor to NiSource's operating income. NIPSCO's retail electric rates have been among the highest in Indiana, presenting the potential for a reduction.

The rate case that NIPSCO filed in August 2008 varied from the company's Plan in that it proposed a two-step proceeding. The first step, which is expected to conclude in the 3Q09-1Q10 time frame, addresses the increase in cost of service since its last base rate case 20 years ago. The second step, expected to conclude by June 2010, will consider the revenue requirement on the additional rate base from its recent Sugar Creek plant acquisition. The two-step process protracts NIPSCO's regulatory risk. If NIPSCO's rates are lowered in step one, it would not be until 2011 before any additional rates from step two would be incorporated in its financial metrics.

NiSource Inc.

Indiana Utility Regulatory Commission (IURC), which regulates NIPSCO's electric and gas revenues, generally upholds supportive ratemaking practices in terms of granting trackers for environmental compliance programs, and LDC de-coupling mechanisms. Its fuel recovery is timely with quarterly true-ups. In recent years, however, NIPSCO has experienced some regulatory decisions that had negative financial implications. It remains to be seen if the recessionary economy will create a political environment which will prevent NIPSCO from obtaining the level of rate relief that it anticipates.

Management's Strategy to Remain Investment Grade

NiSource's Baa3 ratings take into account management's oft-stated intention to remain investment grade. This financial strategy has been demonstrated since the company's acquisition of Columbia (dividend cut in 2003, assets sold for debt reduction), making it less likely that the management will opt for a lower rating and a more aggressive growth profile. The company maintains that investment-grade ratings are necessary, particularly now, for favorable regulatory treatment in rate cases and access to the debt markets. Because of balance sheet constraints, NiSource has been a seller rather than a buyer (a recent exception being the acquisition of Sugar Creek generating facility). This management strategy appears to be intact with changes in senior management over the past few years, a number of which have been appointments from outside the company.

Rating Frameworks

Moody's has published rating frameworks for each of NiSource's major business lines. The rating framework for diversified gas companies is the overarching one for analyzing NiSource on a consolidated basis, but additionally, we do a sum-of-parts analysis of each of NiSource's major businesses applying the following published approaches:

- North American Diversified Natural Gas Transmission and Distribution Companies, March 2007
- North American Natural Gas Pipelines, December 2006
- North American Regulated Gas Distribution Industry (Local Gas Distribution Companies), October 2006
- Global Electric Utilities, March 2005

Scale and Diversity Reduce Risk

NiSource's scale and scope indicate superior diversity in terms of operating assets, regulatory jurisdiction, weather patterns, and markets served. In Moody's view, such diversity is a credit-positive, in that it reduces reliance on any single cash flow stream. Furthermore, NiSource has leading positions in a number of its business lines. The company is one of the largest diversified natural gas companies in the U.S., ranking as the third-largest LDC, the fourth-largest gas pipeline, and among the largest gas storage systems. NIPSCO is the second-largest electric utility (though a medium-sized relative to the industry) and the largest LDC in the state of Indiana.

NiSource, with total assets of US$19 billion as of June 30, 2008, is one of the largest among the 19 companies that comprise the Moody's diversified gas peer group. NiSource's closest peers with comparable business mixes, with mostly LDCs and pipeline operations, are significantly smaller. For instance, Southern Union Co. and CenterPoint Energy Resources Corp., both also rated Baa3, have assets of $8 billion and $10 billion, respectively. NiSource's lower-than-average Baa3 rating (the peer average is Baa2) indicates significantly higher leverage, even when its lower business risk is considered.

NiSource Inc.

Table 3

NiSource relatively large and low risk vs. peers

Company	Ratings (1)	Assets (US$B) (2)	% Op Inc from unregulated operations	Degree of Business Risk (3)	RCF/D
TransCanada PipeLines Ltd.	A2	$33	Aa	Baa	13%
MDU Resources Group, Inc.	A3	$6	B	Baa	32%
Questar Corp.	P-2	$8	Caa	B	54%
Nicor Inc.	P-2	$5	A	A	31%
AGL Resources Inc.	Baa1	$8	A	A	10%
Equitable Resources, Inc.	Baa1	$5	B	Baa	30%
Enbridge Inc.	Baa1	$20	Aaa	Baa	9%
Keyspan Corporation	Baa1	$19	A	Baa	10%
National Fuel Gas Company	Baa1	$4	Ba	B	30%
Spectra Energy Capital	Baa1	$23	Aa	Baa	14%
Vectren Utility Holdings, Inc.	Baa1	$4	Aaa	Aa	21%
ONEOK, Inc.	Baa2	$13	Ba	Baa	10%
CenterPoint Energy Resources Corp.	Baa3	$10	Aa	A	17%
Atmos Energy Corporation	Baa3	$7	Aa	A	17%
NiSource Inc.	**Baa3**	**$19**	**Aaa**	**A**	**10%**
Southern Union Company	Baa3	$8	Aa	Ba	12%
The Williams Companies, Inc.	Baa3	$32	B	Ba	31%
Knight Inc.	Ba1	$26	Aa	Baa	11%
El Paso Corporation	Ba3	$25	Ba	B	17%

(1) Senior unsecured ratings for investment grade companies, corporate family ratings for non-investment grade. Issuer rating for MDU. No senior long-term ratings for Questar and Nicor.

(2) Statistics in USD; reflect Moody's standard adjustments, LTM 6/08.

(3) Assessments as published in 3/07 Moody's rating methodology for diversified gas companies or last published credit opinion.

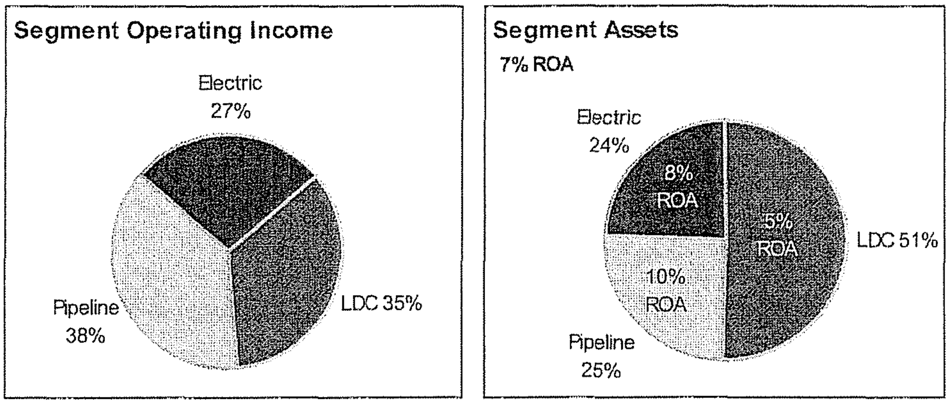
Low Business Risk vs. Peer Group

Compared with its peer group, NiSource has lower-than-average business risk with almost all of its operating income being regulated operations: LDCs regulated by the nine state commissions where they operate, two interstate gas pipelines regulated by the Federal Energy Regulatory Commission, and vertically integrated electric operations in Indiana regulated by that state commission. Rate-regulation provides a measure of predictability in financial performance, although potential changes in rate proceedings lend some uncertainty.

The company does not have significant businesses that are commodity price or volume-sensitive as does a majority of its peers, which have significant E&P and gathering and processing operations that have become prominent in recent years from rising oil and gas prices and volumes.

NiSource Inc.

Table 4: NiSource's regulated businesses: low risk though modest returns



Source: 2007 10-K

LDCs: Falling Returns Highlight Importance of Rate Case Strategy

The LDC segment is the largest and the least profitable of NiSource's business segments, and the erosion in its results has weighed on the company's consolidated financial performance. As shown in the table below, the LDC segment has experienced a steady fall in returns and profitability over the past several years, and much more so than NiSource's other segments. This decline is evidence of margin erosion from an industry-wide trend of falling per-customer usage, a result of customer conservation in response to high natural gas prices. These metrics highlight the segment's regulatory lag (COH's current rate case is the first in14 years,12 years for CPA) and the importance of the round of rate cases that is incorporated in the Plan.

Table 5

LDC Returns Falling

Segment Operating Income / Assets*	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Gas Distribution Operations	8.3%	7.0%	5.3%	4.2%	4.8%
Transmission and Storage Operations	13.7%	11.9%	11.2%	10.0%	10.3%
Electic Operations	8.7%	9.9%	9.2%	9.1%	7.7%

** Source: Moodys FM, before corporate, eliminations, other*

Moody's notes that the diversification of regulatory jurisdictions within NiSource's LDC portfolio is risk-reducing and a credit-positive. Its LDCs' rate designs are distinguished by long-standing trackers of various types across its jurisdictions that help make recovery of over 70% of operating and maintenance expenses more timely and certain. The utility commissions in the states in which NiSource operates have been willing to grant such stabilizing rate mechanisms.

Electric Operations: Critical Jurisdiction in Plan

NiSource's electric operations reside in NIPSCO, a combination electric and gas utility, whose electric segment accounts for almost 90% of its operating income and over 70% of its assets. NIPSCO has historically had the capacity to generate free cash flow. Its financial performance is strong and maps to A or better according to Moody's electric utility rating framework.

In addition to the risks related to the pending rate case, the credit quality of the electric operations is constrained by the concentration of its service area in northern Indiana and that state's regulatory jurisdiction. Its service area has historically been heavily dependent on the steel sector. Industrial customers accounted for 38% of NIPSCO's 2007 electric retail sales, of which about two-thirds were to steel-related industries.

NiSource Inc.

Steel industry conditions have been robust recently, but are vulnerable to a cyclical downturn in a recession. The local steel industry supplies the auto parts industry in the region, which is also vulnerable to weaker economic conditions. The weaker economy could slow the growth that NIPSCO has enjoyed in recent years and cause the electric operations to fall short of the organic growth assumed in the Plan.

Like most Midwest utilities, NIPSCO relies heavily on coal-fired generation, which accounts for about 90% of the 2,907 megawatts (MW) of generating capability it owns. The utility has also been purchasing an increasing proportion of its power from outside suppliers, which currently meet about a fifth of its energy needs. The gap between the company's owned generating capacity and customer demand has grown since the 2002 closure of its Mitchell station. The purchase of the 535 MW combined cycle gas turbine Sugar Creek plant allows NIPSCO to limit its exposure to potential disallowances of purchased power by the IURC.

NIPSCO is subject to particularly stringent environmental regulations, being located in a "non-attainment area" outside of Chicago. Heavy dependence on coal-fired generation has required significant environmental compliance expenditures historically and could potentially in the future. The company historically has had higher rates than other investor-owned utilities in the state, but this in part reflects the investments in plant and environmental facilities of relatively recent vintage. NIPSCO's exposure to coal prices is mitigated by its portfolio of coal contracts, which are reasonably diversified in terms of supply sources and contract tenor.

Pipelines: Focus of Growth

The Pipeline segment, historically a reliable free cash flow generator, figures in the Plan as the principal growth segment. It is NiSource's highest return segment, and most of the growth capital in the Plan has been allocated to it. The company will be completing two of the largest pipeline projects in many years over the next several months – the Millennium Pipeline (a joint venture with KeySpan and DTE, due to come online in the fourth quarter of 2008) and the TCO's $167 million Eastern Market Expansion (due to come online by April 2009). These projects will add stable capacity charge revenues and eliminate a significant execution risk in the Plan. Other projects are numerous and small ($100 million range) and generally entail low execution risk.

The primary subsidiaries making up the segment are Columbia Gas Transmission Corp. (TCO) and Columbia Gulf Transmission Co. (CGT). NiSource is a preeminent gas transmission company broadly serving the Northeast quadrant of the U.S. and operating one of the largest gas storage systems in the U.S. Based on reported segment data and the company's internal unaudited information, the segment's standalone credit profile appears strongest among NiSource's three segments according to the applicable Moody's rating frameworks.

The system's supply sources are diverse. CGT is a supply area pipeline and has access to offshore and onshore basins on the Texas and Louisiana Gulf Coast. It also has access to the growing shale production from the Barnett and Fayetteville and the Midcontinent. TCO accesses much of those same supplies through interconnects with CGT and third-party pipelines. TCO also has direct connection to production in Appalachia, which has also grown of late. TCO functions mostly as a market area pipeline that serves utilities in the north central and mid-Atlantic states. TCO and CGT's largest customers include most of their LDC affiliates (COH is their largest shipper).

Shipper contracts generate very stable revenues that are underpinned by long-term contracts with creditworthy shippers. TCO's contracts have an average remaining life of about seven years (vs. six years for the Moody's peer average). These firm contracts commit substantially all of the capacity near maximum allowed rates. CGT in its onshore segment operates in a more competitive market environment, and thus has shorter contract terms and less of its capacity committed.

Credit Metrics Weaker than Diversified Gas Peers

As mapped out in Moody's diversified gas rating framework, for a given rating, a company with a lower business risk has more debt capacity than one with higher risk. Although NiSource's consolidated credit metrics are noticeably worse than those of its peers (mapping overall to single-B levels, according to Moody's diversified gas rating framework), its more stable earnings stream allows it to support more leverage than its peers that have volatile E&P and other unregulated businesses.

NiSource Inc.

Table 6

NiSource: Weaker Credit Metrics					
Company	Ratings	EBIT/Int	Debt/Capital (excl. Gdwl)	RCF/D	ROE
CenterPoint Energy Resources Corp.	Baa3	3.1x	59%	17%	9%
Atmos Energy Corporation	Baa3	2.8x	57%	17%	8%
Southern Union Company	Baa3	2.4x	59%	12%	10%
The Williams Companies, Inc.	Baa3	3.6x	46%	31%	17%
Baa3 3-Year Peer Average		2.5x	61%	12%	10%
NiSource Inc.	Baa3	2.1x	73%	10%	6%
El Paso Corporation	Ba3	1.9x	64%	18%	9%

(1) Senior unsecured rating for investment grade companies, corporate family ratings for non-investment grade.

(2) Statistics reflect Moody's standard adjustments, LTM 6/08

NiSource's EBIT/interest in the low 2x range is slightly below the historical average for Baa3-rated diversified gas peers, and is close to those whose core businesses are regulated gas transmission and distribution (e.g., Atmos Energy Corporation, CenterPoint Energy Resources Corp., Southern Union Co., The Williams Companies, Inc.). NiSource's debt/book capitalization (excluding goodwill) at 73% is high and well above the historical peer average of roughly 60%, when fully adjusted according to Moody's standard adjustments.

Opco Ratings Reflect Implicit Burden of Parent Debt

NiSource Inc., the ultimate parent company, is a non-operating holding company with no debt of its own but it guarantees the debt of its two finance vehicles, NiSource Finance and NiSource Capital. Since the Columbia acquisition, NiSource has been migrating its debt financing to the holding company level by refinancing operating-level debt principally at NiSource Finance. NiSource's holding-company debt still is subject to structural subordination to debt at its subsidiaries and affiliates. NiSource Finance has the largest portion (90%) of the group's over $6 billion of consolidated long-term debt. Almost all of the remaining debt is at NiSource Capital (2%), NIPSCO (7%), and Bay State (1%).

Table 7

Debt Relatively More Concentrated at Parent			
Issuer	Holdco Debt % ttl	Rating	Notching from Subs
NiSource	92%	Baa3 sr uns	-1
Sempra	23%	Baa1 sr uns	-2
El Paso	53%	Ba3 CFR	-3
CenterPoint	18%	Ba1 sr uns	-1
Spectra	31%	Baa1 sr uns	-1
Williams	60%	Baa3 sr uns	+2/-1

Without imputing the debt at the parent level, the characteristics of NiSource's LDC, electric, and pipeline operations appear to indicate a Baa credit quality overall. The two rated operating companies on a standalone basis could be rated slightly higher than NIPSCO and Bay State's actual Baa2 ratings, if it were not for the substantial parent obligations they help to support. Their ratings are notched closely to the parent debt's Baa3 rating because of the centralized cash management and little ringfencing restriction against the parent upstreaming cash and potentially putting more debt at the subsidiaries. Furthermore, NiSource's operating units, being regulated, have common credit qualities, unlike some other diversified companies that own distinctively riskier businesses that are assigned lower ratings.

NiSource Inc.

Liquidity Position

NiSource's liquidity position is adequate, though less robust than before, as the company proceeds on a reinvestment cycle that will put it in a negative free cash flow position for an extended period at a time when the ability to tap the financial markets is extraordinarily uncertain.

The company's large LDC operations make its cash flows and working capital requirements seasonal. Almost half the annual cash flows are generated at the December-quarter peak; the September-quarter low accounting for a fraction of that. The amplitude of the swing depends on the level of natural gas prices. The company has the capacity to be self-funding, before taking into account changes in working capital. Its run-rate funds flow from operations is roughly $900 million, which about covers its maintenance-level capital expenditures in the $700 million range and a dividend in the mid $200 million range. The Plan calls for over $1 billion in annual total capital expenditures, which would result in at least $300 million of negative cash flow before working capital changes, the biggest variable.

NiSource has a central money pool arrangement by which NiSource Finance Corp. issues debt in the capital markets and downstreams the proceeds to the various affiliates as required.

The primary source of NiSource's alternate liquidity is NiSource Finance's drawn $1.5 billion committed revolver due on July 7, 2011. NiSource has a Prime-3 CP rating but has not issued CP in some time. This base facility does not require the company to represent and warrant as to a general financial material adverse change (MAC) at each borrowing; however, it does require representations regarding litigation, ERISA, and environmental issues. It allows for same-day funding. The sole financial covenant is a debt-to-capitalization ratio of 70%. The company has sufficient headroom under this covenant calculation at 56.8% as of December 31, 2007, around the last seasonal peak.

NiSource Finance also has in place a $500 million six-month facility expiring on March 23, 2009, as additional liquidity insurance should the Tawney contingency materialize. Provisions of this facility are essentially identical to those of the base facility.

Moody's satisfactory assessment of NiSource's near-term liquidity is subject to its renewing its receivables sales programs at COH, expiring on June 26, 2009, and at NIPSCO, expiring on December 19, 2008. Both programs have been in place for years and are rolled over annually. Both programs contain general MAC clauses and require representations regarding litigation and ERISA. NIPSCO's program has a rating trigger which would prevent the sale of additional receivables if NIPSCO's senior unsecured rating were to drop below investment grade at either Moody's or S&P. The maximum amount of receivables eligible for sale under the NIPSCO program is $200 million. At COH, the limit varies seasonally between $100 million and $350 million (with the highest limit occurring during the winter months).

NiSource faces some financing risk on the horizon. Although the company has no scheduled debt maturities left for the rest of 2008, NiSource Finance has sizable debt maturities over the next two years ($450 million of floating-rate notes on November 23, 2009; $1 billion due on November 15, 2010). Additionally, there are small medium-term notes due during 2009: $1 million due on June 8, 2009 at NIPSCO and $10 million due on April 17, 2009 at NiSource Capital Markets. Furthermore, NiSource will need to permanently finance the Tawney obligation. Moody's will closely monitor NiSource's success in meeting its external financing requirements, particularly while the financial markets remain unfavorable.

Moody's Related Research

Industry Outlooks

- U.S. Investor-Owned Electric Utilities, October 2008 (111891)
- North American Natural Gas Transmission & Distribution: Six-Month Update, September 2008 (111486)

Special Comments

- Pipelines Manage Risks Amid Building Boom, September 2008 (111220)
- Gas Distribution Companies See Late Payments Rise, But Liquidity Holds Up, August 2008 (110376)

Rating Methodologies

- North American Diversified Natural Gas Transmission and Distribution Companies, March 2007 (102513)
- North American Natural Gas Pipelines, December 2006 (101229)
- Midstream Energy Companies & Partnerships, September 2007 (104936)
- North American Regulated Gas Distribution Industry (Local Gas Distribution Companies), October 2006 (99282)
- Global Regulated Electric Utilities, March 2005 (91730)

Credit Opinions

- NiSource, Inc., October 2008
- Northern Indiana Public Service Company, July 2008
- Bay State Gas Company, July 2008

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

NiSource Inc.

Report number 112147

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Moody's Investors Service

Global Credit Research
Credit Opinion
29 OCT 2008

Credit Opinion: NiSource Inc.

NiSource Inc.

Merrillville, Indiana, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Preferred Shelf	(P)Ba2
NiSource Finance Corporation	
Outlook	Negative
Issuer Rating	Baa3
Senior Unsecured	Baa3
Bkd Commercial Paper	P-3
NiSource Capital Markets, Inc.	
Outlook	Negative
Bkd Senior Unsecured	Baa3
Northern Indiana Public Service Company	
Outlook	Negative
Issuer Rating	Baa2

Senior Unsecured	Baa2

Bay State Gas Company

Outlook	Negative
Senior Unsecured	Baa2

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Opinion

Corporate Profile

NiSource Inc. (Baa3 senior unsecured, negative outlook) is a holding company with regulated natural gas and electric utility subsidiaries in nine U.S. states and an interstate gas pipeline system that runs from the Gulf Coast through the Midwest to New England.

The company has three segments: Gas Distribution (LDC), Transmission and Storage (Pipelines), and Electric. Each segment accounts for roughly one-third of operating income. The LDCs account for half of NiSource's assets, and the Pipelines and Electric subsidiaries each account for about a quarter. The company is one the largest gas companies in the U.S., ranking as the third-largest LDC, the fourth-largest gas pipeline, and among the largest gas storage systems. The Electric operations are medium-sized relative to the industry.

Two of NiSource's utility subsidiaries are rated: Bay State Gas Company (Baa2 senior unsecured) holds 1% of the group's consolidated debt and Northern Indiana Public Service Company, or NIPSCO (Baa2 senior unsecured) holds 7%. NiSource's Electric operations are conducted through NIPSCO, a combination electric and gas utility. The majority of NiSource's debt is issued through finance vehicles that are guaranteed by the holding company.

Rating Rationale

NiSource's Baa3 rating results from its sizable portfolio of regulated subsidiaries, which are estimated to be of Baa quality overall. The subsidiaries support more than $6 billion of debt at the holding company level.

NiSource management has maintained a public commitment to an investment-grade credit rating. The company has superior position in terms of the scale and diversity of its assets relative to many other diversified gas companies. It is virtually all rate-regulated and has jurisdictional diversity, resulting in lower business risk that allows it to support higher leverage than its peers.

As a regulated company, NiSource is exposed to regulatory risk. It currently has active rate cases in critical jurisdictions, particularly for its NIPSCO subsidiary in Indiana.

Profitability and leverage metrics are weaker than most of its peers'. NiSource has experienced margin erosion from a secular decline in demand, the cyclical downturn in the economy and higher commodity prices. Furthermore, negative free cash flows arising from an expected doubling of capital spending - mostly debt-financed - are expected to pressure financial metrics during the next few years.

Moody's applies its diversified natural gas rating framework in evaluating NiSource as a consolidated whole. Each of NiSource's parts -- LDC, pipeline, electric -- is also assessed according to Moody's rating frameworks for those industries.

Management Strategy & Financial Policy

NiSource's Baa3 rating is supported by the management's longstanding public commitment to investment-grade ratings. Since acquiring Columbia Energy eight years ago, the company has been financially constrained and has managed to conserve cash flow while restructuring its operations and balance sheet.

The company has recently been struggling to stanch eroding profitability. Net revenues have been flat-to-down due to customer attrition and decline in usage at its LDCs, while expenses have steadily risen from personnel-related costs. The long-term plan NiSource initiated last year seeks to address these issues. NiSource's negative outlook indicates significant execution risk and increased financial risk from this plan.

According to the company, the long-term plan is designed to increase earnings meaningfully starting in 2011 through rounds of rate filings and a capital investment program of more than $1 billion a year. In the interim, earnings are expected to remain flat. The plan also includes a partial IPO of a pipeline MLP in 2008, which has not yet been implemented due to unfavorable market conditions.

The long-term plan will result in large funding gaps that will likely be predominantly debt financed. Future financing activity could reintroduce some of the balance sheet complexity that the company has reduced over the past several years. Project financings related to pipeline projects will add to off-balance-sheet obligations. If launched, an MLP will introduce high payouts and other risks that come with that corporate finance model, although the MLP at the outset will be too small to have a rating impact.

Ongoing rate cases have brought regulatory risk to the fore after more than a decade's hiatus. NiSource has filed for rate cases for NIPSCO's electric operations and it is awaiting a final order at its LDC subsidiary Columbia of Ohio (COH). Columbia of Pennsylvania (CPA) recently finished its rate case. With favorable rate settlements in hand for COH and CPA, NiSource's regulatory risk will then be concentrated on the outcome of the NIPSCO rate case. NiSource's electric segment accounts for about one-third of consolidated operating income.

Financial Strength

Derived virtually all from regulated rates, NiSource's net revenues (total revenue minus cost of sales) have limited volatility outside of rate cases. For the same reason, there is little upside potential to revenues because the company's service territories are mature with little organic growth (historically, about 1% customer growth per year).

LDCs, the company's largest and least-profitable segment, have been persistently affected by declining sales volumes and warmer-than-normal weather (the majority of its subsidiaries lack weather normalization). As a result, top-line margins have been flat for several years. By contrast, operating expenses have been growing steadily (driven by compensation and pensions), and account for much of the erosion of the bottom line.

These factors have resulted in declining profitability (ROE decreasing from 9.4% in 2003 to 5.6% for the last 12 months ended June 2008). Further erosion is likely at least through the rest of 2008 and into 2009 while NiSource goes through rate proceedings and completes pipeline projects. In 2009, the company will have its first full year of new rates at Columbia of Ohio and Columbia of Pennsylvania, and the Millennium Pipeline will be fully operational. In 2010, NiSource would have its first full year of benefit from the Eastern Market Expansion project and, in 2011, the first full year of new rates for NIPSCO-electric.

Cash Flow

Until fairly recently, NiSource managed its operations close to maintenance mode, so that over time, it stayed about free cash flow neutral. Common dividends have been kept flat. Capital expenditures were in the $500 million range until 2006, when the company began some pipeline expansions. NiSource's long-term plan entails doubling annual capital expenditures to over $1 billion annually. Most of the incremental $500 million in annual spending will be on pipeline and storage projects.

Some of this increase is more maintenance spending, but most of it will be spent on pipeline and storage projects. Because of the lag in incremental cash flow as discussed in the next section, the increase in capital expenditures would result in negative free cash flow, at least for the next few years. According to the long-term plan, this funding deficit would be financed mostly with debt.

Capitalization

NiSource has over $6 billion of long-term debt, which compares to less than $5 billion of book equity. It is weakly capitalized in terms of cash flow coverage. Retained cash flow/debt has generally been slightly below 10% for a few years (9.8% in the last 12 months ended June 2008, at a seasonal low in heating demand), and this metric will be vulnerable to further compression in the near term due to the lag in cash flow and increased debt financing, as described above. The company is also highly leveraged on a tangible net worth basis net of almost $4 billion of goodwill, most of which resulted from the Columbia acquisition. Debt/book capitalization (net goodwill, after Moody's standard adjustments) was 73% at June 30, 2008 at a seasonal low.

Contingent Obligations

In May 2008, the Supreme Court of Appeals of West Virginia denied the company's appeal of a $404 million verdict in the Tawney class action lawsuit relating to a royalty dispute against NiSource's former E&P subsidiary. The company has entered into a preliminary settlement of $338 million for its share of the litigation, subject to final approval in

November 2008. Although a credit-negative event, this litigation was already incorporated in the negative outlook.

Liquidity Profile

NiSource's liquidity position is adequate, though less robust than before, as the company proceeds on a capital spending cycle that will put it in a negative free cash flow position for an extended period at a time when the ability to tap the financial markets is extraordinarily uncertain.

The primary source of NiSource's alternate liquidity is NiSource Finance's drawn $1.5 billion committed revolver due on July 7, 2011. This base facility does not require the company to represent and warrant as to a general financial material adverse change at each borrowing. The sole financial covenant is a debt-to-capitalization ratio of 70%. The company has sufficient headroom under this covenant with a ratio of 56.8% as of December 31, 2007, around the last seasonal peak.

NiSource Finance also has in place a $500 million six-month facility expiring on March 23, 2009, as additional liquidity insurance for the settlement of the Tawney litigation.

Moody's satisfactory assessment of NiSource's near-term liquidity is subject to its renewing its receivables sales programs at COH, expiring on June 26, 2009, and NIPSCO, expiring December 19, 2008.

NiSource faces some financing risk on the horizon. Although the company has no scheduled debt maturities for the rest of 2008, NiSource Finance has sizable debt maturities over the next two years ($450 million of floating-rate notes on November 23, 2009, and $1 billion due on November 15, 2010). Additionally, there are small medium-term notes due during 2009 at NIPSCO and at NiSource Capital Markets. Furthermore, NiSource may need to permanently finance the Tawney obligation. Moody's will closely monitor NiSource's success in meeting its external financing requirements, particularly while the financial markets remain unfavorable.

Rating Outlook

The negative outlook indicates the risk of erosion in the company's already weak credit metrics over the next 12 months or so. If rate cases (particularly for NIPSCO) and pipeline projects (particularly the Millennium and Eastern Market Expansion) are executed in line with NiSource's long-term plan, the company should be able to sustain retained cash flow/debt at least in the 8% range and EBIT/interest in the low 2x range, and the outlook could be restored to stable.

What Could Change the Rating - Up

A rating upgrade is unlikely, given the downward pressure indicated by the negative outlook. Even if the company were to execute fully on its long-term plan, it is not expected to lift credit metrics sufficiently to warrant an upgrade (EBIT/interest in the 3x range, retained cash flow/debt in the 10% range).

What Could Change the Rating - Down

The rating could come under pressure if NiSource does not generate enough incremental revenues from its rate cases and pipeline projects, and EBIT/interest falls below 2x and retained cash flow/debt falls below 6%.

Rating Factors

NiSource Inc.

Diversified Natural Gas Transmission and Distribution	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale (10% weighting)							
a) Net Profit After-Tax Before Unusual Items (US$MM) (5%)				X			
b) Total Assets (US$B) (5%)	X						
Factor 2: Quality of Diversification (20% weighting)							
a) Scale of Unregulated Exposure (10%)	X						
b) Degree of Business Risk (10%)		X					
Factor 3: Management Strategy & Financial Policy (10% weighting)							
a) Management Strategy & Financial Policy (10%)				X			
Factor 4: Financial Strength (60% weighting)							
a) EBIT/Interest Expense (15%)						X	
b) Debt to Book Capitalization (excluding goodwill) (15%)						X	
c) Retained Cash Flow/Debt (15%)					X		
d) Return on Equity (15%)						X	
Rating:							
a) Methodology Model Implied Senior Unsecured Rating			**Baa3**				
b) Actual Senior Unsecured Equivalent Rating			**Baa3**				

investment decision made by or on behalf of any user of the information contained herein, and each such user must accordingly make its own study and evaluation of each security and of each issuer and guarantor of, and each provider of credit support for, each security that it may consider purchasing, holding or selling.

MOODY'S hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MOODY'S have, prior to assignment of any rating, agreed to pay to MOODY'S for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,400,000. Moody's Corporation (MCO) and its wholly-owned credit rating agency subsidiary, Moody's Investors Service (MIS), also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Global Credit Research
Credit Opinion
4 DEC 2007

Credit Opinion: NiSource Inc.

NiSource Inc.

Merrillville, Indiana, United States

Ratings

Category	Moody's Rating
Outlook	Negative
Preferred Shelf	(P)Ba2
NiSource Finance Corporation	
Outlook	Negative
Issuer Rating	Baa3
Senior Unsecured	Baa3
Bkd Commercial Paper	P-3
NiSource Capital Markets, Inc.	
Outlook	Negative
Bkd Senior Unsecured	Baa3
Northern Indiana Public Service Company	
Outlook	Negative
Issuer Rating	Baa2

Senior Unsecured	Baa2

Bay State Gas Company

Outlook	Negative
Senior Unsecured	Baa2

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Key Indicators

NiSource Inc. ($mm)	LTM 9/07	2006	2005
Net Profit After-Tax Before Unusual Items (NPATBUI)	$ 312	$ 289	$ 356
Total Assets	$ 18,354	$ 18,859	$ 19,458
ROE (NPATBUI / Avg. Equity)	6.0%	5.4%	6.9%
EBIT / Interest Expense	2.1x	2.1x	2.2x
RCF / Debt	8.8%	7.3%	8.4%
Debt / Book Capitalization (Excluding Goodwill)	71.4%	69.9%	71.0%

Note: For definitions of Moody's most common ratio terms please see the accompanying User's Guide.

Opinion

Company Profile

NiSource Inc. (NI, Baa3 sr. uns.) is a holding company with regulated natural gas and electric utility subsidiaries in nine states and an interstate gas pipeline system that runs from the Gulf Coast through the Midwest to New England. It has three segments: Gas Distribution (LDC), Transmission and Storage (Pipelines), and Electric. Each segment accounts for roughly a third of operating income. The LDCs account for half the assets, and the Pipelines and Electric each make about a quarter. The company is one the largest gas companies in the U.S., ranking as the third-largest LDC, the fourth-largest gas pipeline, and among the largest gas storage system. The Electric operations are medium-sized relative to the industry.

Two of NI's utility subsidiaries are rated: Bay State Gas Company (Baa2 sr. uns., where 1% of the consolidated debt resides) and Northern Indiana Public Service Company (NIPSCO, Baa2 sr. uns., 7% of consolidated debt). NI's Electric operations are conducted through NIPSCO, a combination electric and gas utility. The majority of NI's debt is issued through finance vehicles that are guaranteed by the holding company.

Recent Events

In 12/07, Moody's changed NI's outlook to negative from stable following the implementation of the company's new long-term business plan that entails a significant step-up in capital expenditures and regulatory activity.

Rating Rationale

NI's Baa3 rating results from its sizable portfolio of regulated subsidiaries (estimated to be of single-A quality overall) that support substantial debt at the holding company level (over $5 billion).

The company's superior position in terms of the scale and the diversity of its assets relative to many other diversified gas companies is offset by profitability and leverage metrics that are weaker than most. However, NI's low business risk (it is virtually all rate-regulated) allows NI to support higher leverage than its peers. As a regulated company, regulatory risk is a primary business risk for NI, though this is mitigated by jurisdictional diversity.

Moody's applies its diversified natural gas rating methodology in evaluating NI as a consolidated whole. Each of NI's parts -- LDC, pipeline, electric -- is also assessed according to Moody's rating methodologies for those industries.

Management Strategy & Financial Policy

NI's Baa3 ratings are supported by the management's longstanding public commitment to investment grade ratings. Since acquiring Columbia Energy seven years ago, the company has been financially constrained and has been managed to conserve cash flow while restructuring its operations and balance sheet.

In recent periods, the company has been struggling to staunch eroding profitability. Net revenues have been flat-to-down due to customer attrition and decline in usage at its LDCs, while expenses have steadily risen from personnel-related costs. NI's new long-term plan seeks to address these issues. The change in NI's outlook to negative indicates significant execution risk and increased financial risk from the implementation of this plan.

According to the company, the long-term plan is designed to increase earnings meaningfully in 2011 through rounds of rate filings and a capital investment program of more than $1 billion a year. In the interim, earnings are expected to remain flat. The plan also includes a partial IPO of a pipeline MLP in 2008.

The long-term plan will result in large funding gaps that will likely be predominantly debt financed. Future financing activity could reintroduce some balance sheet complexity that the company has reduced over the past several years. Project financings related to pipeline projects will add to off-balance sheet obligations. The creation of an MLP will introduce high payouts and other risks that come with that corporate finance model, although the MLP at the outset will be too small to have a rating impact.

Upcoming rate cases will bring regulatory risk to the fore. NI will file rate cases in 2008 for NIPSCO's electric operations (it is required to file a rate case by 7/1/08) and at its LDC subsidiaries Columbia of Ohio (COH) and Columbia of Pennsylvania. NI is particularly exposed to the outcomes of the NIPSCO and COH rate cases. According to NI's 2006 10-

K, NI's electric segment accounted for about a third of consolidated operating income, with a segment ROA of 9%. COH is by far NI's largest LDC, and accounts for roughly half the LDC segment operating come and third of segment assets. (As a matter of comparison, the entire LDC segment made up a third of consolidated operating income, with a segment ROA of 4% in 2006.)

Financial Strength

Derived virtually all from regulated rates, NI's net revenues (total revenue minus cost of sales) have limited volatility outside of rate cases. For the same reason, however, revenues present limited upside, especially being in service territories that are mature with little organic growth (about a 1% customer growth a year). The LDCs, its largest and least profitable segment, have been persistently affected by warmer-than-normal weather, since the majority of its subsidiaries lack weather normalization. As a result, revenues have been flat for several years (0% average annual net revenue growth between 2002 and 2006).

By contrast, operating expense growth has been accelerating (year-over-year change rising from 0% in 2003 to 9% in 2006, driven by compensation and pensions), and account for much of the erosion of the bottom line during that period from the $400 million range (and the level contemplated at the time of our last rating action) to the $300 million range.

Profitability has also been reduced by losses at Whiting Clean Energy (a cogeneration facility that posted $40 million loss in 2006, though it broke even for the first time in 3Q07 after a contract renegotiation). The IBM outsourcing agreement has not worked out as hoped, and after the restructuring of that agreement, it will result in a fraction of the savings that were contemplated initially.

These factors have resulted in declining profitability (ROE decreasing from the 9% range in 2004 to 6% in LTM 9/07). Further erosion is likely at least through 2008 while NI goes through rate proceedings and completes pipeline projects. 2009 would be the first full year of new rates at COH and Columbia of Pennsylvania and the Millennium Pipeline being fully operational. 2010 would be the first full year of new rates for NIPSCO-electric and the Eastern Market Expansion project, if it goes forward.

Cash Flow

Until fairly recently, NI managed its operations close to maintenance mode, so that on average it would be about free cash flow neutral. Common dividends have been kept flat. Capital expenditures were in the $500 million range until 2006, when the company began some pipeline expansions. NI's long-term plan entails doubling annual capital expenditures to about $1 billion annually. Most of the incremental $500 million in annual spending will be on pipeline and storage projects. 2008 spending would be higher if NIPSCO acquires two power plants as planned.

Some of this increase is more maintenance spending, but most of it will be on pipeline and storage projects. Because of the lag in incremental cash flow as discussed under "Profitability," the increase in capital expenditures would result in negative free cash flow, at least for the next few years. According to the long-term plan, this funding deficit would be financed mostly with debt.

Capitalization

NI has roughly $6 billion of long-term debt which compares to about $5 billion of book equity. It is weakly capitalized in terms of cash flow coverage. Retained cash flow/debt has declined steadily from the 10% range in 2004 to 8% range in LTM 9/07, and this metric will be vulnerable to further compression in the near term due to the lag in cash flow and increased debt financing, as described above. The company is also highly leveraged on a tangible net worth basis net of almost $4 billion of goodwill, most of which resulted from the acquisition of Columbia Energy. Debt/book capitalization (net goodwill) is about 70%.

Liquidity

NI's liquidity position is adequate, though less robust than before, as the company enters a capital spending cycle that will put it in a negative free cash flow position.

Near-term refinancing risk is manageable. NI will call the roughly $300 million of Whiting's debt on 12/31/07. Otherwise, $30 million of debt is scheduled to mature in 2008. The next significant scheduled debt maturity is a $450 million issue that matures in November 2009.

NI has a committed syndicated $1.5 billion credit facility maturing in July 2011. It does not require the company before each draw to represent and warrant as to any material adverse change (MAC) in its general financial condition. However, reps are required on MAC clauses related to legal and environmental matters and ERISA. The facility contains one financial covenant -- a maximum Debt-to-Capital of 70%. The company had comfortable headroom under this ratio at 57% as of 9/30/07.

Rating Outlook

The negative outlook indicates the risk of erosion in the company's already weak credit metrics over the next 18 to 24 months. If rate cases (those for NIPSCO, COH, Columbia of Pennsylvania) and pipeline projects (particularly the Millennium and Eastern Market Expansion) are executed in line with NI's long-term plan, the company would be able to sustain retained cash flow/debt in the 8% range and EBIT/interest in the low 2x range, and the outlook would be restored to stable.

What Could Change the Rating - Up

Unlikely, given the downward pressure indicated by the negative outlook. Even if the company were to execute fully on its long-term plan, it is not expected to lift credit metrics sufficiently to warrant an upgrade (EBIT/interest in the 3x range, retained cash flow/debt in the 10% range).

What Could Change the Rating - Down

If NI does not generate enough incremental revenues from its rate cases and pipeline projects, and EBIT/interest falls below 2x and retained cash flow/debt, below 6%.

Rating Factors

NiSource Inc.

Diversified Natural Gas Transmission and Distribution	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Scale (10% weighting)							
a) Net Profit After-Tax Before Unusual Items (US$MM) (5%)			$ 319				
b) Total Assets (US$B) (5%)	$ 18,891						
Factor 2: Quality of Diversification (20% weighting)							
a) Scale of Unregulated Exposure (10%)	X						
b) Degree of Business Risk (10%)			X				
Factor 3: Management Strategy & Financial Policy (10% weighting)							
a) Management Strategy & Financial Policy (10%)				X			
Factor 4: Financial Strength (60% weighting)							
a) EBIT/Interest Expense (15%)					2.1x		
b) Debt to Book Capitalization (excluding goodwill) (15%)						70.8%	
c) Retained Cash Flow/Debt (15%)					8.2%		
d) Return on Equity (15%)						6.1%	
Rating:							
a) Methodology Model Implied Senior Unsecured Rating				**Baa3**			
b) Actual Senior Unsecured Equivalent Rating				**Baa3**			

reported to the SEC an ownership interest in MCO of more than 5%, is posted annually on Moody's website at www.moodys.com under the heading "Shareholder Relations - Corporate Governance - Director and Shareholder Affiliation Policy."

Global Credit Research
Rating Action
3 DEC 2007

Rating Action: NiSource Inc.

Moody's changes NiSource's outlook to negative from stable

About $6 billion of debt obligations affirmed

New York, December 03, 2007 -- Moody's Investors Service changed NiSource Inc.'s outlook to negative from stable and affirmed the debt ratings of the company and its subsidiaries. The change in outlook indicates the near-term risk of erosion in the company's already weak credit metrics, following the implementation of the company's new long-term business plan that entails a significant step-up in capital expenditures and regulatory activity.

"NiSource has spent much of the past seven years conserving cash flow while restructuring its operations and balance sheet," says Moody's Vice President Mihoko Manabe. "This shift in the company's orientation towards earnings growth brings potential for more debt and execution risk."

According to the company, the long-term plan is designed to increase earnings meaningfully in 2011 through rounds of rate filings and a capital investment program of more than $1 billion a year. In the interim, earnings are expected to remain flat. The plan also includes a partial IPO of a pipeline MLP in the near term.

The rating affirmations reflect NiSource's current position as a solid Baa3 credit, given the strength of its large portfolio of rate-regulated natural gas and electric assets with very low business risk that offsets its weak financial metrics. The company would remain a Baa3 and its outlook could return to stable, if it achieves the financial performance it plans over the next 18 to 24 months.

The change in outlook to negative is triggered by the significant execution risks in successfully implementing the plan, particularly on some critical factors over which NiSource has limited control. Much of the forecasted top-line growth depends on the outcome and timing of multiple rate cases and pipeline projects that are subject to regulatory action.

NiSource also faces challenges on other fronts that are more within its purview, such as escalating operating and capital costs. The company for years has been struggling to contain operating and maintenance expense growth which has been outpacing revenue growth. Furthermore, acute labor and material shortages industry-wide are making cost overruns on construction projects increasingly common and raising the likelihood of lower-than-expected returns. Moody's notes that, NiSource's plan anticipates investing substantial sums for some years before realizing meaningful earnings growth.

The management's long-standing public commitment to investment-grade ratings supports the rating affirmation and improves the likelihood of the outlook eventually being stabilized. On the other hand, NiSource's long-term plan will result in large funding gaps that will likely be predominantly debt financed. Future financing activity could reintroduce some balance sheet complexity that the company has reduced over the past several years. Project financings will add to off-balance sheet obligations. The creation of an MLP will introduce high payouts and other risks that come with that corporate finance model, although the IPO itself would not have a rating impact on NiSource.

With the negative outlook, Moody's will be watching a number of milestones expected to be reached over the next year or so. These events include rate cases planned for its Northern Indiana Public Service (NIPSCO), Columbia of Ohio, and Columbia of Pennsylvania subsidiaries; resolution of legacy issues related to NIPSCO (the purchase of two power plants that address both a looming capacity shortage and losses at the affiliate Whiting power plant) and the troubled IBM business services outsourcing agreement (a restructured contract expected prior to the end of this year).

Moody's will also monitor the progress on some key pipeline projects which are a material component of NiSource's long-term growth plan. The Millennium Pipeline project is expected to come online in late 2008, and the company is awaiting regulatory approval on the Eastern Market Expansion project.

Achievement of these milestones would help to set a foundation for earnings growth longer term and, if accompanied by adequate financial performance, could lead to the stabilization of NiSource's rating outlook. A significant shortfall from the long-term plan would subject its ratings to possible downgrade.

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Headquartered in Merrillville, Indiana, NiSource Inc. is a diversified natural gas and electric company.

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Global Power
North America
Credit Analysis

NiSource Inc.

Ratings

Security Class	Current Rating
NiSource Inc.	
IDR	BBB–
NiSource Finance Corp.	
IDR	BBB–
Senior Unsecured Debt	BBB–
Short-Term IDR	F3
Commercial Paper	F3
NiSource Capital Markets	
IDR	BBB–
Senior Unsecured Debt	BBB–

Outlook

Stable

Financial Data

NiSource Inc.

	12/31/08	12/31/07
ITDA/ erest (x)	3.9	3.6
FO Coverage (x)	3.8	3.0
Debt/EBITDA (x)	5.1	4.5
FFO/Debt (%)	14.0	12.2

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Related Research

- *Northern Indiana Public Service Co., Feb. 9, 2009*

Rating Rationale

- On Feb. 4, 2009, Fitch Ratings downgraded ratings for NiSource Inc. (NI) and its financing subsidiaries, NiSource Finance Corp. (NI Finance) and NiSource Capital Markets, Inc. (NI Capital Markets). The rating action reflects Fitch's expectation that NI will experience challenging operating and financial conditions and a potential weakening in credit metrics in 2009.
- The recessionary U.S. economy will contribute to weakening industrial demand and lower margins. Steel and steel-related businesses have been particularly hard hit in recent months. Fitch notes that domestic steel production has been declining since August and is less than 50% capacity utilization.
- Also contributing to weakening financial results are increasing electric operating costs, primarily the result of the mid-2008 purchase of the $330 million Sugar Creek gas-fired electric generation plant. Future earnings will also be affected by increasing pension costs, which could be $100 million greater in 2009 than 2008, as well as higher interest expenses.

Key Rating Drivers

- Operating utility Northern Indiana Public Service Co. (NIPSCO) has filed its first full rate case in Indiana in 20 years. NIPSCO is requesting, among other things, the inclusion of Sugar Creek in rate base. The base rate increase, if fully approved, would result in an $85.7 million increase in revenues. The rate case review is expected to take between 12 and 18 months, with new rates expected in late 2009 or early 2010. The inclusion of Sugar Creek in rate base and a reasonable revenue increase would be viewed favorably by Fitch.
- NI's inability to maintain adequate liquidity and address its refinancing and capital spending needs in a timely fashion would likely result in a negative rating action.

Recent Events

On Feb. 3, 2009, NI Finance received written commitments from a syndicate of banks for $265 million of unsecured two-year term debt maturing in April 2011.

On Dec. 22, 2008, Millennium Pipeline Company (Millennium) began providing service. Millennium is a 182-mile interstate pipeline that spans New York's southern tier and serves metro New York. NI owns 47.5% of Millennium.

On Dec. 3, 2008, the Public Utilities Commission of Ohio approved NI subsidiary Columbia Gas of Ohio's settled rate case. The decision allows the company to collect an additional $47 million in annual revenues, its first base rate increase in Ohio in 14 years.

On Dec. 1, 2008, NI completed the sale of its Northern Utilities and Granite State subsidiaries to Unitil Corp. for $160 million plus $41.6 million in working capital.

On Oct. 23, 2008, the Pennsylvania Public Utility Commission approved NI subsidiary Columbia Gas of Pennsylvania's $41.5 million rate case settlement.

On Aug. 29, 2008, NIPSCO filed its first full rate case in 20 years with the Indiana Utility Regulatory Commission. The filing was modified on Dec. 22, 2008, to include in rate base the newly purchased Sugar Creek plant.

Liquidity and Debt Structure

NI Finance has a $1.5 billion five-year revolving credit facility due July 2011. In addition, NI Finance has a $500 million undrawn seasonal facility that matures on March 23, 2009. At Dec. 31, 2008, $1,163.5 million was outstanding under the five-year revolver. Including $83.5 million of outstanding letters of credit resided under that facility, total available borrowing capacity was $753 million. Outstanding borrowings are expected to be repaid with proceeds from NI Finance's new $265 million term debt. NI utilizes a money pool for its subsidiaries.

Debt Maturities
($ Mil.)

2009	428
2010	943
2011	292
2012	315
2013	613

Source: Fitch.

Planned capital spending at NI's operating subsidiaries, while reduced to $800 million in 2009 from in excess of $1 billion, is expected to be relatively large over the next several years. In addition to companywide maintenance and growth spending, NIPSCO must address its long-term capacity shortfall, which could result in the future purchase or construction of new electric generation. At the same time, debt maturities will be significant, with nearly $1.4 billion of NI Finance long-term debt maturing by the end of 2010. The once planned monetization of NI pipeline subsidiary Columbia Gulf Transmission through a master limited partnership (MLP) dropdown is now impractical. Given limited capital market and bank liquidity and depressed equity values, financing costs are expected to be up significantly. While the new term debt will provide a temporary liquidity cushion, the issuance of additional long-term debt is anticipated in each of the next several years.

NI's consolidated credit measures are generally consistent with its 'BBB–' rating. Given NI's current business mix and the predictability provided by its regulatory schemes, Fitch does not anticipate material near-term changes in credit metrics, up or down. Growth strategies are relatively modest. Current pipeline and storage expansion projects have favorable locational and contractual characteristics.

Financial Summary — NiSource Inc.

($ Mil., Years Ended Dec. 31)

	2008	2007	2006	2005	2004	2003
Fundamental Ratios (x)						
Funds from Operations (FFO)/Interest Expense	3.8	3.0	2.7	3.2	3.6	3.1
Cash Flow from Operations (CFO)/Interest Expense	2.5	2.8	3.9	2.7	3.6	2.2
Debt/FFO	7.1	8.1	9.7	7.2	6.1	6.8
Operating EBIT/Interest Expense	2.4	2.2	2.2	2.3	2.6	2.3
Operating EBITDA/Interest Expense	3.9	3.6	3.6	3.6	3.9	3.3
Debt/Operating EBITDA	5.2	4.5	4.4	4.4	4.1	4.3
Common Dividend Payout (%)	319	78.4	89.3	81.7	55.7	333.3
Internal Cash/Capital Expenditures (%)	83.8	64.1	141.9	78.3	157.2	49.5
Capital Expenditures/Depreciation (%)	170.8	141.0	116.1	108.5	101.7	115.6
Profitability						
Revenues	8,874	7,940	7,490	7,896	6,662	6,247
Net Revenues	3,243	3,264	3,125	3,147	3,047	3,056
Operating and Maintenance Expense	1,455	1,468	1,390	1,327	1,204	1,186
Operating EBITDA	1,473	1,493	1,446	1,519	1,583	1,588
Depreciation and Amortization Expense	567	559	549	544	509	497
Operating EBIT	905	933	896	975	1,074	1,091
Gross Interest Expense	380	418	400	428	411	474
Net Income for Common	79	321	282	307	436	85
Operating Maintenance Expense % of Net Revenues	44.9	45.0	44.5	42.2	39.5	38.8
Operating EBIT % of Net Revenues	27.2	28.6	28.7	31.0	35.2	35.7
Cash Flow						
Cash Flow from Operations	564	757	1156	712	1056	568
Change in Working Capital	(501)	(64)	495	(210)	(7)	(432)
Funds from Operations	1065	821	661	922	1063	1000
Dividends	(252)	(252)	(252)	(250)	(243)	(284)
Capital Expenditures	(970)	(788)	(637)	(590)	(517)	(575)
Free Cash Flow	**(668)**	**(283)**	**267**	**(128)**	**296**	**(290)**
Net Other Investment Cash Flow	(520)	103	(117)	11	(43)	(55)
Net Change in Debt	767	173	(142)	112	(415)	(539)
Net Change in Equity	1	6	(66)	38	157	352
Capital Structure						
Short-Term Debt	1,164	1,061	1,193	898	308	686
Long-Term Debt	6,413	5,628	5,240	5,712	6,136	6,112
Total Debt	**7,577**	**6,689**	**6,433**	**6,610**	**6,443**	**6,797**
Preferred and Minority Equity	0	0	0	81	81	81
Common Equity	4,729	5,077	5,014	4,933	4,787	4,416
Total Capital	**12,306**	**11,766**	**11,446**	**11,624**	**11,312**	**11,294**
Total Debt/Total Capital (%)	61.6	56.9	56.2	56.9	57.0	60.2
Preferred and Minority Equity/Total Capital (%)	0.0	0.0	0.0	0.7	0.7	0.7
Common Equity/Total Capital (%)	38.4	43.1	43.8	42.4	42.3	39.1

Note: Numbers may not add due to rounding. Long-term debt includes trust preferred securities. Year 2008 is unaudited.
Source: Company reports, Fitch Ratings.

Fitch Downgrades NiSource & Subsidiaries' IDRs to 'BBB-'; Outlook Stable

Ratings
04 Feb 2009 3:51 PM (EST)

Fitch Ratings-New York-04 February 2009: Fitch Ratings has downgraded the outstanding ratings for NiSource Inc. (NI) and its subsidiaries as follows:

NI
--Issuer Default Rating (IDR) to 'BBB-' from 'BBB'.

NiSource Capital Markets, Inc. (NI Capital Markets)
--IDR to 'BBB-' from 'BBB';
--Senior unsecured debt to 'BBB-' from 'BBB'.

NiSource Finance Corp. (NI Finance)
--IDR to 'BBB-' from 'BBB';
--Senior unsecured debt to 'BBB-' from 'BBB';
--Short-term IDR to 'F3' from 'F2';
--Commercial paper (CP) to 'F3' from 'F2'

Northern Indiana Public Service Co. (NIPSCO)
--IDR to 'BBB-' from 'BBB';
--Senior unsecured debt to 'BBB' from 'BBB+'.

Jasper County (IN)
Michigan City (IN)
--Senior unsecured pollution control revenue bonds to 'BBB' from 'BBB+'.

Approximately $6.2 billion of outstanding long-term debt is affected. The Rating Outlook for NI and its subsidiaries is Stable.

The rating action reflects Fitch's expectation that NI will experience challenging operating and financial conditions and a potential weakening in credit metrics in 2009. The unfavorable economic and capital market environment could continue for the full year and beyond. At NIPSCO the recessionary U.S. economy will contribute to weakening industrial demand and lower margins. Steel and steel related businesses, NIPSCO's largest industrial customer category, have been particularly hard hit in recent months. Fitch notes that domestic steel production has been declining since August and is currently at less than 50% capacity utilization. Also contributing to weakening financial results are increasing electric operating costs, primarily the result of the mid-2008 purchase of the $330 million Sugar Creek gas-fired electric generation plant. Future earnings will also be affected by increasing pension costs which could be $100 million greater in 2009 than 2008 and higher interest expenses. Based on current conditions Fitch expects NI's consolidated 2009 credit measures to be generally consistent with a 'BBB-' rating.

Planned capital spending at NI's operating subsidiaries, while reduced to $800 million in 2009 from in excess of $1 billion, is expected to be relatively large over the next several years. In addition to companywide maintenance and growth spending, NIPSCO must address its long-term capacity shortfall which could result in the future purchase or construction of new electric generation. At the same time, debt maturities will be significant with nearly $1.4 billion of NI Finance long-term debt maturing by the end of 2010. In addition, NI Finance's seasonal $500 million short-term revolving credit facility matures on March 23, 2009. The once planned monetization of Columbia Gulf through a MLP dropdown is now impractical. Given limited capital market and bank liquidity and depressed equity values, financing costs are expected to be up significantly. NI Finance has recently received written commitments from a syndicate of banks for $265 million of unsecured two-year term debt maturing in April 2011. While the term debt will provide a temporary liquidity cushion, the issuance of additional long-term debt is anticipated in each of the next several years. NI's inability to maintain adequate liquidity and address its refinancing and capital spending needs in a timely fashion would likely result in a negative rating action.

Favorable rating considerations include the low business risk and stable operating performance generated by NI's geographically diverse mix of regulated operations and the positive effect of increased natural gas utility rates in Ohio and Pennsylvania. Virtually 100% of NI's earnings now come from its utility and pipeline subsidiaries. With the sale of the Whiting Clean Energy co-generation facility to BP Alternative Energy North America Inc. in mid-2008, NI completed the divestiture of its higher risk and least profitable businesses. Growth initiatives have modest risk and are complementary to existing core operations. Current pipeline and storage expansion projects have favorable locational and contractual characteristics. Furthermore, working capital is reduced with lower natural gas prices.

Regulatory mechanisms have generally provided timely cost recovery and supported relatively stable operating results. On Dec. 3, 2008, the Public Utilities Commission of Ohio approved Columbia Gas of Ohio's settled rate case. This will result in a $47.1 million annual increase in revenues and was its first base rate increase in fourteen years. On Oct. 23, 2008, the Pennsylvania Public Utility Commission approved Columbia Gas of Pennsylvania's $41.5 million rate case settlement. The new rates in Ohio and Pennsylvania became effective in the fourth quarter of 2008.

On Aug. 29, 2008, NIPSCO filed its first full rate case with the Indiana Utility Regulatory Commission in twenty years. The filing was modified on Dec. 22, 2008. NIPSCO is requesting among other things the inclusion of Sugar Creek in rate base. The base rate increase, if fully approved, would result in an $85.7 million increase in revenues. The rate case also proposes a new tracker to recover any MISO charges currently being deferred, recovery of purchase power energy and capacity costs and a sharing with customers of off-system sales and transmission revenues. The rate case review is expected to take between 12 to 18 months with new rates expected to be effective in late 2009 or early 2010. The inclusion of Sugar Creek in rate base and a reasonable revenue increase would be viewed favorably by Fitch.

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Announcement: NiSource Finance Corporation

Moody's affirms NiSource with negative outlook

New York, February 04, 2009 -- Moody's Investors Service affirmed that the ratings of NiSource Inc.'s subsidiaries (including its guaranteed primary financing vehicle NiSource Finance Corporation, rated Baa3 senior unsecured) and negative outlook are not impacted by the company's announcement of its updated long-range financial plan. In Moody's assessment, the company's weaker earnings outlook could be mitigated by a reduction in capital expenditures to reduce incremental debt, subject to the company successfully implementing its cost control and cash management initiatives.

"The plan metrics appear sufficient to maintain the company's ratings for now," says Moody's Vice President Mihoko Manabe. "However, they are low in the range that Moody's would expect for its current ratings and business risk profile and are vulnerable to shortfalls from the plan."

The latest iteration of NiSource's plan includes adjustments reflecting more difficult economic and financial market conditions than what was assumed previously. Capital expenditures for the next few years are expected to be about $800 million annually, down from $1 billion previously. The cuts are mostly on deferrable expenditures in the company's gas distribution segment and growth projects in its pipeline segment. The latter and increased pension obligations --- both non-cash expense and cash contributions --- contribute to the reduced earnings outlook. While less external debt financing would be required, borrowing rates will be higher.

With the rate cases for two of its largest gas distribution subsidiaries and some longstanding overhangs on its credit resolved, the critical issue at hand for NiSource is the rate case at its subsidiary Northern Indiana Public Service Company (NIPSCO, Baa2 senior unsecured). Moody's could stabilize outlook or initiate rating review in late 2009 or early 2010, whenever the credit impact of the NIPSCO's rate case can be reasonably assessed. Moody's notes that in changing the outlook to negative in December 2007, Moody's took an 18 to 24 months' view to allow time for certain rate cases and pipeline projects to be completed.

NiSource's near-term liquidity resources -- which should benefit from a reduction in the capital budget and lower natural gas prices -- appear sufficient for now. The company has obtained $265 million of commitments to-date on a two-year term loan, which would help replace the $500 million revolver that expires in March 2009. The company will implement a dividend reinvestment program which will mitigate its high payout rate and contribute modestly to retained earnings.

Additionally, NiSource is preparing new indentures for up to $350 million in secured bonds that could be issued by some of its larger operating subsidiaries, which would provide another option in refinancing the $417 million of debt that matures in November. At $350 million, the secured bonds would be about 5% of total debt at year-end 2008 and well below the 10% of net tangible assets limitation on liens test under the holding company-level indenture. Given the magnitude of NiSource's total debt (roughly $6 billion), this incremental subsidiary borrowing as currently contemplated would not significantly affect the structural subordination of about 90% of consolidated debt at the holding company level.

The last rating action was on May 23, 2008 when Moody's commented that NiSource's ratings and negative outlook were not impacted by an adverse development in the Tawney class action lawsuit.

The principal methodology used in rating NiSource was Diversified Natural Gas Transmission and Distribution Companies, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating NiSource can also be found in the Credit Policy & Methodologies directory.

Headquartered in Merrillville, Indiana, NiSource Inc. is a diversified natural gas and electric distribution and transmission company.

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STANDARD & POOR'S

RATINGSDIRECT®

January 6, 2009

Northern Indiana Public Service Co.

Primary Credit Analyst:
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Northern Indiana Public Service Co.

Major Rating Factors

Corporate Credit Rating
BBB-/Negative/NR

Strengths:

- Conservative business strategy that focuses almost exclusively on regulated businesses;
- Significant scale as one of the largest integrated pipeline and gas storage companies in the U.S.;
- A nine-state scope of operations that mitigates weather and regulatory risk;
- Relatively constructive regulation; and
- A competitive gas distribution and pipeline cost structure.

Weaknesses:

- A weak overall financial profile;
- Liberal debt leverage for the rating level;
- A constrained liquidity position;
- Declining customer usage and increased attrition in the gas distribution segment;
- Subsidiary Northern Indiana Public Service Co.'s high cost structure and heavy dependence on the industrial sector, and
- A recently increased tolerance for a more aggressive financial position.

Rationale

Standard & Poor's Ratings Services derives Northern Indiana Public Service Co's (NIPSCO) corporate credit rating from parent NiSource Inc's consolidated credit profile. The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Negative/--), and Bay State Gas Co. (BBB-/Negative/--). Merrillville, Ind.-based NiSource is involved in regulated natural gas distribution (about 35% of consolidated cash flow), gas transmission and storage (roughly 32%), and vertically integrated electric operations (about 33%). As of Sept. 30, 2008, NiSource's adjusted debt, including operating leases and tax-affected pensions and postretirement obligations, totaled about $8 billion.

The stand-alone financial profiles of NiSource's utility subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company. NiSource's aggressive capital-spending program, although it was recently curtailed, will still result in negative free cash flow and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies, several pipeline expansions, and the acquisition of Sugar Creek will improve and further stabilize cash in the longer-term.

NiSource's business plan, which centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures support the company's excellent business position. NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy somewhat temper NiSource's strengths. NiSource's aggressive capital-spending program, although now scaled back slightly, will still result in negative free cash flow and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies and several pipeline expansions will improve and further stabilize cash in the longer term, however.

Standard & Poor's business risk profile on NiSource is excellent, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate design mechanisms. These include "decoupling" rates from profits to reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. NIPSCO's pending rate case will also influence future performance, although the process is still in its early stages and a result that is not markedly different than the company's expectations is not expected to dramatically influence cash flow metrics given the cash flow diversity from other business lines. The sale of the Whiting Clean Energy facility will require NiSource to explore other, longer-term options to replace this capacity.

NIPSCO (approximately 17% of NiSource's revenues and 30% of cash flows) serves approximately 457,000 customers and generates, transmits and distributes electricity in northern Indiana. The utilities electricity supply is sourced almost entirely through coal-fired generation with gas-fired plants used for peaking purposes. On August 29, 2008, Northern Indiana filed for a two-step rate increase for new electric base rates. Step one is a request for a change in the base rate calculation resulting in a gross margin increase of approximately $24 million, while step two requests an additional increase to incorporate the return on and recovery of the Sugar Creek facility. The hearing on the rate case is scheduled to begin on January 6, 2009. Assuming the case goes through the full procedural schedule without settlement, the final hearing is scheduled to begin July 27, 2009 and new rates are anticipated to take effect in early 2010. NIPSCO's addition of the 535-megawatt Sugar Creek combined cycle gas turbine (CCGT) electric generating plant will help it meet future electricity demand; NIPSCO completed the purchase in May 2008 for approximately $330 million.

We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and a constrained liquidity position given its significant near-term capital expenditures and debt maturities. While NiSource had improved its balance sheet after the debt-financed acquisitions of Bay State and CEG, a more aggressive growth plan, which includes capital spending of about $900 million per year, reversed this improvement. Also, the company does not plan to go ahead with the $300 million MLP IPO as announced earlier and this gap will now likely be funded by debt. The company will likely need external financing in 2009 to fund a liquidity shortfall, in addition to accessing the capital markets to meet about $461 million of 2009 debt maturities. As a result, NiSource's already weak financial profile could be pressured further if it can not raise funds in a timely manner or has to incur high interest rates due to currently strained debt and equity markets. For the next several years, we expect funds from operations (FFO) to total debt to remain weak, at around 12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying Sugar Creek, weakness in the local economy, and the regulatory lag in implementing a series of rate cases.

Liquidity

We project NiSource's liquidity position to be constrained in 2009. In addition to capital spending, other projected uses of cash include dividends of about $250 million, debt maturities of $461 million, and payments associated with the Tawney settlement (about $230 million after-tax). Given these uses of cash and projected cash from operations of about $1 billion and about $680 million of available credit facility capacity and cash, we expect NiSource to have a negative liquidity position of about $450 million. NiSource also has $1 billion of debt maturities in 2010, resulting in nearly 20% of its adjusted debt balance coming due in the next two years.

Funding vehicle NiSource Finance Corp. has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. In September 2008, NiSource Finance entered into a new $500 million credit facility expiring in March 2009. As of Sept. 30, 2008, the company had about $654 million available under the facilities and $25 million in unrestricted cash. The company issued $700 million of debt in May 2008 and used it to reduce short-term borrowings, as well as to fund capital expenditures and for general corporate purposes. However, maturities of $461 million in 2009 and $1 billion in 2010 substantially exceed cash flow estimates and will require refinancing.

Outlook

The negative outlook reflects our expectation of a strained liquidity position in 2009 given sizable capital spending requirements, debt maturities, and payments related to the Tawney lawsuit. We could lower the rating if the company cannot obtain adequate funding and the shortfall in liquidity is prolonged throughout the first half of 2009. We could also lower the rating if the company's financial profile and credit metrics continue to be weak and anticipated cash flow improvements do not transpire; specifically an FFO to debt ratio of about 10% would lead to a lower rating. We could revise the outlook to stable if the company's liquidity position improves to the point where excess liquidity of about $300 million to $500 million is achieved or there is a considerable improvement in cash flow metrics, specifically FFO to debt of more than 15% on a sustained basis.

Accounting

Standard & Poor's adjusts NiSource Inc's financial statements for operating leases, pension and postretirement obligations, asset retirement obligations and accrued interest. The adjustments include adding a debt equivalent, interest expense, and depreciation to the company's reported financial statements. We added additional debt to the balance sheet for operating leases ($219 million), pension and postretirement obligations ($245 million), asset retirement obligations ($85 million), accrued interest ($99 million), and trade receivables sold ($402 million).

Due to the distortions in leverage and cash flow metrics caused by the substantial seasonal working-capital requirements of the regulated gas utilities, Standard & Poor's adjusts inventory and debt balances by netting the value of inventory against the outstanding commercial paper for the regulated subsidiaries. This adjustment provides a more accurate view of the company's financial performance as the utilities short-term borrowings will decline as inventories shrink and accounts receivable are monetized, with support from commodity pass-through mechanisms.

NiSource Inc follows SFAS 71, Accounting for Effects of Certain Types of Regulation for its regulated operations. As of Sept. 30, 2008, NiSource Inc had about $1.129 billion in regulatory assets versus about $1.452 billion in regulatory liabilities. Net regulatory liabilities were 2.6% of total capitalization.

Table 1

NiSource Inc. -- Peer Comparison*

Industry Sector: Combo

	NiSource Inc.	Vectren Corp.	Spectra Energy Corp	Dominion Resources Inc.
Rating as of Jan. 6, 2009	BBB-/Negative/NR	A-/Stable/--	BBB+/Stable/--	A-/Stable/A-2

Table 1

NiSource Inc.-- Peer Comparison* (cont.)

	--Average of past three fiscal years--			
(Mil. $)				
Revenues	7,776.3	2,117.2	6,242.7	16,724.5
Net income from cont. oper.	303.0	129.6	1,096.3	1,767.3
Funds from operations (FFO)	867.5	295.9	1,530.8	2,300.5
Capital expenditures	697.8	282.3	1,059.0	1,996.3
Debt	7,258.3	1,732.1	9,919.6	18,625.3
Equity	5,329.2	1,235.1	8,733.0	11,345.2
Adjusted ratios				
Oper. income (bef. D&A)/revenues (%)	20.0	21.1	31.5	25.3
EBIT interest coverage (x)	2.1	3.1	2.9	2.4
EBITDA interest coverage (x)	3.4	4.5	4.0	3.5
Return on capital (%)	6.8	9.7	8.6	7.8
FFO/debt (%)	12.0	17.1	15.4	12.4
Debt/EBITDA (x)	4.8	3.9	3.6	4.5

**Fully adjusted (including postretirement obligations).*

Table 2

NiSource Inc.-- Financial Summary*

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2007	**2006**	**2005**	**2004**	**2003**
Rating history	BBB-/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR
(Mil. $)					
Revenues	7,939.8	7,490.0	7,899.1	6,666.2	6,246.6
Net income from continuing operations	312.0	313.5	283.6	430.2	425.7
Funds from operations (FFO)	906.7	715.4	980.4	1,106.6	1,066.6
Capital expenditures	848.1	640.2	605.0	592.0	572.1
Cash and short-term investments	36.0	33.1	69.4	30.1	27.3
Debt	7,281.2	7,112.4	7,381.3	7,261.5	7,379.6
Preferred stock	0.0	0.0	81.1	81.1	81.1
Equity	5,389.3	5,249.6	5,348.9	4,859.9	4,369.4
Debt and equity	12,670.5	12,361.9	12,730.2	12,121.4	11,749.0
Adjusted ratios					
EBIT interest coverage (x)	2.1	2.1	2.3	2.6	2.3
FFO int. cov. (x)	2.9	2.5	3.0	3.4	2.9
FFO/debt (%)	12.5	10.1	13.3	15.2	14.5
Discretionary cash flow/debt (%)	(3.5)	4.5	(1.1)	3.6	(3.0)
Net Cash Flow / Capex (%)	77.2	72.4	120.7	145.9	136.8
Debt/debt and equity (%)	57.5	57.5	58.0	59.9	62.8
Return on common equity (%)	5.8	6.0	5.7	9.2	9.9

Table 2

NiSource Inc.--Financial Summary* (cont.)					
Common dividend payout ratio (un-adj.) (%)	80.8	80.0	88.3	56.5	66.7

*Fully adjusted (including postretirement obligations)

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2007--

NiSource Inc. reported amounts

	Debt	Shareholders' equity	Operating income (before D&A)	Operating income (before D&A)	Operating income (after D&A)	Interest expense	Cash flow from operations	Cash flow from operations	Capital expenditures
Reported	6,689.3	5,076.6	1,492.5	1,492.5	933.3	400.7	756.9	756.9	788.3
Standard & Poor's adjustments									
Trade receivables sold or securitized	402.4	--	--	--	--	20.1	--	--	--
Operating leases	218.6	--	48.1	12.6	12.6	12.6	35.5	35.5	76.9
Postretirement benefit obligations	244.6	--	(8.6)	(8.6)	(8.6)	--	66.4	66.4	--
Accrued interest not included in reported debt	99.3	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	17.1	(17.1)	(17.1)	(17.1)
Share-based compensation expense	--	--	--	4.4	--	--	--	--	--
Asset retirement obligations	85.2	--	6.7	6.7	6.7	6.7	1.1	1.1	--
Exploration costs	--	--	--	9.4	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	2.9	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	63.9	--
Other	(458.2)	312.7	--	--	--	--	--	--	--
Total adjustments	591.9	312.7	46.2	24.5	13.6	56.5	85.9	149.8	59.8

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	7,281.2	5,389.3	1,538.7	1,517.0	946.9	457.2	842.8	906.7	848.1

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

*NiSource Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of January 6, 2009)*	
Northern Indiana Public Service Co.	
Corporate Credit Rating	BBB-/Negative/NR
Senior Unsecured (1 Issue)	A/Negative
Senior Unsecured (3 Issues)	AA/NR
Senior Unsecured (4 Issues)	AA/Negative
Senior Unsecured (3 Issues)	BBB-
Corporate Credit Ratings History	
16-Dec-2008	BBB-/Negative/NR
18-Dec-2007	BBB-/Stable/NR
02-Nov-2007	BBB/Watch Neg/NR
Financial Risk Profile	Aggressive
Related Entities	
Bay State Gas Co.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Capital Markets Inc.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Finance Corp.	
Issuer Credit Rating	BBB-/Negative/--
Senior Unsecured (1 Issue)	BBB-
NiSource Inc.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (8 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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RatingsDirect®

January 6, 2009

NiSource Capital Markets Inc.

Primary Credit Analyst:
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NiSource Capital Markets Inc.

Major Rating Factors

Corporate Credit Rating
BBB-/Negative/NR

Strengths:

- Conservative business strategy that focuses almost exclusively on regulated businesses;
- Significant scale as one of the largest integrated pipeline and gas storage companies in the U.S.;
- A nine-state scope of operations that mitigates weather and regulatory risk;
- Relatively constructive regulation; and
- A competitive gas distribution and pipeline cost structure.

Weaknesses:

- A weak overall financial profile;
- Liberal debt leverage for the rating level;
- A constrained liquidity position;
- Declining customer usage and increased attrition in the gas distribution segment;
- Subsidiary Northern Indiana Public Service Co.'s high cost structure and heavy dependence on the industrial sector, and
- A recently increased tolerance for a more aggressive financial position.

Rationale

Standard & Poor's Ratings Services derives NiSource Capital Markets Inc.'s corporate credit rating from parent NiSource Inc.'s consolidated credit profile. The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Negative/--), and Bay State Gas Co. (BBB-/Negative/--). Merrillville, Ind.-based NiSource is involved in regulated natural gas distribution (about 35% of consolidated cash flow), gas transmission and storage (roughly 32%), and vertically integrated electric operations (about 33%). As of Sept. 30, 2008, NiSource's adjusted debt, including operating leases and tax-affected pensions and postretirement obligations, totaled about $8 billion.

The stand-alone financial profiles of NiSource's utility subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company. NiSource's aggressive capital-spending program, although it was recently curtailed, will still result in negative free cash flow and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies, several pipeline expansions, and the acquisition of Sugar Creek will improve and further stabilize cash in the longer-term.

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Accounting

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Table 1

NiSource Inc.--Peer Comparison*

Industry Sector: Combo				
	NiSource Inc.	**Vectren Corp.**	**Spectra Energy Corp**	**Dominion Resources Inc.**
Rating as of Jan. 6, 2009	BBB-/Negative/NR	A-/Stable/--	BBB+/Stable/--	A-/Stable/A-2
		--Average of past three fiscal years--		
(Mil. $)				
Revenues	7,776.3	2,117.2	6,242.7	16,724.5
Net income from cont. oper.	303.0	129.6	1,096.3	1,767.3
Funds from operations (FFO)	867.5	295.9	1,530.8	2,300.5
Capital expenditures	697.8	282.3	1,059.0	1,996.3
Debt	7,258.3	1,732.1	9,919.6	18,625.3
Equity	5,329.2	1,235.1	8,733.0	11,345.2
Adjusted ratios				
Oper. income (bef. D&A)/revenues (%)	20.0	21.1	31.5	25.3

Table 1

NiSource Inc.--Peer Comparison* (cont.)

EBIT interest coverage (x)	2.1	3.1	2.9	2.4
EBITDA interest coverage (x)	3.4	4.5	4.0	3.5
Return on capital (%)	6.8	9.7	8.6	7.8
FFO/debt (%)	12.0	17.1	15.4	12.4
Debt/EBITDA (x)	4.8	3.9	3.6	4.5

*Fully adjusted (including postretirement obligations).

Table 2

NiSource Inc.--Financial Summary*

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2007	**2006**	**2005**	**2004**	**2003**
Rating history	BBB-/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR
(Mil. $)					
Revenues	7,939.8	7,490.0	7,899.1	6,666.2	6,246.6
Net income from continuing operations	312.0	313.5	283.6	430.2	425.7
Funds from operations (FFO)	906.7	715.4	980.4	1,106.6	1,066.6
Capital expenditures	848.1	640.2	605.0	592.0	572.1
Cash and short-term investments	36.0	33.1	69.4	30.1	27.3
Debt	7,281.2	7,112.4	7,381.3	7,261.5	7,379.6
Preferred stock	0.0	0.0	81.1	81.1	81.1
Equity	5,389.3	5,249.6	5,348.9	4,859.9	4,369.4
Debt and equity	12,670.5	12,361.9	12,730.2	12,121.4	11,749.0
Adjusted ratios					
EBIT interest coverage (x)	2.1	2.1	2.3	2.6	2.3
FFO int. cov. (x)	2.9	2.5	3.0	3.4	2.9
FFO/debt (%)	12.5	10.1	13.3	15.2	14.5
Discretionary cash flow/debt (%)	(3.5)	4.5	(1.1)	3.6	(3.0)
Net Cash Flow / Capex (%)	77.2	72.4	120.7	145.9	136.8
Debt/debt and equity (%)	57.5	57.5	58.0	59.9	62.8
Return on common equity (%)	5.8	6.0	5.7	9.2	9.9
Common dividend payout ratio (un-adj.) (%)	80.8	80.0	88.3	56.5	66.7

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2007--								
NiSource Inc. reported amounts									
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	6,689.3	5,076.6	1,492.5	1,492.5	933.3	400.7	756.9	756.9	788.3

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)									
Standard & Poor's adjustments									
Trade receivables sold or securitized	402.4	--	--	--	--	20.1	--	--	--
Operating leases	218.6	--	48.1	12.6	12.6	12.6	35.5	35.5	76.9
Postretirement benefit obligations	244.6	--	(8.6)	(8.6)	(8.6)	--	66.4	66.4	--
Accrued interest not included in reported debt	99.3	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	17.1	(17.1)	(17.1)	(17.1)
Share-based compensation expense	--	--	--	4.4	--	--	--	--	--
Asset retirement obligations	85.2	--	6.7	6.7	6.7	6.7	1.1	1.1	--
Exploration costs	--	--	--	9.4	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	2.9	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	63.9	--
Other	(458.2)	312.7	--	--	--	--	--	--	--
Total adjustments	591.9	312.7	46.2	24.5	13.6	56.5	85.9	149.8	59.8

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	7,281.2	5,389.3	1,538.7	1,517.0	946.9	457.2	842.8	906.7	848.1

*NiSource Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of January 6, 2009)*	
NiSource Capital Markets Inc.	
Corporate Credit Rating	BBB-/Negative/NR
Senior Unsecured (2 Issues)	BBB-
Corporate Credit Ratings History	
16-Dec-2008	BBB-/Negative/NR
18-Dec-2007	BBB-/Stable/NR
02-Nov-2007	BBB/Watch Neg/NR
Financial Risk Profile	Aggressive

Ratings Detail (As Of January 6, 2009)*(cont.)

Related Entities	
Bay State Gas Co.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Finance Corp.	
Issuer Credit Rating	BBB-/Negative/--
Senior Unsecured (1 Issue)	BBB-
NiSource Inc.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (8 Issues)	BBB-
Northern Indiana Public Service Co.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (1 Issue)	A/Negative
Senior Unsecured (3 Issues)	AA/NR
Senior Unsecured (4 Issues)	AA/Negative
Senior Unsecured (3 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD &POOR'S

RATINGSDIRECT®

January 6, 2009

NiSource Finance Corp.

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776; bill_ferara@standardandpoors.com

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NiSource Finance Corp.

Major Rating Factors

Corporate Credit Rating
BBB-/Negative/--

Strengths:

- Conservative business strategy that focuses almost exclusively on regulated businesses;
- Significant scale as one of the largest integrated pipeline and gas storage companies in the U.S.;
- A nine-state scope of operations that mitigates weather and regulatory risk;
- Relatively constructive regulation; and
- A competitive gas distribution and pipeline cost structure.

Weaknesses:

- Weak overall financial profile with liberal debt leverage for the rating level;
- Constrained liquidity position;
- Declining customer usage and increased attrition in the gas distribution segment;
- Subsidiary Northern Indiana Public Service Co.'s high cost structure and heavy dependence on the industrial sector, and
- A recently increased tolerance for a more aggressive financial position.

Rationale

Standard & Poor's Ratings Services derives NiSource Finance Corp.'s corporate credit rating from parent NiSource Inc.'s consolidated credit profile. The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Negative/--), and Bay State Gas Co. (BBB-/Negative/--). Merrillville, Ind.-based NiSource is involved in regulated natural gas distribution (about 35% of consolidated cash flow), gas transmission and storage (roughly 32%), and vertically integrated electric operations (about 33%). As of Sept. 30, 2008, NiSource's adjusted debt, including operating leases and tax-affected pensions and postretirement obligations, totaled about $8 billion.

The stand-alone financial profiles of NiSource's utility subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company. NiSource's aggressive capital-spending program, although it was recently curtailed, will still result in negative free cash flow and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies, several pipeline expansions, and the acquisition of Sugar Creek will improve and further stabilize cash in the longer-term.

NiSource's business plan, which centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures support the company's excellent business position. NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy somewhat temper

NiSource's strengths. NiSource's aggressive capital-spending program, although now scaled back slightly, will still result in negative free cash flow and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies and several pipeline expansions will improve and further stabilize cash in the longer term, however.

Standard & Poor's business risk profile on NiSource is excellent, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate design mechanisms. These include "decoupling" rates from profits to reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. NIPSCO's pending rate case will also influence future performance, although the process is still in its early stages and a result that is not markedly different than the company's expectations is not expected to dramatically influence cash flow metrics given the cash flow diversity from other business lines. The sale of the Whiting Clean Energy facility will require NiSource to explore other, longer-term options to replace this capacity.

We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and a constrained liquidity position given its significant near-term capital expenditures and debt maturities. While NiSource had improved its balance sheet after the debt-financed acquisitions of Bay State and CEG, a more aggressive growth plan, which includes capital spending of about $900 million per year, reversed this improvement. Also, the company does not plan to go ahead with the $300 million MLP IPO as announced earlier and this gap will now likely be funded by debt. The company will likely need external financing in 2009 to fund a liquidity shortfall, in addition to accessing the capital markets to meet about $461 million of 2009 debt maturities. As a result, NiSource's already weak financial profile could be pressured further if it can not raise funds in a timely manner or has to incur high interest rates due to currently strained debt and equity markets. For the next several years, we expect funds from operations (FFO) to total debt to remain weak, at around 12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying Sugar Creek, weakness in the local economy, and the regulatory lag in implementing a series of rate cases.

Liquidity

We project NiSource's liquidity position to be constrained in 2009. In addition to capital spending, other projected uses of cash include dividends of about $250 million, debt maturities of $461 million, and payments associated with the Tawney settlement (about $230 million after-tax). Given these uses of cash and projected cash from operations of about $1 billion and about $680 million of available credit facility capacity and cash, we expect NiSource to have a negative liquidity position of about $450 million. NiSource also has $1 billion of debt maturities in 2010, resulting in nearly 20% of its adjusted debt balance coming due in the next two years.

Funding vehicle NiSource Finance Corp. has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. In September 2008, NiSource Finance entered into a new $500 million credit facility expiring in March 2009. As of Sept. 30, 2008, the company had about $654 million available under the facilities and $25 million in unrestricted cash. The company issued $700 million of debt in May 2008 and used it to reduce short-term borrowings, as well as to fund capital expenditures and for general corporate purposes. However, maturities of $461 million in 2009 and $1 billion in 2010 substantially exceed cash flow estimates and will require refinancing.

Outlook

The negative outlook reflects our expectation of a strained liquidity position in 2009 given sizable capital spending requirements, debt maturities, and payments related to the Tawney lawsuit. We could lower the rating if the company cannot obtain adequate funding and the shortfall in liquidity is prolonged throughout the first half of 2009. We could also lower the rating if the company's financial profile and credit metrics continue to be weak and anticipated cash flow improvements do not transpire; specifically an FFO to debt ratio of about 10% would lead to a lower rating. We could revise the outlook to stable if the company's liquidity position improves to the point where excess liquidity of about $300 million to $500 million is achieved or there is a considerable improvement in cash flow metrics, specifically FFO to debt of more than 15% on a sustained basis.

Accounting

Standard & Poor's adjusts NiSource Inc's financial statements for operating leases, pension and postretirement obligations, asset retirement obligations and accrued interest. The adjustments include adding a debt equivalent, interest expense, and depreciation to the company's reported financial statements. We added additional debt to the balance sheet for operating leases ($219 million), pension and postretirement obligations ($245 million), asset retirement obligations ($85 million), accrued interest ($99 million), and trade receivables sold ($402 million).

Due to the distortions in leverage and cash flow metrics caused by the substantial seasonal working-capital requirements of the regulated gas utilities, Standard & Poor's adjusts inventory and debt balances by netting the value of inventory against the outstanding commercial paper for the regulated subsidiaries. This adjustment provides a more accurate view of the company's financial performance as the utilities short-term borrowings will decline as inventories shrink and accounts receivable are monetized, with support from commodity pass-through mechanisms.

NiSource Inc follows SFAS 71, Accounting for Effects of Certain Types of Regulation for its regulated operations. As of Sept. 30, 2008, NiSource Inc had about $1.129 billion in regulatory assets versus about $1.452 billion in regulatory liabilities. Net regulatory liabilities were 2.6% of total capitalization.

Table 1

NiSource Inc.--Peer Comparison*

Industry Sector: Combo				
	NiSource Inc.	**Vectren Corp.**	**Spectra Energy Corp**	**Dominion Resources Inc.**
Rating as of Jan. 6, 2009	BBB-/Negative/NR	A-/Stable/--	BBB+/Stable/--	A-/Stable/A-2
	--Average of past three fiscal years--			
(Mil. $)				
Revenues	7,776.3	2,117.2	6,242.7	16,724.5
Net income from cont. oper.	303.0	129.6	1,096.3	1,767.3
Funds from operations (FFO)	867.5	295.9	1,530.8	2,300.5
Capital expenditures	697.8	282.3	1,059.0	1,996.3
Debt	7,258.3	1,732.1	9,919.6	18,625.3
Equity	5,329.2	1,235.1	8,733.0	11,345.2
Adjusted ratios				
Oper. income (bef. D&A)/revenues (%)	20.0	21.1	31.5	25.3

Table 1

NiSource Inc.--Peer Comparison* (cont.)				
EBIT interest coverage (x)	2.1	3.1	2.9	2.4
EBITDA interest coverage (x)	3.4	4.5	4.0	3.5
Return on capital (%)	6.8	9.7	8.6	7.8
FFO/debt (%)	12.0	17.1	15.4	12.4
Debt/EBITDA (x)	4.8	3.9	3.6	4.5

*Fully adjusted (including postretirement obligations).

Table 2

NiSource Inc.--Financial Summary*

Industry Sector: Combo	--Fiscal year ended Dec. 31--				
	2007	**2006**	**2005**	**2004**	**2003**
Rating history	BBB-/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR
(Mil. $)					
Revenues	7,939.8	7,490.0	7,899.1	6,666.2	6,246.6
Net income from continuing operations	312.0	313.5	283.6	430.2	425.7
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Debt	7,281.2	7,112.4	7,381.3	7,261.5	7,379.6
Preferred stock	0.0	0.0	81.1	81.1	81.1
Equity	5,389.3	5,249.6	5,348.9	4,859.9	4,369.4
Debt and equity	12,670.5	12,361.9	12,730.2	12,121.4	11,749.0
Adjusted ratios					
EBIT interest coverage (x)	2.1	2.1	2.3	2.6	2.3
FFO int. cov. (x)	2.9	2.5	3.0	3.4	2.9
FFO/debt (%)	12.5	10.1	13.3	15.2	14.5
Discretionary cash flow/debt (%)	(3.5)	4.5	(1.1)	3.6	(3.0)
Net Cash Flow / Capex (%)	77.2	72.4	120.7	145.9	136.8
Debt/debt and equity (%)	57.5	57.5	58.0	59.9	62.8
Return on common equity (%)	5.8	6.0	5.7	9.2	9.9
Common dividend payout ratio (un-adj.) (%)	80.8	80.0	88.3	56.5	66.7

*Fully adjusted (including postretirement obligations).

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

	--Fiscal year ended Dec. 31, 2007--								
NiSource Inc. reported amounts									
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	6,689.3	5,076.6	1,492.5	1,492.5	933.3	400.7	756.9	756.9	788.3

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Standard & Poor's adjustments									
Trade receivables sold or securitized	402.4	--	--	--	--	20.1	--	--	--
Operating leases	218.6	--	48.1	12.6	12.6	12.6	35.5	35.5	76.9
Postretirement benefit obligations	244.6	--	(8.6)	(8.6)	(8.6)	--	66.4	66.4	--
Accrued interest not included in reported debt	99.3	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	17.1	(17.1)	(17.1)	(17.1)
Share-based compensation expense	--	--	--	4.4	--	--	--	--	--
Asset retirement obligations	85.2	--	6.7	6.7	6.7	6.7	1.1	1.1	--
Exploration costs	--	--	--	9.4	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	2.9	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	63.9	--
Other	(458.2)	312.7	--	--	--	--	--	--	--
Total adjustments	591.9	312.7	46.2	24.5	13.6	56.5	85.9	149.8	59.8
Standard & Poor's adjusted amounts									
Adjusted	7,281.2	5,389.3	1,538.7	1,517.0	946.9	457.2	842.8	906.7	848.1

*NiSource Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of January 6, 2009)*

NiSource Finance Corp.	
Corporate Credit Rating	BBB-/Negative/--
Senior Unsecured (1 Issue)	BBB-
Corporate Credit Ratings History	
16-Dec-2008	BBB-/Negative/--
18-Dec-2007	BBB-/Stable/--
02-Nov-2007	BBB/Watch Neg/--
Financial Risk Profile	Aggressive

Ratings Detail (As Of January 6, 2009)* (cont.)	
Related Entities	
Bay State Gas Co.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Capital Markets Inc.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Inc.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (8 Issues)	BBB-
Northern Indiana Public Service Co.	
Issuer Credit Rating	BBB-/Negative/NR
Senior Unsecured (1 Issue)	A/Negative
Senior Unsecured (3 Issues)	AA/NR
Senior Unsecured (4 Issues)	AA/Negative
Senior Unsecured (3 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

STANDARD & POOR'S

RATINGSDIRECT®

March 5, 2009

Research Update:

NiSource Finance's $600 Million Notes Rated 'BBB-'; NiSource Inc.'s Outlook Revised To Stable

Primary Credit Analyst:
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Research Update:

NiSource Finance's $600 Million Notes Rated 'BBB-'; NiSource Inc.'s Outlook Revised To Stable

Rationale

On March 5, 2009, Standard & Poor's Ratings Services assigned its 'BBB-' rating to NiSource Finance Corp.'s $600 million senior unsecured notes due 2016, which are unconditionally guaranteed by parent NiSource Inc. At the same time, we affirmed NiSource Inc.'s 'BBB-' corporate credit rating and revised the outlook to stable from negative. NiSource will use the proceeds to repay floating-rates notes at NiSource Finance and for general corporate purposes. As of Dec. 31, 2008, NiSource's total reported debt totaled about $7.6 billion.

The outlook revision to stable reflects the company's improved liquidity position due to the $600 million NiSource Finance note issuance and the recently executed $265 million two-year bank loan. These actions have enabled NiSource to raise sufficient funds to the point where it should have an adequate liquidity cushion and meet debt maturities of about $429 million in 2009, as well as meet expected cash payments under the Tawney legal settlement and fund remaining amounts under an approximately $800 million capital program. These recent financings have come at substantially higher interest rates than the existing debt, however, which may place long-term pressure on the company's financial profile and could notably hamper interest coverage ratios over the next several years. The company continues to project a liquidity shortfall in 2010 due to significant debt maturities of about $943 million, which, when coupled with expected capital expenditures and dividend payments, will substantially exceed cash flow estimates and require refinancing. These risks will continue to weigh on the rating. However, management's commitment to easing liquidity concerns and NiSource's demonstrated access to capital markets under difficult market conditions suggests that these financings are manageable.

The ratings on NiSource Inc. are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Stable/--), and Bay State Gas Co.(BBB-/Stable/--). Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%).

The stand-alone financial profiles of NiSource's utility subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company. NiSource recently curtailed its aggressive capital-spending program to $800 million from $1 billion, but nonetheless is likely to still result in negative free cash flow for 2009 and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies, several pipeline expansions, and the inclusion of the Sugar Creek power plant into rate base will improve and further stabilize cash in the longer term.

NiSource's business strategy, which centers almost exclusively on regulated businesses, as well as a diverse service area that encompasses nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures support the company's excellent business position. NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy somewhat temper NiSource's strengths. Standard & Poor's business risk profile on NiSource is excellent, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate-design mechanisms. These include "decoupling" rates from profits to reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. NIPSCO's pending rate case will also influence future performance. Although the process is still in its early stages, we do not anticipate that a result that is not markedly different than the company's expectations to dramatically influence consolidated cash flow metrics given the cash flow diversity from other business lines.

We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and a constrained liquidity position. While NiSource had improved its balance sheet after the debt-financed acquisitions of Bay State and CEG, a more aggressive growth plan, which includes capital spending of about $800 million in 2009 after $1.3 billion in 2008, reversed some of this improvement. Also, the company has further delayed the $300 million master limited partnership IPO as announced earlier and will now likely fund this gap with debt. While recent external financings have been positive from a liquidity perspective, NiSource's already weak financial profile will be hurt even more if it continues to incur high interest rates on its borrowings, which could further pressure credit metrics.

For the next several years, we expect funds from operations (FFO) to total debt to remain weak, at around 12%, despite adequate FFO interest coverage of 3x. However, the higher interest rates the company is experiencing will likely pressure interest coverage ratios. Despite the many growth initiatives in the company's strategic plan, we don't expect cash flow to improve from current levels for several years due to the financing and operating costs of buying the Sugar Creek power plant, weakness in the local economy, and the regulatory lag in implementing a series of rate cases.

Liquidity

We project NiSource's liquidity position to remain adequate in 2009 given recent capital markets issuances, but it will likely be tight again in 2010 due to substantial debt maturities of about $943 million. For 2009, in addition to capital spending of $800 million, other projected uses of cash include dividends of about $254 million, debt maturities of $429 million, and payments associated with the Tawney settlement (about $232 million after-tax).

The company's pension and postretirement plans are also significantly underfunded (about $1.2 billion as of Dec. 31, 2008) so cash contributions to the plans are expected to total about $100 million more in 2009 than in 2008. Given these uses of cash and projected cash from operations of about $950 million and expected improvements in working capital of about $230 million, NiSource is able to meet its 2009 debt maturities via the $865 million of funds sourced from the NiSource Finance debt issue and bank loan. As of Dec. 31, 2008, NiSource had about $770 million of available credit facility capacity and unrestricted cash to provide liquidity support too. However, NiSource has about $933 million of debt maturities in 2010, resulting in nearly 20% of its adjusted debt balance coming due in the next two years. In 2010, while payments under the Tawney settlement will not occur and excess liquidity from the recent financings could be used to reduce debt, uses of cash (capital spending, dividends, and debt maturities) could total about $2 billion while cash from operations is expected to be about half this figure. This could create a significant liquidity shortfall next year that could affect ratings unless the company refinances the debt, albeit at potentially higher interest rates. The company only has $27 million of debt maturities in 2011, but the bank loan is also due that year.

Funding vehicle NiSource Finance has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. As of Dec. 31, 2008, the company had about $750 million available under the facilities and $20 million in unrestricted cash.

Outlook

The stable outlook reflects our expectation for the company to maintain an adequate liquidity position throughout 2009. We also expect NiSource to continue the stable operating and financial performance of its regulated subsidiaries while executing on its capital expenditure program without material construction cost overruns or completion delays. We could revise the outlook to negative if the company's liquidity position deteriorates and a slight shortfall in the company's sources and uses of cash is expected in advance of the 2010 debt maturities (assuming they're refinanced), or an increase in borrowing costs creates further weakness in key credit metrics, which have no cushion to withstand any further degradation. We could lower the rating if the company can't get the required funds for the 2010 debt maturities well in advance of their refinancing need or if key credit metrics decline, specifically an FFO to debt ratio of about 10% to 11%. While an outlook revision to positive or higher ratings are not currently contemplated, credit quality could improve if cash flow metrics considerably improve, specifically FFO to debt of more than 15% on a sustained basis. The company can accomplish this by paying down debt with increased equity sales, asset dispositions, or higher internally generated cash flow, but management is not specifically contemplating any of these strategies at this time.

Ratings List

Ratings Affirmed; CreditWatch/Outlook Action

	To	From
NiSource Inc.		
NiSource Finance Corp.		
Northern Indiana Public Service Co.		
NiSource Capital Markets Inc.		
Bay State Gas Co.		
Corporate Credit Rating	BBB-/Stable/--	BBB-/Negative/--

New Rating

NiSource Finance Corp.	
Senior Unsecured (1 issue)	BBB-

Ratings Affirmed

Bay State Gas Co.	
Senior Unsecured (1 issue)	BBB-
NiSource Capital Markets Inc.	
Senior Unsecured (3 issues)	BBB-
NiSource Finance Corp.	
Senior Unsecured (8 issues)	BBB-
Northern Indiana Public Service Co.	
Senior Unsecured (1 issue)	AA-/Watch Dev
Senior Unsecured (3 issues)	BBB-

Complete ratings information is available to RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Find a Rating.

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February 9, 2009

Summary:
NiSource Inc.

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776; bill_ferara@standardandpoors.com

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Summary:

NiSource Inc.

Credit Rating: BBB-/Negative/NR

Rationale

The ratings on NiSource Inc. are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Stable/--), and Bay State Gas Co. (BBB-/Stable/--). Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%). As of Sept. 30, 2008, NiSource's total adjusted debt, including operating leases and tax-affected pensions and postretirement obligations, totaled about $8 billion.

The stand-alone financial profiles of NiSource's utility subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company. NiSource's recently curtailed its aggressive capital-spending program, but it may still result in negative free cash flow and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies, several pipeline expansions, and the acquisition of the Sugar Creek power plant will improve and further stabilize cash in the longer term.

NiSource's business plan, which centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures support the company's excellent business position. NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy somewhat temper NiSource's strengths. Standard & Poor's business risk profile on NiSource is excellent, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate-design mechanisms. These include "decoupling" rates from profits to reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. NIPSCO's pending rate case will also influence future performance, although the process is still in its early stages and a result that is not markedly different than the company's expectations is not expected to dramatically influence cash flow metrics given the cash flow diversity from other business lines. The sale of the Whiting Clean Energy facility will require NiSource to explore other, longer-term options to replace this capacity.

We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and a constrained liquidity position given its significant near-term capital expenditures and debt maturities. While NiSource had improved its balance sheet after the debt-financed acquisitions of Bay State and CEG, a more aggressive growth plan, which includes capital spending of about $800 million in 2009 after $1.3 billion in 2008, reversed some of this improvement. Also, the company does not plan to go ahead with the $300 million master limited partnership IPO as announced earlier and the company will now likely fund this gap with debt. The company will likely need external financing in 2009 to fund a small liquidity shortfall, in addition to accessing the capital markets to meet about $429 million of remaining 2009 debt maturities. As a result, NiSource's already weak financial profile could be pressured further if it can not raise funds in a timely manner or has to incur high interest rates due to currently strained debt and equity markets.

For the next several years, we expect funds from operations (FFO) to total debt to remain weak, at around 12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying Sugar Creek, weakness in the local economy, and the regulatory lag in implementing a series of rate cases.

Liquidity

We project NiSource's liquidity position to be constrained in 2009. In addition to capital spending of $800 million, other projected uses of cash include dividends of about $250 million, debt maturities of $429 million, and payments associated with the Tawney settlement (about $230 million after-tax). Given these uses of cash and projected cash from operations of about $950 million, reductions in working capital of $250 million, and about $770 million of available credit facility capacity and unrestricted cash as of Dec. 31, 2008, we expect NiSource to have a negative liquidity position of about $500 million assuming no additional short-term borrowings and it cannot raise external financing. The company's recent actions, most notably to curtail capital spending in 2009 and possible two-year bank term loan totaling at least $265 million, however, are positive and will substantially help its liquidity position. Further liquidity support could also come from NiSource's plans to issue debt at either NiSource Finance Corp. or its utilities. NiSource does have about $933 million of debt maturities in 2010, resulting in nearly 20% of its adjusted debt balance coming due in the next two years.

Funding vehicle NiSource Finance Corp. has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. In September 2008, NiSource Finance entered into a new $500 million credit facility expiring in March 2009. As of Dec. 31, 2008, the company had about $750 million available under the facilities and $20 million in unrestricted cash. However, maturities of $429 million in 2009 and about $933 million in 2010 substantially exceed cash flow estimates and will require refinancing. The company issued $700 million of debt in May 2008 and used it to reduce short-term borrowings, as well as to fund capital expenditures and for general corporate purposes.

Outlook

The negative outlook reflects our expectation of a strained liquidity position in 2009 given sizable capital spending requirements, debt maturities, and payments related to the Tawney lawsuit. We could lower the rating if the company cannot obtain adequate funding to meet 2009 debt maturities and the small shortfall in liquidity is prolonged throughout the first half of 2009. The company's recent actions to curtail capital spending in 2009 and possible two-year bank term loan totaling at least $265 million, however, are positive and will substantially help its liquidity position. We could also lower the rating if the company's financial profile and credit metrics continue to be weak and anticipated cash flow improvements do not transpire; specifically an FFO to debt ratio of about 10% would lead to a lower rating. We could revise the outlook to stable if the company's liquidity position improves to the point where excess liquidity of about $300 million to $500 million is achieved (possibly through the issuance of debt being contemplating at NiSource and its utilities) or there is a considerable improvement in cash flow metrics, specifically FFO to debt of more than 15% on a sustained basis.

STANDARD
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RATINGSDIRECT®

March 10, 2009

NiSource Inc.

Primary Credit Analyst:
William Ferara, New York (1) 212-438-1776; bill_ferara@standardandpoors.com

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NiSource Inc.

Major Rating Factors

Corporate Credit Rating
BBB-/Stable/NR

Strengths:

- Conservative business strategy that focuses almost exclusively on regulated businesses;
- Significant scale as one of the largest integrated pipeline and gas storage companies in the U.S.;
- A nine-state scope of operations that mitigates weather and regulatory risk;
- Relatively constructive regulation; and
- A competitive gas distribution and pipeline cost structure.

Weaknesses:

- Weak overall financial profile with liberal debt leverage for the rating level;
- Constrained liquidity position expectations for 2010;
- Declining customer usage and increased attrition in the gas distribution segment;
- Subsidiary Northern Indiana Public Service Co.'s high cost structure and heavy dependence on the industrial sector, and
- A recently increased tolerance for a more aggressive financial position.

Rationale

The ratings on NiSource Inc. are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group (CEG; not rated), Northern Indiana Public Service Co. (NIPSCO; BBB-/Stable/--), and Bay State Gas Co. (BBB-/Stable/--). Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%).

The stand-alone financial profiles of NiSource's utility subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, we view the default risk as the same throughout the organization, due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company. NiSource recently curtailed its aggressive capital-spending program to $800 million from $1 billion, but nonetheless is likely to still result in negative free cash flow for 2009 and increased debt levels, reversing years of deleveraging. Initiatives to improve regulatory design at the gas distribution companies, several pipeline expansions, and the inclusion of the Sugar Creek power plant into rate base will improve and further stabilize cash in the longer term.

NiSource's business strategy, which centers almost exclusively on regulated businesses, as well as a diverse service area that encompasses nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures support the company's excellent business position. NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy somewhat temper NiSource's strengths. Standard & Poor's business risk profile on NiSource is excellent, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate-design mechanisms. These include "decoupling" rates from profits to reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. The company's continued execution of regulatory initiatives is also a step in this direction. The resolution of the recent rate cases at Columbia Gas of Pennsylvania and Columbia Gas of Ohio depict the improvement in the regulatory environment. NIPSCO's pending rate case will also influence future performance. Although the process is still in its early stages, we do not anticipate that a result that is not markedly different than the company's expectations to dramatically influence consolidated cash flow metrics given the cash flow diversity from other business lines.

We characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and a constrained liquidity position. While NiSource had improved its balance sheet after the debt-financed acquisitions of Bay State and CEG, a more aggressive growth plan, which includes capital spending of about $800 million in 2009 after $1.3 billion in 2008, reversed some of this improvement. Also, the company has further delayed the $300 million master limited partnership IPO as announced earlier and will now likely fund this gap with debt. While recent external financings have been positive from a liquidity perspective, NiSource's already weak financial profile will be hurt even more if it continues to incur high interest rates on its borrowings, which could further pressure credit metrics.

For the next several years, we expect funds from operations (FFO) to total debt to remain weak, at around 12%, despite adequate FFO interest coverage of 3x. However, the higher interest rates the company is experiencing will likely pressure interest coverage ratios. Despite the many growth initiatives in the company's strategic plan, we don't expect cash flow to improve from current levels for several years due to the financing and operating costs of buying the Sugar Creek power plant, weakness in the local economy, and the regulatory lag in implementing a series of rate cases.

Liquidity

We project NiSource's liquidity position to remain adequate in 2009 given recent capital markets issuances, but it will likely be tight again in 2010 due to substantial debt maturities of about $943 million. For 2009, in addition to capital spending of $800 million, other projected uses of cash include dividends of about $254 million, debt maturities of $429 million coming up in November 2009, and payments associated with the Tawney settlement (about ($232 million after-tax. The company's pension and postretirement plans are also significantly underfunded (about $1.2 billion as of Dec. 31, 2008) so cash contributions to the plans are expected to total about $100 million more in 2009 than in 2008. Given these uses of cash and projected cash from operations of about $950 million and expected improvements in working capital of about $230 million, NiSource is able to meet its 2009 debt maturities via the $865 million of funds sourced from the NiSource Finance debt issue and bank loan. As of Dec. 31, 2008, NiSource had about $770 million of available credit facility capacity and unrestricted cash to provide liquidity support too. However, NiSource has about $933 million of debt maturities in 2010, resulting in nearly 20% of its adjusted debt balance coming due in the next two years. In 2010, while payments under the Tawney settlement will not occur and excess liquidity from the recent financings could be used to reduce debt, uses of cash (capital spending, dividends, and debt maturities) could total about $2 billion while cash from operations is expected to be about half this figure. This could create a significant liquidity shortfall next year that could affect ratings unless the company refinances the debt, albeit at potentially higher interest rates. The company only has $27 million of debt maturities in 2011, but the bank loan is also due that year.

Funding vehicle NiSource Finance has a $1.5 billion, five-year revolving credit facility that terminates in July 2011. As of Dec. 31, 2008, the company had about $750 million available under the facilities and $20 million in unrestricted cash.

Outlook

The stable outlook reflects our expectation for the company to maintain an adequate liquidity position throughout 2009. We also expect NiSource to continue the stable operating and financial performance of its regulated subsidiaries while executing on its capital expenditure program without material construction cost overruns or completion delays. We could revise the outlook to negative if the company's liquidity position deteriorates and a slight shortfall in the company's sources and uses of cash is expected in advance of the 2010 debt maturities (assuming they're refinanced), or an increase in borrowing costs creates further weakness in key credit metrics, which have no cushion to withstand any further degradation. We could lower the rating if the company can't get the required funds for the 2010 debt maturities well in advance of their refinancing need or if key credit metrics decline, specifically an FFO to debt ratio of about 10% to 11%. While an outlook revision to positive or higher ratings are not currently contemplated, credit quality could improve if cash flow metrics considerably improve, specifically FFO to debt of more than 15% on a sustained basis. The company can accomplish this by paying down debt with increased equity sales, asset dispositions, or higher internally generated cash flow, but management is not specifically contemplating any of these strategies at this time.

Accounting

Standard & Poor's adjusts NiSource Inc's financial statements for operating leases, pension and postretirement obligations, asset retirement obligations and accrued interest. The adjustments include adding a debt equivalent, interest expense, and depreciation to the company's reported financial statements. At Dec. 31, 2008, we added additional debt to the balance sheet for operating leases ($191 million), pension and postretirement obligations ($790 million), asset retirement obligations ($82 million), accrued interest ($120 million), and trade receivables sold ($356 million).

Due to the distortions in leverage and cash flow metrics caused by the substantial seasonal working-capital requirements of the regulated gas utilities, Standard & Poor's adjusts inventory and debt balances by netting the value of inventory against the outstanding commercial paper for the regulated subsidiaries. This adjustment provides a more accurate view of the company's financial performance as the utilities short-term borrowings will decline as inventories shrink and accounts receivable are monetized, with support from commodity pass-through mechanisms.

NiSource Inc. follows LIFO method to value natural gas in storage. Accordingly, we add back the LIFO reserve to inventory, and to equity (on a post-tax basis) in order to reflect inventory balances at approximate current market value.

NiSource Inc follows SFAS 71, Accounting for Effects of Certain Types of Regulation for its regulated operations. As of Dec. 31, 2008, NiSource Inc had about $1.955 billion in regulatory assets versus about $1.427 billion in regulatory liabilities. Net regulatory assets were 4.95% of total capitalization.

Table 1

NiSource Inc.--Peer Comparison*

Industry Sector: Combo

	NiSource Inc.	Vectren Corp.	Spectra Energy Corp	Dominion Resources Inc.
Rating as of March 9, 2009	BBB-/Stable/NR	A-/Stable/--	BBB+/Stable/--	A-/Stable/A-2
	--Average of past three fiscal years--			
(Mil. $)				
Revenues	8101.3	2269.4	4759.7	16140.8
Net income from cont. oper.	331.8	127.0	1000.3	2034.7
Funds from operations (FFO)	921.8	348.7	1317.2	2456.3
Capital expenditures	924.0	335.9	1230.4	2537.0
Debt	7665.5	1860.5	10000.7	18430.7
Equity	5182.1	1294.1	6700.7	11336.5
Adjusted ratios				
Oper. income (bef. D&A)/revenues (%)	18.8	19.7	40.6	27.8
EBIT interest coverage (x)	2.1	2.8	3.2	2.7
EBITDA interest coverage (x)	3.4	4.5	4.2	3.8
Return on capital (%)	6.5	8.7	10.3	8.9
FFO/debt (%)	12.0	18.7	13.2	13.3
Debt/EBITDA (x)	5.1	4.0	3.6	4.2

*Fully adjusted (including postretirement obligations).

Table 2

NiSource Inc.--Financial Summary*

Industry Sector: Combo

	--Fiscal year ended Dec. 31--				
	2008	**2007**	**2006**	**2005**	**2004**
Rating history	BBB-/Negative/NR	BBB-/Stable/NR	BBB/Stable/NR	BBB/Stable/NR	BBB/Stable/NR
(Mil. $)					
Revenues	8,874.2	7,939.8	7,490.0	7,899.1	6,666.2
Net income from continuing operations	369.8	312.0	313.5	283.6	430.2
Funds from operations (FFO)	1,143.4	906.7	715.4	980.4	1,106.6
Capital expenditures	1,283.6	848.1	640.2	605.0	592.0
Cash and short-term investments	20.6	36.0	33.1	69.4	30.1
Debt	8,602.9	7,281.2	7,112.4	7,381.3	7,261.5
Preferred stock	0	0	0	81.1	81.1
Equity	4,907.5	5,389.3	5,249.6	5,348.9	4,859.9
Debt and equity	13,510.4	12,670.5	12,361.9	12,730.2	12,121.4
Adjusted ratios					
EBIT interest coverage (x)	2.1	2.1	2.1	2.3	2.6
FFO int. cov. (x)	3.5	2.9	2.5	3.0	3.4
FFO/debt (%)	13.3	12.5	10.1	13.3	15.2
Discretionary cash flow/debt (%)	(10.5)	(3.5)	4.5	(1.1)	3.6

Table 2

NiSource Inc.--Financial Summary* (cont.)					
Net Cash Flow / Capex (%)	69.4	77.2	72.4	120.7	145.9
Debt/debt and equity (%)	63.7	57.5	57.5	58.0	59.9
Return on common equity (%)	7.1	5.8	6.0	5.7	9.2
Common dividend payout ratio (un-adj.) (%)	68.3	80.8	80.0	88.3	56.5

*Fully adjusted (including postretirement obligations)

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)*

--Fiscal year ended Dec. 31, 2008--									
NiSource Inc. reported amounts									
	Debt	**Shareholders' equity**	**Operating income (before D&A)**	**Operating income (before D&A)**	**Operating income (after D&A)**	**Interest expense**	**Cash flow from operations**	**Cash flow from operations**	**Capital expenditures**
Reported	7,576.7	4,728.8	1,480.2	1,480.2	913.0	380.1	587.5	587.5	1,299.6
Standard & Poor's adjustments									
Trade receivables sold or securitized	355.5	--	--	--	--	17.8	--	--	--
Operating leases	190.6	--	47.1	11.6	11.6	11.6	35.5	35.5	7.5
Postretirement benefit obligations	789.9	--	(20.2)	(20.2)	(20.2)	--	31.7	31.7	--
Accrued interest not included in reported debt	120.1	--	--	--	--	--	--	--	--
Capitalized interest	--	--	--	--	--	23.5	(23.5)	(23.5)	(23.5)
Share-based compensation expense	--	--	--	9.5	--	--	--	--	--
Asset retirement obligations	81.9	--	6.0	6.0	6.0	6.0	1.4	1.4	--
Exploration costs	--	--	--	12.3	--	--	--	--	--
Reclassification of nonoperating income (expenses)	--	--	--	--	29.9	--	--	--	--
Reclassification of working-capital cash flow changes	--	--	--	--	--	--	--	510.8	--
Other	(511.8)	178.7	--	--	--	--	--	--	--
Total adjustments	1,026.2	178.7	32.9	19.2	27.3	58.9	45.1	555.9	(16.0)

Table 3

Reconciliation Of NiSource Inc. Reported Amounts With Standard & Poor's Adjusted Amounts (Mil. $)* (cont.)

Standard & Poor's adjusted amounts

	Debt	Equity	Operating income (before D&A)	EBITDA	EBIT	Interest expense	Cash flow from operations	Funds from operations	Capital expenditures
Adjusted	8,602.9	4,907.5	1,513.1	1,499.4	940.3	439.0	632.6	1,143.4	1,283.6

*NiSource Inc. reported amounts shown are taken from the company's financial statements but might include adjustments made by data providers or reclassifications made by Standard & Poor's analysts. Please note that two reported amounts (operating income before D&A and cash flow from operations) are used to derive more than one Standard & Poor's-adjusted amount (operating income before D&A and EBITDA, and cash flow from operations and funds from operations, respectively). Consequently, the first section in some tables may feature duplicate descriptions and amounts.

Ratings Detail (As Of March 10, 2009)*

NiSource Inc.	
Corporate Credit Rating	BBB-/Stable/NR
Senior Unsecured (9 Issues)	BBB-
Corporate Credit Ratings History	
05-Mar-2009	BBB-/Stable/NR
16-Dec-2008	BBB-/Negative/NR
18-Dec-2007	BBB-/Stable/NR
02-Nov-2007	BBB/Watch Neg/NR
Financial Risk Profile	Aggressive
Related Entities	
Bay State Gas Co.	
Issuer Credit Rating	BBB-/Stable/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Capital Markets Inc.	
Issuer Credit Rating	BBB-/Stable/NR
Senior Unsecured (2 Issues)	BBB-
NiSource Finance Corp.	
Issuer Credit Rating	BBB-/Stable/--
Senior Unsecured (1 Issue)	BBB-
Northern Indiana Public Service Co.	
Issuer Credit Rating	BBB-/Stable/NR
Senior Unsecured (1 Issue)	A/Negative
Senior Unsecured (2 Issues)	AA-/Watch Dev
Senior Unsecured (5 Issues)	BBB+/Negative
Senior Unsecured (3 Issues)	BBB-

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

Moody's Investors Services

Global Credit Research
Announcement
4 FEB 2009

Announcement: Bay State Gas Company

Moody's affirms NiSource with negative outlook

New York, February 04, 2009 -- Moody's Investors Service affirmed that the ratings of NiSource Inc.'s subsidiaries (including its guaranteed primary financing vehicle NiSource Finance Corporation, rated Baa3 senior unsecured) and negative outlook are not impacted by the company's announcement of its updated long-range financial plan. In Moody's assessment, the company's weaker earnings outlook could be mitigated by a reduction in capital expenditures to reduce incremental debt, subject to the company successfully implementing its cost control and cash management initiatives.

"The plan metrics appear sufficient to maintain the company's ratings for now," says Moody's Vice President Mihoko Manabe. "However, they are low in the range that Moody's would expect for its current ratings and business risk profile and are vulnerable to shortfalls from the plan."

The latest iteration of NiSource's plan includes adjustments reflecting more difficult economic and financial market conditions than what was assumed previously. Capital expenditures for the next few years are expected to be about $800 million annually, down from $1 billion previously. The cuts are mostly on deferrable expenditures in the company's gas distribution segment and growth projects in its pipeline segment. The latter and increased pension obligations --- both non-cash expense and cash contributions --- contribute to the reduced earnings outlook. While less external debt financing would be required, borrowing rates will be higher.

With the rate cases for two of its largest gas distribution subsidiaries and some longstanding overhangs on its credit resolved, the critical issue at hand for NiSource is the rate case at its subsidiary Northern Indiana Public Service Company (NIPSCO, Baa2 senior unsecured). Moody's could stabilize outlook or initiate rating review in late 2009 or early 2010, whenever the credit impact of the NIPSCO's rate case can be reasonably assessed. Moody's notes that in changing the outlook to negative in December 2007, Moody's took an 18 to 24 months' view to allow time for certain rate cases and pipeline projects to be completed.

NiSource's near-term liquidity resources -- which should benefit from a reduction in the capital budget and lower natural gas prices -- appear sufficient for now. The company has obtained $265 million of commitments to-date on a two-year term loan, which would help replace the $500 million revolver that expires in March 2009. The company will implement a dividend reinvestment program which will mitigate its high payout rate and contribute modestly to retained earnings.

Additionally, NiSource is preparing new indentures for up to $350 million in secured bonds that could be issued by some of its larger operating subsidiaries, which would provide another option in refinancing the $417 million of debt that matures in November. At $350 million, the secured bonds would be about 5% of total debt at year-end 2008 and well below the 10% of net tangible assets limitation on liens test under the holding company-level indenture. Given the magnitude of NiSource's total debt (roughly $6 billion), this incremental subsidiary borrowing as currently contemplated would not significantly affect the structural subordination of about 90% of consolidated debt at the holding company level.

The last rating action was on May 23, 2008 when Moody's commented that NiSource's ratings and negative outlook were not impacted by an adverse development in the Tawney class action lawsuit.

The principal methodology used in rating NiSource was Diversified Natural Gas Transmission and Distribution Companies, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies subdirectory. Other methodologies and factors that may have been considered in the process of rating NiSource can also be found in the Credit Policy & Methodologies directory.

Headquartered in Merrillville, Indiana, NiSource Inc. is a diversified natural gas and electric distribution and transmission company.

New York
Mihoko Manabe
VP - Senior Credit Officer
Global Infrastructure Finance
Moody's Investors Service
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

New York
William L. Hess
Managing Director
Global Infrastructure Finance
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SUBSCRIBERS: 212-553-1653

PSC Case No. 2009-00141
AG DR Set 1-189
Respondent(s): Stephen B. Seiple
Assistant General Counsel

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 189:

Please provide copies of all correspondence between NiSource, Columbia Energy Group, and/or Columbia Gas of Kentucky, Inc. and any of the three major bond rating agencies (S&P, Moody's, and Fitch) from January 1, 2007 to the present. These include copies of letters, reports, presentations, emails, and notes from telephone conversations.

Response:

Columbia objects to Request AG 1-189 on the grounds that it seeks highly confidential, non-public, proprietary trade secret information that is provided to persons who are under a duty to Columbia to protect such information from disclosure. Columbia further objects to such Request on the ground that it seeks information of Columbia that is protected by the work product privilege. Columbia further objects to such Request on the grounds that it seeks information that is irrelevant to the subject matter of this proceeding and is not reasonably calculated to lead to the discovery of admissible evidence. Columbia further objects to such Request on the ground that it is over broad and unreasonably burdensome, given the huge volume of communications that may be within the scope of the Request, and the limited time period established for discovery responses in this case.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 190:

Please provide the corporate credit and bond ratings assigned to NiSource, Columbia Energy Group, and Columbia Gas of Kentucky, Inc. since the year 2000 by S&P, Moody's, and Fitch). For any change in the credit and/or bond rating, please provide a copy of the associated report.

Response:

Please see Attachment G, which is an excel file providing the corporate credit and bond rating assigned to NiSource Inc. and Columbia Energy Group since the year 2000. Any change in the rating has been highlighted and the corresponding report is attached in Attachments A-F.

Fitch Rts NiSource & NiSource Fin Corp.; Dwngrs Columbia Energy

Fitch-NY-October 27, 2000: Fitch has assigned a preliminary (implied) `BBB+' senior unsecured debt rating to NiSource Inc. (NiSource). In addition, Fitch has assigned preliminary `BBB+' senior unsecured debt and `F2' commercial paper ratings to NiSource Finance Corp. (Finance Corp.). Finance Corp. will be the primary financing subsidiary for the new NiSource holding company established through its upcoming merger with Columbia Energy Group. Finance Corp. debt will be guaranteed by NiSource. The above ratings are conditioned upon completion of the merger.

Other affiliated rating actions are as follows:

-- NiSource Capital Trust I corporate premium income equity securities are downgraded to `BBB' from `A-';

-- NiSource Capital Markets, Inc. (Capital Markets) senior unsecured debt is downgraded to `BBB+' from `A-', quarterly income debt securities are downgraded to `BBB' from `BBB+', and commercial paper downgraded to `F2' from `F1';

-- Northern Indiana Public Service Company (NIPSCO) securities are affirmed at `A+' for first mortgage bonds, `A' for senior unsecured debt, `A-' for preferred stock, and `F1' for commercial paper;

-- Columbia Energy Group's (Columbia) debentures are downgraded to `A-' from `A' and commercial paper to `F2' from `F1'.

The securities for Capital Markets, NIPSCO, and Columbia are removed from Rating Watch Negative where they were placed following the merger agreement between NiSource and Columbia. The Rating Outlook for all the rated entities is Stable.

The above ratings reflect the upcoming acquisition of Columbia and the establishment of the new NiSource holding company. NiSource will fund the transaction with approximately $3.9 billion in cash from its acquisition bank facility and asset sale proceeds, $1.76 billion of NiSource common stock, and $106 million proceeds from a zero-coupon debt instrument with a four-year forward equity contract (SAILS). Assets recently sold and those targeted to be divested by year-end 2000 should generate total after-tax proceeds of nearly $1.4 billion. Advances under the bank facility, which are expected to total $2.57 billion after current assets sales, will be refinanced through the issuance of long-term debt and commercial paper

FII Fitch Rts NiSource & NiSource Fin Corp.; Dwngrs Columbia Energy
Oct 27 2000 12:15:38
by Finance Corp.

Fitch has reviewed the prospective financing plans and business strategies for NiSource and has considered this information in assigning the ratings. A further credit consideration is the structural subordination of NiSource, Finance Corp., and Capital Markets to the cash flow and debt of its primary subsidiaries, including, NIPSCO and Columbia. Based on its analysis of corporate structure and inter-company cash flow, Fitch considers credit ratings for NiSource, Finance Corp., and Capital Markets to rank equally, although there are technical differences between the support agreement NiSource provides Capital Markets and the guarantee it provides Finance Corp.

A positive rating consideration for NiSource has been the reduction in transactional risk in recent months with the favorable execution of non-core asset sales at NiSource and Columbia. In addition, NiSource's ongoing consolidated business risk is lowered with the sale of its less-predictable propane, independent power, high-deliverabilty gas storage, and energy marketing operations.

Following the merger, NiSource will be the holding company for Columbia, NIPSCO, and several other operating companies. After planned asset sales, nearly 90% of NiSource's cash flow will be generated by its low-risk gas distribution, gas transmission, and integrated electric operations. Each of its major state and Federal Energy Regulatory Commission (FERC) regulated companies exhibits a solid credit profile and positive competitive operating characteristics. Furthermore, the largest remaining non-regulated business, oil and gas exploration and production, is conservatively managed with commodity price exposure minimized though aggressive hedging. Based on its analysis of future operations, Fitch has found projected quantitative credit measures for NiSource to be consistent with its `BBB+' and `F2' ratings.

The rating affirmation for NIPSCO is primarily based on its strong standalone credit profile and positive operating characteristics. Furthermore, it is anticipated that NIPSCO will only dividend up free cash flow after capital spending is funded. As a result, credit measures at NIPSCO are expected to remain consistently strong. Longer-term credit concerns incorporated in NIPSCO's ratings include the yet to be determined path to utility deregulation in Indiana and potential costly environmental compliance for its primarily coal-fired generation.

The one notch downgrade in ratings at Columbia reflects the substantial new NiSource debt required to fund the transaction and the credit implications of the post-merger holding company. Columbia's standalone credit measures are consistent with its prior `A/F1' ratings. However, Fitch has determined that given its business mix and operating startegy, Columbia will not benefit from the same degree of regulatory `ring fencing' provided to NIPSCO in Indiana. Therefore, debt ratings for Columbia have been converged toward those for NiSource. Furthermore, Columbia's operations, particularly its interstate pipelines, will be functionally tied to the natural gas activities now housed at NiSource.

Fitch is an international rating agency that provides global capital market investors with the highest quality ratings and research. Dual headquartered in New York and London with a major office in Chicago, Fitch rates entities in 75 countries and has some 1,100 employees in more than 40 local offices worldwide. The agency, which is a combination of Fitch IBCA and Duff & Phelps Credit Rating Co., provides ratings for Financial Institutions, Insurance, Corporates, Structured Finance, Sovereigns and Public Finance markets worldwide.

Contact: Ralph Pellecchia 1-212-908-0586 or Hugh Welton 1-212-908-0746, New York.

-0- (FII) Oct/27/2000 16:15 GMT

STANDARD & POOR'S RatingsDirect® Global Credit Portal

Research

Various Rating Actions on NiSource, Subs & Columbia Energy In Anticipation of Merger Close

24-Oct-2000

NEW YORK (Standard & Poor's CreditWire) Oct. 24, 2000--Standard & Poor's today lowered its ratings on NiSource Inc.'s subsidiaries Northern Indiana Public Service Co. (NIPSCO), Bay State Gas Co., IWC Resources Corp., and Indianapolis Water Co. The long-term ratings on NiSource subsidiary, NiSource Capital Markets Inc., were also lowered, and the short-term ratings on the company were affirmed. In addition, Standard & Poor's lowered its long-term ratings on Columbia Energy Group. The short-term ratings on Columbia Energy were affirmed.

All the ratings on NIPSCO, NiSource Capital Markets, Bay State Gas, and Columbia Energy were removed from CreditWatch with negative implications. The ratings of IWC Resources Corp. and its utility subsidiary Indianapolis Water Co. remain on CreditWatch with developing implications, pending NiSource's divestiture of IWC Resources.

At the same time, Standard & Poor's assigned its triple-'B' long-term and 'A-2' short-term corporate credit ratings to NiSource Inc., the holding company of the soon-to-be consummated merger of NiSource and Columbia Energy. Standard & Poor's also assigned its 'A-2' commercial paper rating and its triple-'B' bank loan rating to NiSource Finance Corp.

The outlook on NiSource, NIPSCO, NiSource Capital Markets, Bay State Gas, and Columbia Energy is stable.

The ratings on NIPSCO, NiSource Capital Markets, Bay State Gas, and Columbia Energy were originally placed on CreditWatch on June 7, 1999. The CreditWatch developing listing for IWC Resources and Indianapolis Water reflects NiSource's intention to sell the water business.

The rating actions reflect NiSource's imminent completion of the acquisition of Columbia Energy. Standard & Poor's expects the SEC to issue its ruling in late October 2000, followed by closing of the transaction on Nov. 1, 2000. This is the final required approval. Under the terms of the early 2000 merger agreement, NiSource will purchase Columbia Energy for about $6 billion plus the assumption of $2.0 billion of Columbia Energy debt. Columbia Energy's shareholders can elect to receive $74 per share in stock for up to 30% of the total consideration, or $70 in cash, plus $2.60 of a SAILS(sm) (a zero coupon debt security with a forward equity contract).

NiSource's corporate credit rating is based on the consolidated financial and business risk profiles of the entire NiSource family of companies, which include the regulated gas distribution, gas transmission and vertically integrated electric operations, and the unregulated exploration and production business. Because there are no regulatory mechanisms or other structural barriers in NiSource's nine-state service area that sufficiently restrict access by the holding company to the cash flow of any of its utilities, Standard & Poor's views the default risk as being the same throughout the organization. The unsecured debt of NiSource Capital Markets, which benefits from a strong net worth maintenance agreement with NiSource, as well as the new bank acquisition facility and prospective debt issuances at NiSource Finance, will not be notched down for structural subordination, reflecting the declining level of debt at the operating subsidiaries and the fact that all future long-term securities will be issued at or guaranteed by the parent.

NIPSCO's first mortgage bonds are rated one notch higher than the firm's corporate credit rating as a result of the strong collateral value of the utility property. NIPSCO's senior unsecured debt is rated the same as the corporate credit rating because these bondholders are not materially disadvantaged by the small, and shrinking, amount of outstanding first mortgage bonds.

With regard to Bay State Gas and Columbia Energy, there are no first mortgage bonds; hence, their senior unsecured debt is rated the same as their corporate credit ratings.

NiSource and Columbia Energy are in the advanced stages of selling about $1.4 billion of nonstrategic riskier assets, proceeds from which will be used to reduce debt. However, debt will still be nearly 69% of total capitalization at the end of 2000 (assuming 30% stock election). Notwithstanding NiSource's stronger business profile that results from these divestitures and the acquisition of relatively low-risk transmission and distribution operations, the very high debt level will pressure initial post-merger financial measures. As a result, pretax interest coverage will hover around 2.3 times (x), and funds flow interest coverage and funds from operations to total debt will stand at about 3.0x and 15%, respectively. However, in light of merger synergies, tight cost controls, and expectations for higher earnings, key measures of bondholder protection are expected to approach levels commensurate with a triple-'B' corporate credit rating within the next few years.

With assets located across an enormous geographic area that stretches from the Gulf of Mexico and northward into the Midwest and Northeast, NiSource will have a powerful platform for growth, with about 3.6 million customers, access to 30% of the U.S. population, and 40% of the nation's energy consumption. The combined entity's strategic location and breadth of assets will provide NiSource the ability to arbitrage energy across time, weather, geography, and supply. Upstream opportunities from its commodity distribution businesses include gas and electric supply, gas transportation and storage, and asset-based commodity trading and asset optionality. Downstream activities will concentrate on heating and cooling equipment leasing, installation, and maintenance, and onsite, gas-fired back-up and distributed power generation.

OUTLOOK: STABLE

The stable outlook for NiSource reflects geographic diversity, modestly growing service areas, integration between Columbia Energy's gas distribution and gas transmission systems, a favorable regulatory environment, a competitive gas distribution and transmission cost structure, a credible management team, a relatively low dividend payout ratio, and expectations for gradual financial improvement. Upside credit potential will be limited by extraordinary liberal debt leverage and retention of the high-risk, commodity-based exploration and production business. The stable outlook for NIPSCO, Bay State Gas, and Columbia Energy mirrors that of parent NiSource, Standard & Poor's said.

-- CreditWire

RATINGS ASSIGNED

	RATING
NiSource Inc.	
Corporate credit rating	BBB/A-2
NiSource Finance Corp.	
Commercial paper*	A-2
Bank loan*	BBB
*Guaranteed by NiSource Inc.	

AG DR Set 1-190 Attachment B

RATINGS AFFIRMED AND REMOVED FROM CREDITWATCH NEGATIVE

	RATING
Columbia Energy Group	
Short-term corporate credit rating	A-2
Commercial paper	A-2
NiSource Capital Markets Inc.	
Short-term corporate credit rating	A-2
Commercial paper	A-2

RATINGS LOWERED AND REMOVED FROM CREDITWATCH NEGATIVE

	TO	FROM
Northern Indiana Public Service Co.		
Corporate credit rating	BBB/A-2	A/A-1
Commercial paper	A-2	A-1
Senior secured debt	BBB+	A+
Senior unsecured debt	BBB	A
Preferred stock	BB+	BBB+
Bank loan	BBB	A
NiSource Capital Markets Inc.		
Long-term corporate credit rating	BBB	A-
Senior secured debt	BBB	A-
Subordinated debt	BBB-	BBB
Preferred stock	BBB-	BBB+
Bank loan	BBB	A-
NIPSCO Capital Trust I		
Preferred Stock¶	BBB-	BBB+
¶Guaranteed by NiSource Capital Markets Inc.		
Bay State Gas Co.		
Corporate credit rating	BBB/A-2	A/A-1
Commercial paper	A-2	A-1
Senior unsecured debt	BBB	A
Columbia Energy Group		
Long-term corporate credit rating	BBB	BBB+
Senior unsecured debt	BBB	BBB+
Bank loan	BBB	BBB+
Shelf senior unsecured/ preferred stock (prelim.)	BBB/BB+	BBB+/BBB-

RATINGS LOWERED AND REMAINING ON CREDITWATCH DEVELOPING

IWC Resources Corp.		
Senior unsecured debt	BBB-	A-
Subordinated debt	BBB-	A-
Indianapolis Water Co.		
Corporate credit rating	BBB	A

AG DR Set 1-190 Attachment B

Senior unsecured debt	BBB+	A+

Credit Analyst: Barbara A Eiseman, New York (1) 212-438-7666

Fitch Dwngr L-T Debt Rtgs Of NiSource, Inc. & Subsidiaries

Fitch-NY-December 6, 2001: Fitch has downgraded the long-term debt ratings of NiSource, Inc. (NI) to `BBB' from `BBB+'. Concurrently, Fitch has downgraded the long-term debt ratings of NI's subsidiaries, Northern Indiana Public Service (NIPSCO), Columbia Energy Group (CG), NiSource Capital Markets and NiSource Finance Corp. as detailed in the table below. The ratings downgrades reflect weak consolidated credit coverage ratios and higher than projected debt levels at NI, resulting in a credit profile which is more consistent with the `BBB' rating category. The commercial paper program at NiSource Finance Corp. has been reaffirmed at `F2'. The Rating Outlook for NI and all its subsidiaries is Stable.

The rating changes are as follows:

NiSource Inc.
--Implied Senior Unsecured Debt to `BBB' from `BBB+';

--Trust preferred to 'BBB-` from `BBB'.

Northern Indiana Public Service Company
--Senior Secured Debt to `A' from A+;

--Senior Unsecured Debt to `A-` from `A';

--Preferred Stock to `BBB+' from `A-`.

Columbia Energy Group
--Senior Unsecured Debt to `BBB+' from `A-`.

NiSource Capital Markets
--Senior Unsecured Debt to `BBB' from `BBB+';

--PIES to `BBB-` from `BBB-.

NiSource Finance Corp.
--Senior Unsecured Debt to `BBB' from `BBB+';

--Comm. Paper affirmed at `F2'.

The downgrade of NI's ratings reflects consolidated credit protection measures that are weak for the `BBB+' rating as a result of the substantial debt financing required to fund the cash portion of its November 2000 acquisition of CG. Due to delays in completing targeted asset sales, short-term debt levels of nearly $2 billion continue to be higher than previously expected. For the 12-month period ended September 30, 2001, NI's consolidated EBIT/Interest ratio was 1.6 (times) x, EBITDA/Interest was 2.5x and debt/total capitalization was 67%. Furthermore on November 30, 2001, NI announced its 2002 earnings outlook. Given current expectations, credit measures in 2002 will continue to be weaker than targeted levels.

Throughout 2001, consolidated earnings have been negatively impacted by depressed wholesale power prices, a slow economy and continuing bad debt expenses. Greater wholesale electric supply and lower demand in the Midwest region depressed prices resulting in significantly lower revenue for power sold in the wholesale market. NI's electric operations are exposed to the continued economic downturn in the industrial and manufacturing sectors, specifically in the steel industry, which supports many related supply businesses. Uncollectable accounts in the residential sector of NI's gas distribution segment resulted from the high gas prices of last winter. These factors will affect NI's near-term financial profile.

NI's credit quality and financial strength continue to be derived primarily from the regulated operations and financial condition of NIPSCO and CG. NIPSCO benefits from a solid stand-alone credit profile and positive operating characteristics. Despite a relatively high dividend payout to NI, NIPSCO's cash flow from operations continues to fund a majority of the company's capital spending needs. CG's solid stand-alone credit profile stems from the continued stable operations of its regulated gas distribution and transmission subsidiaries. However, regardless of solid financial and operating performance at its operating subs, both NIPSCO and CG face additional ongoing risk as operating subsidiaries of a more highly leveraged and financially weaker parent holding company.

Positively NI was able to complete the sale of its retail propane distribution businesses of CG to AmeriGas Partners LP in August 2001, for approximately $202 million. Proceeds from the sale were used to pay down debt. In November NI signed a definitive agreement with the City of Indianapolis for the City to buy the assets of the Indianapolis Water Company and other subsidiaries of IWCR for $515 million, ($300 million in cash and $215 million of debt). Closing of the sale is subject to various conditions, including regulatory approvals and the ability of the City to finance the transaction using investment-grade municipal bonds. Proceeds from the sale of the water assets will also be used to repay debt. The transaction is expected to close in the first part of 2002.

NI is the holding company NIPSCO, CG and several other operating companies. NiSource Finance Corp. is the primary financial subsidiary for NI and its operating subsidiaries. NiSource Finance Corp. debt is guaranteed by NI. NIPSCO is a public utility serving 430,000 electric and 690,000 natural gas customers. CG is engaged in the exploration and

FII Fitch Dwngr L-T Debt Rtgs Of NiSource, Inc. & Subsidiaries
Dec 6 2001 12:08:04

production, transmission, storage and distribution of natural gas.

Contact: Ralph Pellecchia, 1-212-908-0586, New York or Karen Anderson, 1-312-368-3165, Chicago.

-0- (FII) Dec/06/2001 17:08 GMT

AG DR Set 1-190 Attachment D

Global Credit Research

Rating Action

1 FEB 2002

Moody's Investors Service

Rating Action: Columbia Energy Group (The)

MOODY'S DOWNGRADES NISOURCE INC. SENIOR DEBT TO Baa3 AND SUBSIDIARIES TO Baa2; OUTLOOK REMAINS NEGATIVE

Approximately $8 Billion of Debt Securities Affected.

New York, February 01, 2002 -- Moody's Investors Service downgraded the debt ratings of NiSource Inc. (NiSource) and its subsidiaries, all with negative outlooks. Ratings downgraded include:

NiSource Inc. - Senior unsecured debt to Baa3, Premium Income Equity Securities to Baa3, Preferred shelf to (P)Ba2

Bay State Gas Company - Senior unsecured medium-term notes to Baa2

The Columbia Energy Group - Senior unsecured notes and senior unsecured bank credit facility to Baa2

NiSource Capital Markets, Inc. - Senior unsecured debt to Baa3, subordinated to Ba1, shelf to (P)Baa3, commercial paper to P-3

Indianapolis Water Company - Senior unsecured debt to Baa2

Northern Indiana Public Service Company (NIPSCO) - First mortgage bonds to Baa1, senior unsecured debt and long-term issuer rating to Baa2, preferred stock to Baa3, senior secured pollution control revenue bonds to Baa1, senior unsecured pollution control revenue bonds to Baa2, short term rating to VMIG 2

NiSource Capital Trust I - Preferred stock to Ba1

NiSource Finance Corporation - Long-term issuer rating to Baa3, senior unsecured debt to Baa3, senior unsecured shelf to (P)Baa3, and commercial paper to P-3

These rating actions conclude reviews for downgrade begun on December 7, 2001. The downgrades reflect higher-than-expected debt levels and weaker-than-expected cash flow from its subsidiaries. The negative outlooks reflect the execution risk entailed in the company's plan to de-leverage itself over the next 12 to 18 months. With market capital of roughly $4 billion, it will be a challenge to issue enough equity to offset over $8 billion of debt on its balance sheet. Other than the pending sale of the Indianapolis Water Company, NiSource's plan does not include any large asset sales in the near future. NiSource also intends to keep its current dividend, which has been high relative to recent earnings. The high payout mitigates the benefit of deleveraging by requiring additional cash for incremental dividends. Moody's may take further rating action if the company is not successful in implementing its plan over the near-term.

Moody's recognizes the strength of NiSource's utility subsidiaries. Stable regulated businesses account for 95% of consolidated earnings. Their low business risk is enhanced by their scope and geographic and regulatory diversity. However, their low business risk does not fully offset the risk of the heavy debt burden incurred in the Columbia Energy acquisition a little over a year ago. Adjusted debt-to-capital (including preferreds, hybrid securities, synthetic leases, and forward gas sales as debt) is very high at about 70% at year-end 2001. Retained cash flow-to-adjusted debt is very low at under 3% for 2001.

The downgrade also reflects NiSource's reliance on dividends from NIPSCO, whose profitability is likely to be suppressed by the weak economy in northern Indiana. The local economy, and a substantial portion of NIPSCO's revenues is tied to the steel industry, which is undergoing a cyclical downturn and consolidation. Furthermore, the Indiana Utility Regulatory Commission is investigating whether to reduce NIPSCO's retail electric rates. A significant reduction in NIPSCO's rates would stress the parent company, which is expecting it to provide almost three-quarters of its cash flows.

Cash upstreamed from Columbia is also less than what was previously expected. The total cash flows that the parent receives from NIPSCO, Columbia, Bay State, and minor subsidiaries do not cover cash required for its debt service and common dividends.

NiSource's liquidity position has been constrained but is stabilizing. NiSource's banks have been supportive, and the company has been able to draw on its revolver as well as to issue limited amounts of commercial paper. There is adequate unused capacity left on their $2.5 billion bank facility. Going into spring, cash flows generated by its gas distribution business should swing into their seasonal high and ease its liquidity constraints. Later in the spring, the Indianapolis Water Company sale will generate cash proceeds of $300 million which will help to accelerate the debt reduction.

The two-notch downgrades for Columbia and NIPSCO and the three-notch downgrades for Bay State and Indianapolis Water Company align the ratings of the subsidiaries and bring them closer to the parent's rating. The change in notching reflects the subsidiaries' financial and operational integration with the parent and lack of regulatory ringfencing. Over the past year, the parent company, through its NiSource Finance subsidiary, has assumed the management of external financing from its subsidiaries. There are no regulatory mandates that restrict the subsidiaries from upstreaming their available cash to the parent.

NiSource, Inc., headquartered in Merrillville, Indiana, is a diversified energy distribution company with electric, natural gas, and water operations.

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New York
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STANDARD &POOR'S RatingsDirect® Global Credit Portal

Research

Research Update:

NiSource Inc. Lowered To 'BBB-', Off Watch Re: New Corporate Strategy; Outlook Stable

18-Dec-2007

Rationale

On Dec. 18, 2007, Standard & Poor's Ratings Services lowered its corporate credit rating on utility holding company NiSource Inc. and its subsidiaries to 'BBB-' from 'BBB', and removed them CreditWatch, where we placed them with negative implications on Nov. 2, 2007. The outlook is stable.

The rating downgrade reflects NiSource's newly aggressive capital spending program, which will result in negative free cash flow and increased debt levels, reversing years of deleveraging. The company also announced the addition of two electric power plants, which it expects to add to rate base, and several pipeline expansions. Longer term, we expect these activities, in addition to initiatives to improve regulatory design at the gas distribution companies, to improve and stabilize cash flow.

The ratings on NiSource are based on the consolidated financial and business risk profiles of its various subsidiaries, which include Columbia Energy Group, Northern Indiana Public Service Co. (NIPSCO), and Bay State Gas Co. Merrillville, Ind.-based NiSource is involved in regulated gas distribution (35% of consolidated cash flow), gas transmission and storage (32%), and vertically integrated electric operations (33%). As of Sept. 30, 2007, NiSource had total adjusted debt, including operating leases and tax affected pensions and post-retirement obligations, of about $7.8 billion.

The stand-alone financial profiles of NiSource's subsidiaries are much stronger than the consolidated financial profile, where substantial acquisition-related debt is held. Nevertheless, Standard & Poor's views the default risk as the same throughout the organization due to the absence of regulatory mechanisms or other structural barriers that sufficiently restrict subsidiary cash flow to the holding company.

NiSource's excellent business position is supported by the company's business plan that centers almost exclusively on regulated businesses, a diverse service area encompassing nine states, historically responsive ratemaking principles, and competitive gas distribution and pipeline cost structures. These strengths are tempered somewhat by NIPSCO's high electric rates, heavy dependence on the industrial sector, and the pursuit of a more aggressive financial policy.

As part of its review, Standard & Poor's changed its business risk profile on NiSource to excellent from strong, based on our expectations that the regulatory environment will likely improve in the near term as regulators contemplate more supportive rate design mechanisms. Rate design mechanisms that include "decoupling" reduce revenue sensitivity to fluctuations in weather and customer conservation efforts. Furthermore, our business risk profile revision reflects our opinion that the Sugar Creek and Whiting power plants will likely be included in NIPSCO's rate base, which will increase regulated revenues and substantially improve electric reliability in northern Indiana.

Although cash flows are expected to remain stable we anticipate the company's financial profile to deteriorate over the next few years. We

AG DR Set 1-190 Attachment E

characterize the company's financial risk profile as aggressive due to its high debt leverage, weak cash flow metrics, and pursuit of an MLP strategy, which will reduce consolidated cash flow from stable but strategic assets. NiSource had been improving its balance sheet after the debt-financed acquisitions of Bay State and Columbia, in 1999 and 2000, respectively. In November 2007, NiSource initiated a more aggressive growth plan, which includes capital spending of more than $1 billion a year, which is above its near-term cash flow generating capability. This means that debt leverage is likely to increase from its already weak levels to about 65%. For the next several years, we also expect funds from operations (FFO) to total debt to remain weak, at around 11%-12%, despite adequate FFO interest coverage of 3x. Despite the many growth initiatives in the company's strategic plan, cash flow is not expected to improve from current levels for several years due to the financing and operating costs of buying a power plant, and the regulatory lag in implementing a series of rate cases that will be filed in the next few months. Rapidly growing operating costs, especially at its gas distribution units, have hurt financial measures. Since debt will increase immediately and incremental cash flow growth will take some time, an already weak financial position will be stretched even further in the near term.

Liquidity

NiSource's liquidity in addition to its access to the debt and equity markets should be adequate to meet its ongoing operating and capital requirements. On Nov. 2, 2007, NiSource announced plans to boost capital spending to levels that will be above cash flows. For the past several years, NiSource had been reducing debt levels associated with the acquisitions of Bay State and Columbia with its operating cash flow. In addition to annual capital spending of at least $1 billion, other uses of cash flow include dividends of about $250 million. Given these spending levels and cash from operations of about $1 illion, we expect NiSource to have a negative free cash flow of $200 million .o $300 million per year from 2009 and beyond. With the debt-financed purchase of Sugar Creek, free cash flow deficit in 2008 could be near $700 million in 2008.

NiSource Finance has a $1.5 billion five-year revolving credit facility that terminates in July 2011. As of Sept. 30, 2007, the company had $17 million in unrestricted cash and about $800 million available under NiSource Finance's $1.5 billion revolving credit facility, which matures in July 2011. Debt maturities of $29 million are minimal in 2008. However, maturities of $461 million in 2009 and $1 billion in 2010 substantially exceed cash flow estimates and will require refinancing.

Outlook

The stable outlook reflects our expectation of more supportive regulatory rate mechanisms related to weather-normalization and conservation, rate increases related to increased labor and other operating costs, and the addition of generation assets to NIPSCO's rate base, which should provide a more stable stream of cash flows. NiSource appears well positioned at the 'BBB-' rating level and is likely to remain investment grade for the foreseeable future. An outlook revision to negative could occur if the anticipated improvements in cash flow do not occur or the company's MLP plans become more aggressive than currently contemplated. An outlook revision to positive, which is not anticipated over the intermediate term, would require significantly deleveraging and considerably stronger cash flow metrics.

.atings List

Downgraded; CreditWatch/Outlook Action

AG DR Set 1-190 Attachment E

	To	From
NiSource Inc.		
NiSource Capital Markets Inc.		
Northern Indiana Public Service Co.		
NiSource Finance Corp.		
Bay State Gas Co.		
Corporate Credit Rating	BBB-/Stable/--	BBB/Watch Neg/--
Senior Unsecured		
Local Currency	BBB-	BBB/Watch Neg

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

Primary Credit Analyst: Ralph A DeCesare, CFA, New York (1) 212-438-4682; ralph_decesare@standardandpoors.com

Secondary Credit Analyst: Michael Messer, New York (1) 212- 438-1618; michael_messer@standardandpoors.com

FII Fitch Downgrades NiSource & Subs' IDRs to 'BBB-'; Outlook Stable
Feb 4 2009 15:51:55

FITCH DOWNGRADES NISOURCE & SUBSIDIARIES' IDRS TO 'BBB-'; OUTLOOK STABLE

Fitch Ratings-New York-04 February 2009: Fitch Ratings has downgraded the outstanding ratings for NiSource Inc. (NI) and its subsidiaries as follows:

NI

--Issuer Default Rating (IDR) to 'BBB-' from 'BBB'.

NiSource Capital Markets, Inc. (NI Capital Markets)

--IDR to 'BBB-' from 'BBB';

--Senior unsecured debt to 'BBB-' from 'BBB'.

NiSource Finance Corp. (NI Finance)

--IDR to 'BBB-' from 'BBB';

--Senior unsecured debt to 'BBB-' from 'BBB';

--Short-term IDR to 'F3' from 'F2';

--Commercial paper (CP) to 'F3' from 'F2'

Northern Indiana Public Service Co. (NIPSCO)

--IDR to 'BBB-' from 'BBB';

--Senior unsecured debt to 'BBB' from 'BBB+'.

Jasper County (IN)

Michigan City (IN)

--Senior unsecured pollution control revenue bonds to 'BBB' from 'BBB+'.

Approximately $6.2 billion of outstanding long-term debt is affected. The Rating Outlook for NI and its subsidiaries is Stable.

The rating action reflects Fitch's expectation that NI will experience challenging operating and financial conditions and a potential weakening in credit metrics in 2009. The unfavorable economic and capital market environment could continue for the full year and beyond. At NIPSCO the recessionary U.S. economy will contribute to weakening industrial demand and lower margins. Steel and steel related businesses, NIPSCO's largest industrial customer category, have been particularly hard hit in recent months. Fitch notes that domestic steel production has been declining since August and is currently at less than

50% capacity utilization. Also contributing to weakening financial results are increasing electric operating costs, primarily the result of the mid-2008 purchase of the $330 million Sugar Creek gas-fired electric generation plant. Future earnings will also be affected by increasing pension costs which could be $100 million greater in 2009 than 2008 and higher interest expenses. Based on current conditions Fitch expects NI's consolidated 2009 credit measures to be generally consistent with a 'BBB-' rating.

Planned capital spending at NI's operating subsidiaries, while reduced to $800 million in 2009 from in excess of $1 billion, is expected to be relatively large over the next several years. In addition to companywide maintenance and growth spending, NIPSCO must address its long-term capacity shortfall which could result in the future purchase or construction of new electric generation. At the same time, debt maturities will be significant with nearly $1.4 billion of NI Finance long-term debt maturing by the end of 2010. In addition, NI Finance's seasonal $500 million short-term revolving credit facility matures on March 23, 2009. The once planned monetization of Columbia Gulf through a MLP dropdown is now impractical. Given limited capital market and bank liquidity and depressed equity values, financing costs are expected to be up significantly. NI Finance has recently received written commitments from a syndicate of banks for $265 million of unsecured two-year term debt maturing in April 2011. While the term debt will provide a temporary liquidity cushion, the issuance of additional long-term debt is anticipated in each of the next several years. NI's inability to maintain adequate liquidity and address its refinancing and capital spending needs in a timely fashion would likely result in a negative rating action.

Favorable rating considerations include the low business risk and stable operating performance generated by NI's geographically diverse mix of regulated operations and the positive effect of increased natural gas utility rates in Ohio and Pennsylvania. Virtually 100% of NI's earnings now come from its utility and pipeline subsidiaries. With the sale of the Whiting Clean Energy co-generation facility to BP Alternative Energy North America Inc. in mid-2008, NI completed the divestiture of its higher risk and least profitable businesses. Growth initiatives have modest risk and are complementary to existing core operations. Current pipeline and storage expansion projects have favorable locational and contractual characteristics. Furthermore, working capital is reduced with lower natural gas prices.

Regulatory mechanisms have generally provided timely cost recovery and supported relatively stable operating results. On Dec. 3, 2008, the Public Utilities Commission of Ohio approved Columbia Gas of Ohio's settled rate case. This will result in a $47.1 million annual increase in revenues and was its first base rate increase in fourteen years. On Oct. 23, 2008, the Pennsylvania Public Utility Commission approved Columbia Gas of Pennsylvania's $41.5 million rate case settlement. The new rates in Ohio and Pennsylvania became effective in the fourth quarter of 2008.

On Aug. 29, 2008, NIPSCO filed its first full rate case with the Indiana Utility Regulatory Commission in twenty years. The filing was modified on Dec. 22, 2008. NIPSCO is requesting among other things the inclusion of Sugar Creek in rate base. The base rate increase, if fully approved, would result in an $85.7 million increase in revenues. The rate case also proposes a new tracker to recover any MISO charges currently being deferred, recovery of purchase power energy and capacity costs and a sharing with customers of off-system sales and transmission revenues. The rate case review is expected to take between 12 to 18 months with new rates expected to be effective in late 2009 or early 2010. The inclusion of Sugar Creek in rate base and a reasonable revenue increase would be viewed favorably by Fitch.

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Corporate Credit and Bond Ratings
NiSource Inc.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Standards & Poors	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB- (3)	BBB-	BBB-
Moody's	Baa2	Baa2	Baa3 (2)	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3	Baa3
Fitch	BBB+	BBB (1)	BBB	BBB	BBB	BBB	BBB	BBB	BBB	BBB- (4)

(1) Date of Rating Agency Report is December 6, 2001 (Attachment C).
(2) Date of Rating Agency Report is February 1, 2002 (Attachment D).
(3) Date of Rating Agency Report is December 18, 2007 (Attachment E).
(4) Date of Rating Agency Report is February 4, 2009 (Attachment F).

Corporate Credit and Bond Ratings
Columbia Energy Group

	2000	2001	2002	2003	2004	2005	2006	2007	2008	YTD 2009
Standards & Poors	BBB (1)	BBB	BBB	BBB	BBB	BBB	(A)	(A)	(A)	(A)
Moody's	A3	A3	Baa2 (4)	Baa2	Baa2	Baa2	(A)	(A)	(A)	(A)
Fitch	A- (2)	BBB+ (3)	BBB+	BBB+	BBB+	BBB+	(A)	(A)	(A)	(A)

(A) Rating withdrawn after December 2005.

(1) Date of Rating Agency Report is October 24, 2000 (Attachment B).
(2) Date of Rating Agency Report is October 27, 2000 (Attachment A).
(3) Date of Rating Agency Report is December 6, 2001(Attachment C).
(4) Date of Rating Agency Report is February 1, 2002 (Attachment D).

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 191:

Please provide the breakdown in the expected return on pension plan assets. Specifically, please provide the expected return on different assets classes (bonds, US stocks, international stocks, etc) used in determining the expected return on plan assets. Please provide all associated source documents and work papers.

Response:

Attached are the following three spreadsheets, labeled as Attachments A-C, that were used in helping management determine the 2009 assumed rate of return of 8.75% for the pension fund:

- Attachment A contains forward looking estimates for various asset classes and was provided by our investment consultant LCG Associates (Result 9.67%),
- Attachment B contains historical returns since inception for various asset class indices (Result 9.46%), and
- Attachment C is a review of the historical returns for the NiSource Master Retirement Trust since 1990 (Result 8.32%).

Prior to 2009, the assumed rate of return was 9.0%. Based on the extremely negative investment experience for most asset classes and the pension fund in 2008, the assumed rate of return was reduced to 8.75%.

Asset Allocation Analysis 2008

(Based on LCG Assoc. Forward Looking Expected Returns as of 11/30/08)
Forward Looking Estimates from LCG Associates

Asset Class	**LCG Assoc. Expected Annual Return**	**Portfolio Weight**	**LCG Assoc. Expected Weighted Annual Return**
US Equities LC-Growth (R1000-Growth)	10.00%	9.00%	0.90%
US Equities LC-Value (R1000-Value)	10.50%	14.00%	1.47%
US Equities SC-Value (R2000-Value)	12.00%	9.00%	1.08%
US Equities SC-Growth (R2000-Growth)	11.50%	13.00%	1.50%
Non-US Equities (MSCI EAFE US Dollars)	10.00%	10.00%	1.00%
MSCI Emerging Mkts. w/back fill (US $)	13.00%	5.00%	0.65%
US Fixed Income (LB Agg) w/back fill	6.00%	20.00%	1.20%
US Fixed Income (ML High Yield) w/bkfill	7.00%	5.00%	0.35%
Non-US Fixed Income (Citigroup Non-US)	6.50%	5.00%	0.33%
Hedge Fund of Funds	9.50%	3.00%	0.29%
Private Equity	13.00%	7.00%	0.91%
Total Portfolio		**100.00%**	**9.67%**

Asset Allocation Analysis 2008

(Based on Indices Historical Returns Inception through 11/30/08)
Historical Averages Since Inception of the Index

Since	Asset Class	Since Inception Historical Annual Return	Portfolio Weight	Historical Weighted Annual Return
1970	US Equities LC-Growth (R1000-Growth)	7.83%	9.00%	0.70%
1970	US Equities LC-Value (R1000-Value)	10.75%	14.00%	1.51%
1970	US Equities SC-Value (R2000-Value)	12.50%	9.00%	1.13%
1970	US Equities SC-Growth (R2000-Growth)	6.45%	13.00%	0.84%
1970	Non-US Equities (MSCI EAFE US Dollars)	8.83%	10.00%	0.88%
1970	MSCI Emerging Mkts. w/back fill (US $)	11.86%	5.00%	0.59%
1976	US Fixed Income (LB Agg) w/back fill	8.35%	20.00%	1.67%
1970	US Fixed Income (ML High Yield) w/bkfill	8.21%	5.00%	0.41%
1970	Non-US Fixed Income (Citigroup Non-US)	9.49%	5.00%	0.47%
1990	Hedge Fund of Funds (Since 1990)	8.22%	3.00%	0.25%
1986	Private Equity (2Q86-2Q08)	14.41%	7.00%	1.01%
	Total Portfolio		**100.00%**	**9.46%**

Do not have 3Q08 performance

LCG Associates Performance Evaluation

Account Name: NiSource Inc. Master Retirement Trust - TOTAL NET OF FEES

Currency: UNITED STATES DOLLAR

Rates of Return:

Year	Yearly Return Annual Return
2008	-30.30%
2007	10.50%
2006	13.80%
2005	7.60%
2004	11.70%
2003	28.20%
2002	-9.10%
2001	0.53%
2000	2.75%
1999	16.33%
1998	8.94%
1997	15.98%
1996	12.41%
1995	23.58%
1994	-2.62%
1993	15.27%
1992	8.51%
1991	24.63%
1990	-0.70%
AVG	**8.32%**

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 192:

For the past five years, please provide the dates and amount of: (1) cash dividend payments made by Columbia Gas of Kentucky, Inc. to Columbia Energy Group and/or NiSource; and (2) cash equity infusions made by NiSource and/or Columbia Energy Group into Columbia Gas of Kentucky, Inc.

Response: Columbia Gas of Kentucky, Inc.

(1) Columbia Gas of Kentucky, Inc. has paid the following dividends in the past five years:

	August 24, 2004 -	$9,000,000
	April 29, 2005 -	$4,000,000
	May 28, 2008 -	$7,000,000
	December 30, 2008 -	$10,000,000

(2) There have been no cash equity infusions made by NiSource and/or Columbia Energy Group into Columbia Gas of Kentucky, Inc. in the past five years.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 193:

Please provide Columbia Gas of Kentucky, Inc.'s authorized and earned return on common equity over the past ten years. Please show the figures used in calculating the earned return on common equity for each year, including all adjustments to net income and/or common equity. Please provide copies of all associated work papers and source documents. Please provide copies of the source documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

Columbia Gas of Kentucky, Inc.'s authorized and earned return on common equity over the past ten years is summarized in Attachment A. The earned return on common equity on Attachment A was provided in response to Staff DR Set 1-035 (Cases 2009-00141 and 2007-00008) and to Staff DR Set 1-033 (Case 2002-00145). To the extent workpapers were provided with the response, they are included in Attachment B.

Earned Return on Common Equity
1999-2008

	Earned Return on Equity	Allowed Return on Equity
2008	4.89%	10.50%
2007	4.73%	10.50%
2006	3.94%	*
2005	4.64%	*
2004	6.51%	*
2003	12.00%	*
2002	12.78%	*
2001	9.68%	*
2000	8.05%	*
1999	16.89%	*

*Cases (Case 94-179 and Case 2002-00145) were settled and no returns were stated.

Workpaper PSC0035

	2003	2004	2005	2006	2007	Test Year
Operating Income	13,138,731	9,352,205	8,575,433	9,397,689	9,637,274	9,395,310
Rate Base	123,334,722	127,364,122	151,959,910	171,077,475	166,946,645	181,677,386
Return on Rate Base	10.65%	7.34%	5.64%	5.49%	5.77%	5.17%

		2003	2004	2005	2006	2007	Test Year
ST weighted cost rate		0.00%	0.00%	0.00%	0.00%	0.61%	0.18%
LT weighted cost rate	(1)	3.12%	3.12%	3.12%	3.12%	2.28%	2.45%
Equity Ratio	(2)	62.80%	64.84%	54.37%	60.19%	61.00%	52.02%
Return on Equity		12.00%	6.51%	4.64%	3.94%	4.73%	4.89%

(1) LT weighted cost rate used in latest case
2003-2006 (Case No. 2002-00145), 2007 (Case No. 2007-00008) and Test Year (Case 2009-00141)
(2) Equity ratio per books at end of year, except test year which reflects capital structure proposed in the case

Note: Workpaper provided with response to Staff DR Set 1-035 (current case 2009-00141)

Columbia Gas of Kentucky
Return on Equity History
Workpapers

Year	Year-End Equity Balance	Average Equity Balance	Net Income (1)	ROE
1999	78,643,250	73,854,060	12,473,126	16.89%
2000	83,126,696	80,884,973	6,511,953	8.05%
2001	80,047,442	81,587,069	7,895,046	9.68%

Note: Workpaper provided in 2002-00145 rate case in response to Staff DR Set 1-033.

(1) See page 3 for adjustments made to net income.

Columbia Gas of Kentucky, Inc.
Return on Equity History
Workpapers

Year	Net Income	Off-System Sales	Less State Income Tax	Less Federal Income Tax	Net Income Less OFS After Tax
1999	13,863,494	2,331,366	192,338	748,660	12,473,126
2000	8,482,886	3,304,854	272,650	1,061,271	6,511,953
2001	9,560,417	2,792,490	230,380	896,739	7,895,046

Note: Workpaper provided in 2002-00145 rate case in response to Staff DR Set 1-033.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 194:

With reference to page 6, lines 8-18, please show the exact calculations and methodology used to arrive at the equity cost rate of 12.25 percent for Columbia Gas of Kentucky, Inc., including the 0.75% credit quality adjustment.

Response:

The 12.25% rate of return on common equity for Columbia of Kentucky was derived from the results of the methods listed on page 6 under the column heading Columbia of Kentucky. In addition to the measures of central tendency (i.e., average, median and midpoint) listed on the table, additional combinations of the result of the methods were 12.82% for the DCF, Risk Premium and CAPM, 12.41% for the DCF and Risk Premium, and 12.74% for the DCF and CAPM. From all these results a 12.25% cost of equity provides a reasonable representation for the Company in this case.

The credit quality adjustment of 0.75% was developed on pages 14 and 15 of Mr. Moul's Direct Testimony. There it was shown that the yield spread between Baa and A rated public utility bond had increased to 0.71% in 2008 from much lower levels in previous years. And, for the twelve-, six- and three month averages through February 2009, the spread increased to higher levels. On balance, a 0.75% spread between Baa- and A-rated public utility bonds was reasonable in this case.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 195:

With reference to page 7, line 1, please provide a copy of the cited study.

Response:

The requested study is attached in Attachment A.

American Gas Foundation

Regulatory Policy of Return on Equity

Review and Analysis of the Natural Gas Utility Sector

December 9, 2008

American Gas Foundation
400 North Capitol St., NW
Washington, DC 20001
www.gasfoundation.org

Regulatory Policy of Return on Equity

Review and Analysis of the Natural Gas Utility Sector

December 9, 2008

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American Gas Foundation

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Table of Contents

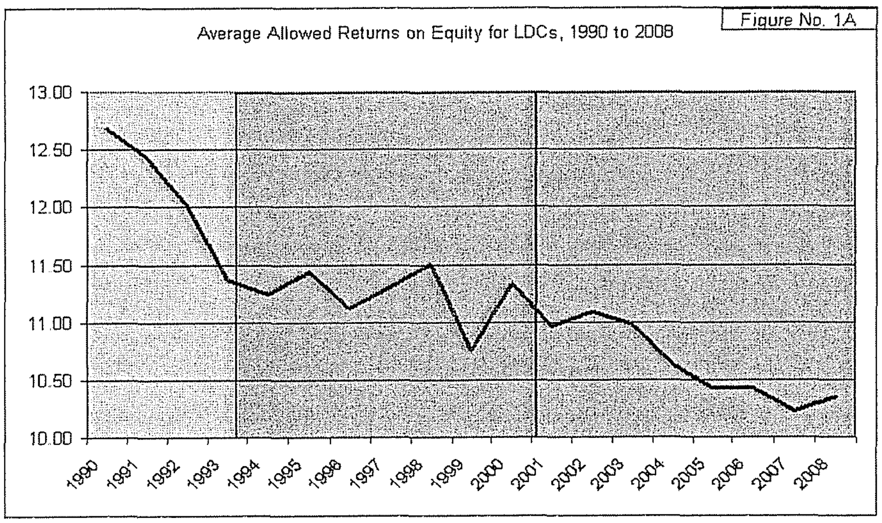
I. Executive Summary

The continued success of the utility sector to deliver natural gas safely and reliably depends upon a strong and viable infrastructure that will meet growing local distribution company (LDC) customer demands. The infrastructure development needed to address new and aging infrastructure relies heavily upon the ability of the industry to attract strong capital investment. As such, the American Gas Foundation (AGF) engaged Navigant Consulting Inc. (NCI) to examine the current processes utilized by the state public utility commissions to determine allowed returns on equity (RoE) for natural gas utilities in an effort to determine if the RoE rates being approved and established are adequate and sufficient to address U.S. pipeline and distribution infrastructure needs.

Given the diversity of state jurisdictions and policies, the effort undertaken for this study examines all state decisions over an extended period of time and relies upon statistical examinations of that large population of cases, informed by extensive interviews with financial analysts and senior industry executives, to identify and interpret trends and reasons for those trends and determine whether there is a perceived problem within the financial community. The core question posed by the study's mission statement and objectives, the impact of RoE decisions and policy on LDC infrastructure adequacy, is largely addressed through the interview process. This AGF study is intended to be an examination, and evaluation of the issues. While it observes various trends, impacts, and reasons for those impacts, it is up to other efforts to support the need for specific changes in individual proceedings. The study is intended as a backdrop to inform such efforts.

Background -- Trend in Allowed Returns

The phenomenon of steady declines in allowed LDC returns is clear, based upon an examination of some 377 PUC decisions nationwide, over the period from 1990 through 2008. In particular, the most recent period, from 2000 through 2008, has seen a steady decline from the mid 11 percent range to the low 10 percent range, with several recent decisions falling below 10 percent.



Further, the study analysis shows that this perceived decline was pervasive, with the overall distribution of returns moving to the lower levels. It also shows that there is a growing gap between the actual LDC equity ratios and the equity ratios that are actually recognized in rates – as is explained more fully in the study. Therefore, either approximately $2 billion of LDC equity investment is treated as if it is financed with debt, thus significantly reducing the recognized cost of that investment recovered in rates, or LDCs must adopt a higher debt level, which would increase financial risk. The LDC industry is generally facing RoE decisions and policies that result in returns around and below the 10 percent level.

Summary of Findings

Multiple interviews were conducted with financial analysts (both equity and debt) and senior industry executives (primarily chief executive officers of either LDC holding companies or the LDC subsidiaries of those holding companies). To encourage the candor of those interviews and to avoid singling out specific companies or jurisdictions, the interviews are summarized and explained in the body of this study, without attribution to specific individuals. Observations and conclusions include:

- Equity analysts expressed concern that when allowed returns drift below 10 percent, financial markets see that as a "red flag" that could turn substantial investment away from the industry. This risk is particularly valid now, according to the analysts, since changes in the population of large investors toward a greater weight of hedge funds and private equity firms allows large blocks of money to move much faster than in the past in departing from an industry.

- Equity analysts also stressed that if there are other indications of a favorable regulatory environment, one of mutual trust with collaborative development of comprehensive service and rate structures by the LDC and the regulator, the perception that low allowed returns indicate an unfavorable regulatory environment is largely ameliorated. However, there is a strong concern that a jurisdiction will work to develop such balanced, collaborative approaches, use that as a basis for low returns, and then, over time, erode the quality of the balanced approaches without revisiting return. This concern strongly validates the importance of open and honest dialogue between the utilities and their regulators, such that a mutuality of trust can stay in place long-term.

- Uniformly, the executives running LDCs are committed to safety and reliability of service, and thus will strive to invest what is required to maintain those objectives, as long as they are in the LDC business. However, low returns create incentives for them to avoid discretionary investment, and for their holding companies to exit the LDC business.

- It is only in jurisdictions where allowed returns have remained at higher levels more consistent with history, or where the LDC and its regulator have developed collaborative, more holistic approaches to services and rates supplanting traditional usage-based and cost-based regulation, that these incentives are not creating negative pressure on investment.

- Except for the jurisdictions where returns have remained higher, or where other arrangements have successfully supplanted more traditional regulation, the LDCs are experiencing increasing difficulty in competing for capital. The measure of such difficulty is not the relationship to debt cost, but the relationship to alternative equity investments.

- To date, much investment and even some merger and acquisition consolidation of the LDC industry have continued, but the continuation does not mean there is not a deep concern over allowed returns – rather, the various businesses are seizing opportunities as they present themselves, with the expectation that currently depressed allowed returns are a short-term phenomenon – the managers trust the system to "self-correct" over time. If that turns out not to be the case, the risk the industry and regulators run is a fundamental loss of trust in the regulatory system, one that would have a strongly negative impact on investment.

- Thus, although low returns have created a negative pressure on investment in LDC infrastructure, little impact has been seen to date. Public markets for capital have still been accessible for LDCs, in the opinion of the analysts and senior executives because of two factors: (1) the faith in the regulatory system recited above; and (2) the currently favorable tax treatment of dividends. However, continuing downward trends in allowed returns undermine the first rationale, and political uncertainty undermines the second. In addition, the recent large concentration of equity investment in such vehicles as hedge funds is expected to make financial markets quicker to react negatively if the current negative perceptions of LDC investment persist. In short, the threat to infrastructure adequacy is a looming threat, exacerbated by low returns, a threat that could be ameliorated by some corrective action.

- Various rate-design changes, in particular "decoupling," can provide some stabilization of LDC revenues, if properly applied. However, there is concern that regulators accord inordinate weight to these mechanisms' impact on risk when setting returns. Further, it is believed that many times there is a potential double-counting of the effect, since regulators apply a decrement to returns developed by reference to proxy companies that have similar de-risking mechanisms. Uniformly, the interviewees believed such decrements were ill-advised and unfair.

- At the same time, other risks of the LDC business have been increasing–specifically unfunded government mandates, precipitous run-up in the cost of critical materials such as steel and in the cost of contract labor, the regulatory risk of cost disallowance, especially in periods of rapid gas-cost increase, and asymmetric regulation of uncollected gas cost (e.g., paying interest on overcollections but collecting no interest on undercollections). Additionally, in the competitive, unbundled world of today's interstate pipelines, the risk of bypass for LDCs' highest-volume loads is pervasive. Thus, to the extent that decoupling might tend to stabilize revenues and thus ameliorate that area of risk, these other evolving risks offset or even reverse that effect. Further, unlike the revenue volatility addressed by decoupling (which volatility could go either way – reducing earnings or increasing earnings, depending on weather), these evolving risks are "one-way," strictly acting to the detriment of the LDC.

- The debt rating community is generally not deeply concerned with allowed return on equity, unless it gets low enough to threaten required debt coverage. That coverage cushion may be relatively smaller if the whole regulatory scheme enhances stability of revenues.

- However, the debt analysts do become concerned when allowed RoE drops to a level that forces company management to reorient investment into riskier areas to meet Wall Street expectations of growth. In other words, the allowed returns for the LDC must meet a risk-adjusted comparison with alternative investments, or the company's stockholders will tend to push reorientation to the point that its overall revenue profile becomes more volatile, and thus its corporate debt becomes less secure.

- There is much more depth in these and other observations in the body of the AGF Study. Overall, it is fair to say that there is widespread concern over the industry's ongoing ability to raise and retain capital. Generally senior executives feel that in the current market, returns below 10 percent are very problematic, that returns in the mid-10s are adequate to keep the businesses on an even keel, but not to win contested capital in competition with investments in other businesses with similar risk, and that returns in the low 11s, e.g., 11.25, can generally reach risk-adjusted parity with the investments with which LDCs must compete for capital.

- Clearly, the concerns raised by both financial analysts and senior executives in the industry have grown a great deal in importance in the current credit and financial turmoil. The rapidly evolving difficulties in raising all types of capital, both debt and equity, would suggest that any negatively perceived factor, such as inadequate or declining allowed rates of return, could exacerbate an already problematic situation in funding new infrastructure.

Reasons for Declines in Allowed Return

The study examines the two dominant methodologies used to set allowed RoE: Discounted Cash Flow (DCF) and the Capital Asset Pricing Model (CAPM), along with Equity Risk Premium (ERP), of which CAPM is a variation.

Very simply, the fundamental inputs to these longstanding methodologies have declined, so the resulting indicated rates of return have declined. In the case of DCF, the decline has been driven by reduced growth rates among proxy companies. In the case of CAPM (and ERP), the decline has been driven directly by the decline in interest rates over the last decade. While it is easy to identify the reasons the longstanding formulae are yielding lower results, the more difficult question is whether this effect highlights what may be infirmities in the methodologies, infirmities that were less apparent during periods of higher growth and higher interest rates.

This study explains the fundamental theory and operation of DCF and CAPM, with some generic calculations of the impact at today's input numbers. These calculations are based on a sample group of twelve proxy LDCs extracted from PUC staff testimony in a recent rate case (both the state and the LDCs are unnamed, to avoid any prejudicial reference to individual situations). Both DCF and CAPM yield average indicated returns on equity of 9.7 percent, over the twelve proxy companies. However, while the average is equal as between the methods, individual results varied by as much as 460 basis points.

These examples were useful in analyzing some of the issues presented by the application of DCF and CAPM.

- There was very wide diversity in the outcome indicated returns among the companies in the sample group: 740 basis points from the high to the low under DCF, and 630 basis points from the high to the low under CAPM. Given that the twelve-company proxy group consists of relatively similar LDCs, it is difficult to see a justification for these wide swings.

- For both DCF and CAPM, there is an inherent circularity in the use of proxy groups, in that if all the companies in the proxy group are similarly regulated, the Wall Street expectations for all of them will be similar – however, there is no test as to whether this uniform expectation is in fact adequate to compete for capital with non-LDC businesses having similar risks.

- As for DCF, there is a test performed in this study to determine whether the end result meets its own premises – that is, the DCF result is based on an investor expectation of a specific rate of growth in earnings and book value per share. It is demonstrated that, if retained earnings are the primary driver of such growth, the use of the DCF return as an allowed RoE does not generate enough cash to pay required dividends and still generate the assumed growth.

  - The 9.7 percent average indicated RoE would generate only 3.5 percent and 3.4 percent growth in book value and earnings per share, respectively.
  - However, within the development of the 9.7 percent, there is a determination that investor-expected growth is 6.4 percent, leaving a 3 percent deficiency in the growth rate.

- In the case of CAPM, as noted it is just a modified version of ERP – a fixed equity risk premium over risk-free debt is assumed to exist, regardless of the current interest-rate regime. The CAPM refinement to this assumption is merely to modify that fixed risk premium by multiplying it by a "Beta" factor to reflect a particular stock's volatility vs. the stock market at large.

- The open issue regarding either CAPM or ERP is whether a fixed equity risk premium is a valid assumption in the first place – many experts expect that risk premium to expand at low interest rates and contract at high interest rates.

- In other words, a broad school of thought believes the relationship between the cost of equity and the cost of debt is partial and tenuous. Even in Canada, where RoE is set by a formula tracking corporate bond rates, the "elasticity" or relationship between changes in the interest rate and changes in the RoE is less than one, presently 75 percent. Meanwhile, the Canadian gas industry strongly believes it should be even lower, probably about 50 percent.

- The result is that CAPM or ERP will give low RoE when interest rates are low, without taking account of the equity-vs.-equity competition discussed earlier.

Potential Adjustments

This study explores several potential adjustments to the return-setting process that could work to restore allowed RoE to the levels thought by the industry and analysts to be sufficient. These potential adjustments include:

- Broadening the proxy groups to reach beyond LDCs who are regulated under the same rules and methodologies as the company being examined. This would address the circularity of current proxy approaches.

- Using FERC decisions as a benchmark, recognizing that historically LDC RoE has generally been approximately 125 basis points lower than the RoE allowed to interstate pipelines. Maintaining this historic gap would help equilibrate the competition for capital between the LDC and the pipeline in the same corporate family.

- Considering variations on CAPM, such as the Fama-French Three Factor Model, which brings into the equation small-cap and high-growth companies to attempt to gain a clearer picture of investor expectations than is yielded by CAPM's averages.

- Restoring the growth deficiency identified under DCF. In the example, this would bring the indicated return up to 12.7 percent if 100 percent of the deficiency were restored. This is somewhat higher than the 11.25 percent to 11.50 percent the senior executives indicated is needed in the current environment, so methods could be explored to restore a portion of the deficiency, still assuming that some growth might come from other sources.

An overarching point is that regardless of the types of adjustments that might be sought, the industry must establish a credible case that real public damage can result from inadequate returns, in the form of inadequate investment, lost efficiencies, etc. While RoE decisions may be challenged in court, real ongoing relief requires a cooperative relationship with regulators that acknowledges the problem and indentifies the solutions.

In the case of an issue such as RoE, this is difficult, since any remedy means higher rates for consumers. However, the ultimate effect of allowed RoE being below the level required by investors may be a lessened ability to maintain and develop systems and this may result in inefficient natural gas service. Thus, substantial attention must be paid by the industry to establishing and maintaining the necessary credibility, through informal outreach, public presentations, and education such as this study.

II. Introduction

A. Background

Evaluating LDC allowed rates of return is a significantly different exercise than the review of pipeline allowed rates of return. Pipelines are subject to a single decision maker, the Federal Energy Regulatory Commission (FERC), while LDCs are subject to the jurisdiction of fifty different state public utility commissions (PUCs), and in some cases to regulation by the municipalities that they serve. In short, the approaches and the results among PUC decisions are much more diverse than is the case at the FERC, and the relationships between LDCs and their state regulators are more direct than those funneled through a central national venue.

Accordingly, this AGF study avoids singling out particular jurisdictions or companies, rather working to gain a common view across the industry of those factors or issues that do exhibit some commonality. Additionally, in part because there is not a single decision maker in the national LDC arena and in part because of the nature of AGF's mission, the AGF Study is intended as an examination of the facts and opinions it has elicited.

B. Process and Structure of Study

The body of the study consists of three major sections, Sections III through V.

In Section III, a quantitative analysis is combined with extensive interviews with financial community analysts and industry senior executives, to determine whether a pervasive problem exists or is emerging as to the rates of return being allowed to LDCs, and if there is such a problem what its implications might be for public policy. Heavy emphasis is placed here on the importance of credibility to the extent the industry claims the existence of a problem, with thoughts elicited from the interview process as to how such credibility might be enhanced.

In Section IV, to the extent that any problems in levels or trends in allowed returns have been identified in Section III, the processes and approaches used by PUCs that lead to such deficiencies or trends are identified and examined. Are there chronic forces at play that will result in long-term declines in allowed returns, or are current levels a short-term phenomenon?

Section V addresses possible changes or adjustments in observed processes, to the extent such changes or adjustments might be needed to respond to chronic issues that are identified in the study.

It is fair to say that Section III, grounded in observations of the rates of return actually being allowed and in the perspectives of the financial analysts who evaluate those companies and the senior executives of the regulated companies, is by far the most important aspect of this study. Developing the case that allowed returns have declined, that the levels at which they are being allowed are becoming problematic for the regulated companies, and that their problems will eventually become the public's problem, is critical as a threshold that must be crossed prior to questioning the specifics or the mechanics of the return-setting process.

III. LDC Allowed Rates of Return

As noted, the determination as to whether there has been a decline in allowed rates of return on equity and the development of a case as to whether such declines have long-term public-policy implications have been approached both quantitatively, through the measurement of allowed returns over time, and qualitatively, through an extensive series of industry interviews. Section A, below, presents the quantitative analysis. Section B then uses the results of the interviews to interpret the quantitative data.

A. Allowed LDC Rates of Return over Time

In order to measure changes in allowed returns on equity over the past several years, NCI gathered all reported LDC rate cases that were resolved from 1990 through mid-2008.[1] In total nationwide, there were 532 LDC rate cases closed during that 18.5 year period, spread fairly evenly over the many regions of the country. Of those 532 rate cases, many of them were resolved such that there was no stated rate of return on equity, usually as the result of a settlement. Accordingly, there were a total of 377 decisions in which a rate of return on equity was approved by the LDC's regulator. These 377 data points are broadly spread over the 18.5 year period examined, and thus give a reasonably clear picture of the trends that have emerged in state regulation of LDCs.

The NCI analysis of these trends is conducted in two parts. First, simple averages of the allowed returns have been calculated for each year in the 18.5 year period. These will be presented in Figure No. 1A, with an amplified view of the results for the most recent period, 2000 through 2008 in Figure No. 1B.

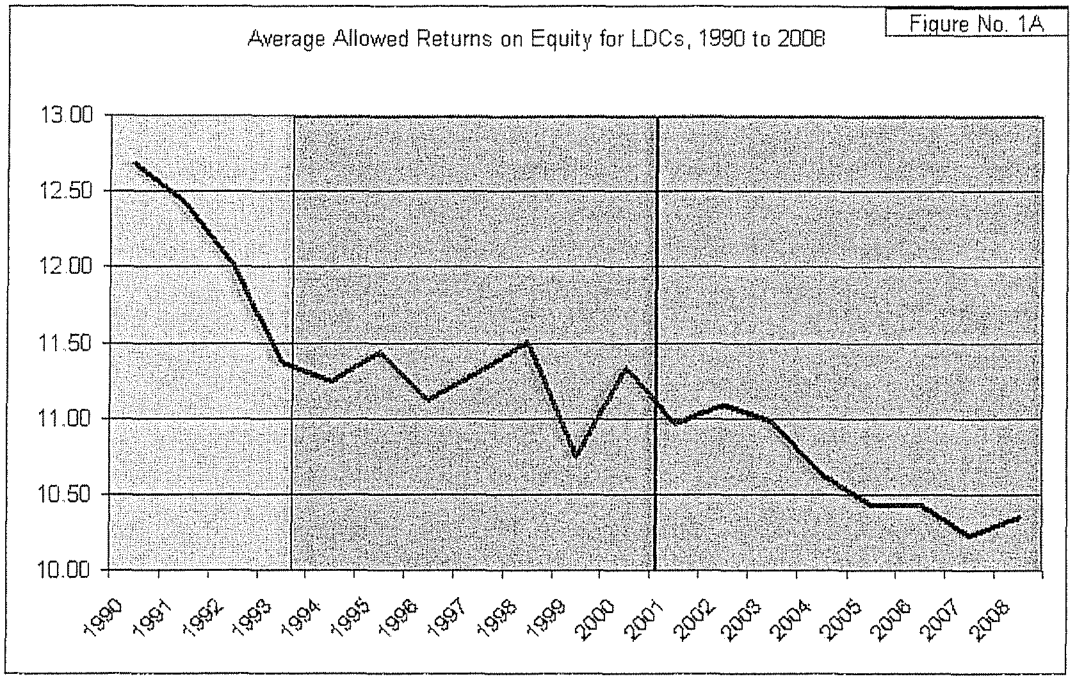
Then, recognizing that averages over diverse groups of data points might not tell the whole story, the progression of the distribution of returns is analyzed, for the Figure No. 1B period from 2000 through 2008. This progression is set forth in Figure Nos. 2A through 2C.

Then, in one additional observation, the common equity ratios to which these returns are applied have been observed over the same periods, comparing the equity ratios requested with those allowed, to determine trends in any gap between the two.

[1] Source: Regulatory Research Associates, SNL Financial, "Natural Gas, Past Rate Cases," July 2008—Data covers only the first half of 2008.

1. The Overall Average Allowed Returns, 1990 through 2007

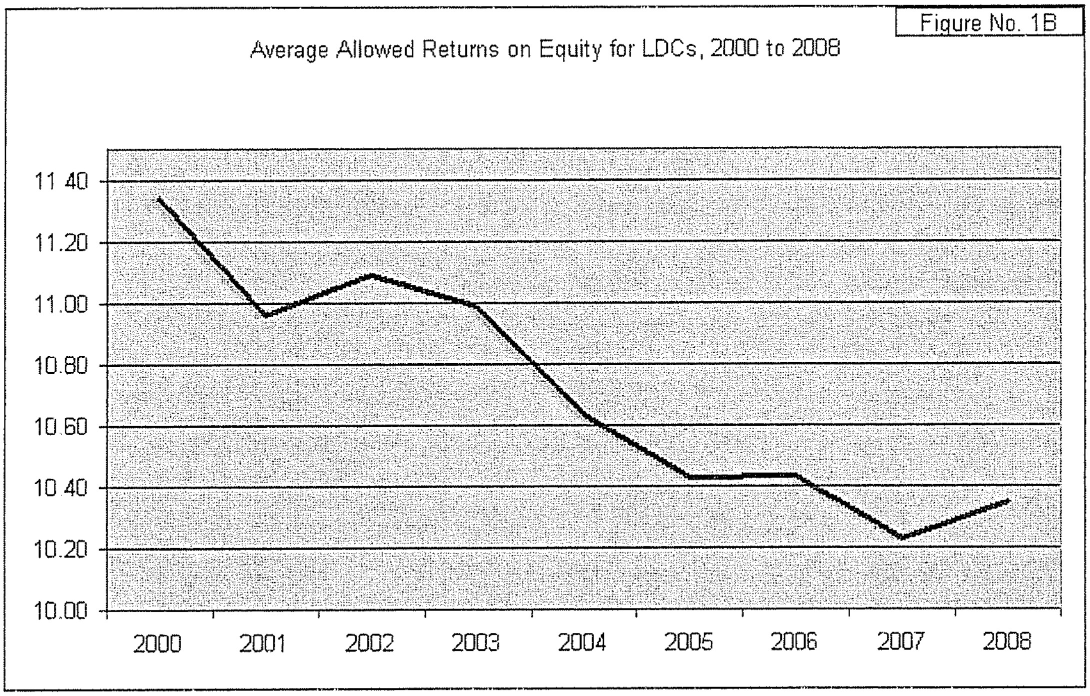
As noted, Figure 1A measures the annual averaged RoE awards across all of the 377 rate cases decided on the merits during the 1990–2008 period.[2]



From average levels in the 12.5 to 13 range at the beginning of the last decade, allowed returns declined into a relatively stable range between 11.0 and 11.5, from 1993 through 2000. Then a steady decline began, which has resulted in today's observed levels approaching 10 percent. In fact, there have been various recent awards below 10 percent, as will be discussed below.

[2] Ibid, extracted and analyzed by NCI.

The steady decline that supplanted the relative stability of the 1993–2000 period may be seen clearly with an amplified, focused observation of the 2000–2008 period, as set forth below in Figure No. 1B[3]:

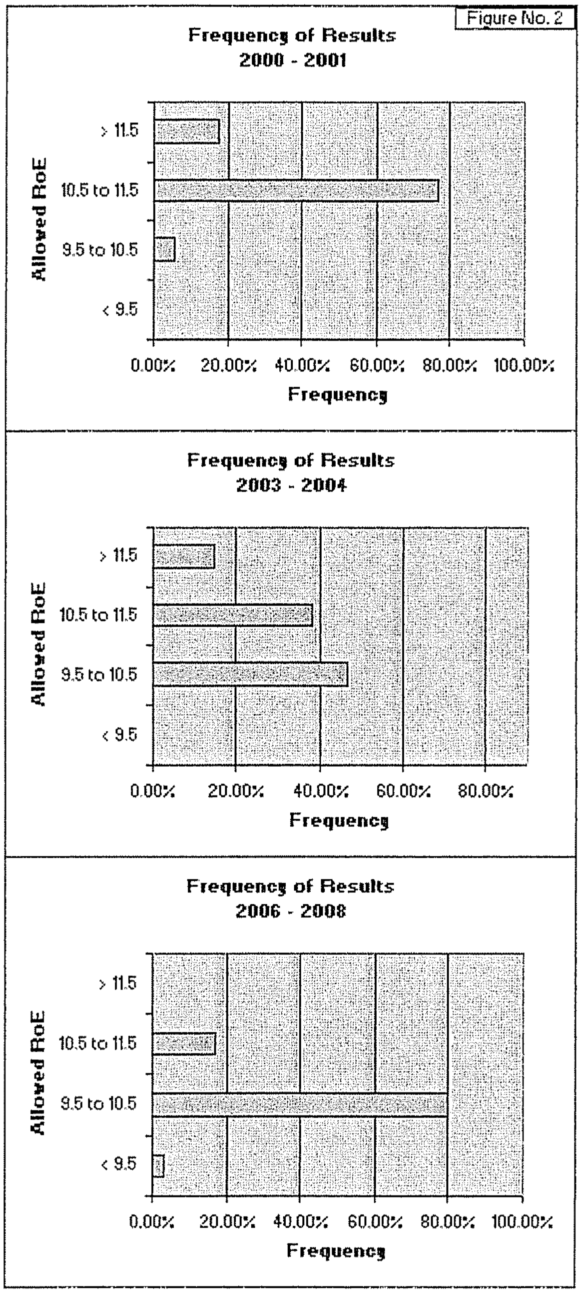


In part, the LDC industry has experienced a phenomenon similar to that experienced by interstate natural gas pipelines: Years of stable allowed returns within a fairly predictable band, followed by sudden exposure to returns significantly lower than those observed and expected at the time large past investments were made. Whether and how this could pose a significant challenge to new investment is explored in this study, primarily through the insights gained from the interview process. It is noteworthy and encouraging that there has been a slight uptick in the first half of 2008, with allowed returns averaging approximately 10.35 percent, but still well below historic levels.

[3] Same data as Figure No. 1A, stripped down to the 2000 – 2007 period only.

2. Distribution of the Allowed Returns

The pervasiveness of declines in allowed returns across the many jurisdictions studied is another factor that must be assessed – have the averages declined because of a few very low decisions, or has everyone's allowed return declined significantly? Figure No. 2 explores this question, examining the frequency of various ranges of allowed returns for three periods: 2000–2001, 2003–2004, and 2006–2008[4].



As Figure No. 2 shows, allowed returns in the first period, 2000–2001, were very tightly grouped in the 10.5 to 11.5 range – 76 percent of the allowed returns in those two years were within that range. A small group, about 18 percent, were higher, at levels above 11.5, and a much smaller group, about 6 percent, were in the 9.5 to 10.5 range. None fell below 9.5.

In the intermediate period, 2003–2004, we begin to see the decline, with the concentration moving down – to lower returns. The high (over 11.5) returns still constitute a measurable percentage, almost 15 percent of the total. However, the 10.5 to 11.5 category that dominated in 2000–2001 has dropped to 38 percent, and the lower 9.5 to 10.5 category has grown to 47 percent of total decisions.

The concentration toward significantly lower returns becomes fully apparent in the latest period, 2006–2008. Here, 80 percent of the allowed

[4] All data are from the same source and analysis as Figure Nos. 1A and 1B—Regulatory Research Associates, SNL Financial, "Natural Gas, Past Rate Cases," July 2008.

returns are in the 9.5 to 10.5 range (with more than half of those – 43 out of the 80 percent – being at or below 10 percent). We also see the emergence for the first time of a small percentage (one decision so far) below 9.5 percent.

Thus, there is no question that the decline in overall averages shown in Figure Nos. 1A and 1B is truly indicative of what is happening in most jurisdictions around the country. And, at a population of 377 rate case decisions, these are not anomalies.

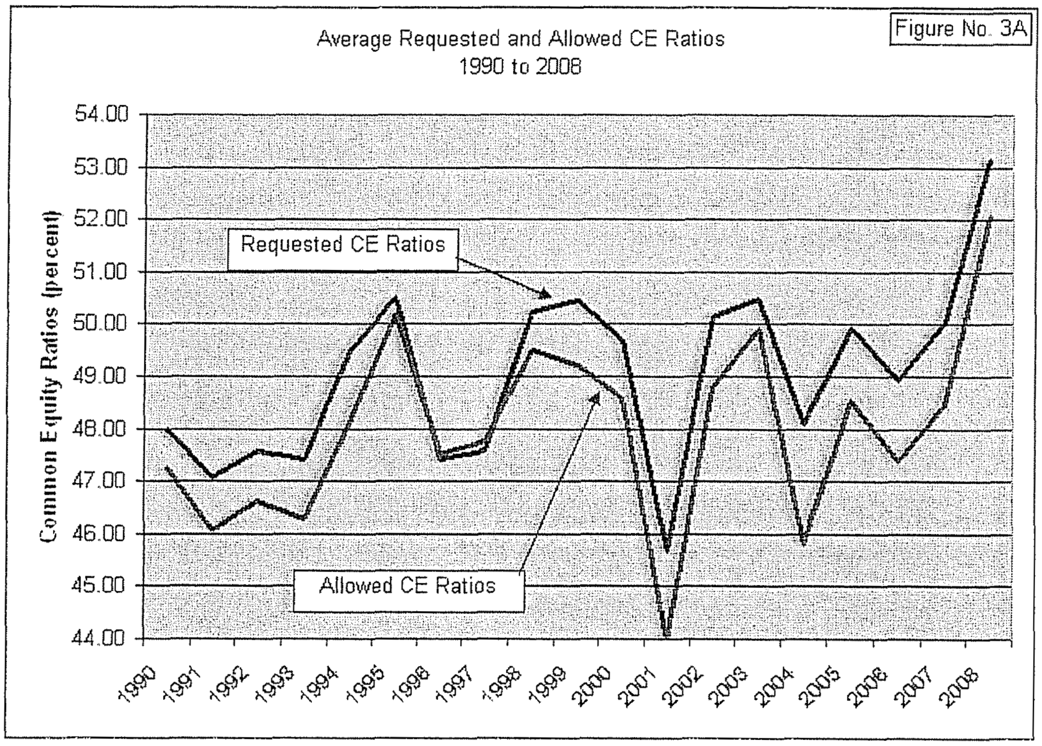
The fact of a decline in allowed returns on equity is merely that – a factual observation. The interpretation of such a decline – whether it is supportable, whether it is genuinely problematic for the industry or for public policy objectives, will depend on the actions of investors. Will they continue to invest in gas LDCs with these low returns or will they invest their capital in other businesses with similar risk that offer higher returns? An early indication of the answer to this question can be seen in the perceptions of the financial analysts and industry leaders who follow the industry.

3. Requested and Allowed Common Equity Ratios

Over the same 1990–2008 and 2000–2008 periods, the relationship between requested common equity ratios and the approved levels were examined. The common equity ratio is one of the most significant non-RoE rate elements in a rate case, in that a dollar of rate base that is deemed to be supported by debt, rather than by common equity, loses approximately 65 percent of its pre-tax earning power.[5]

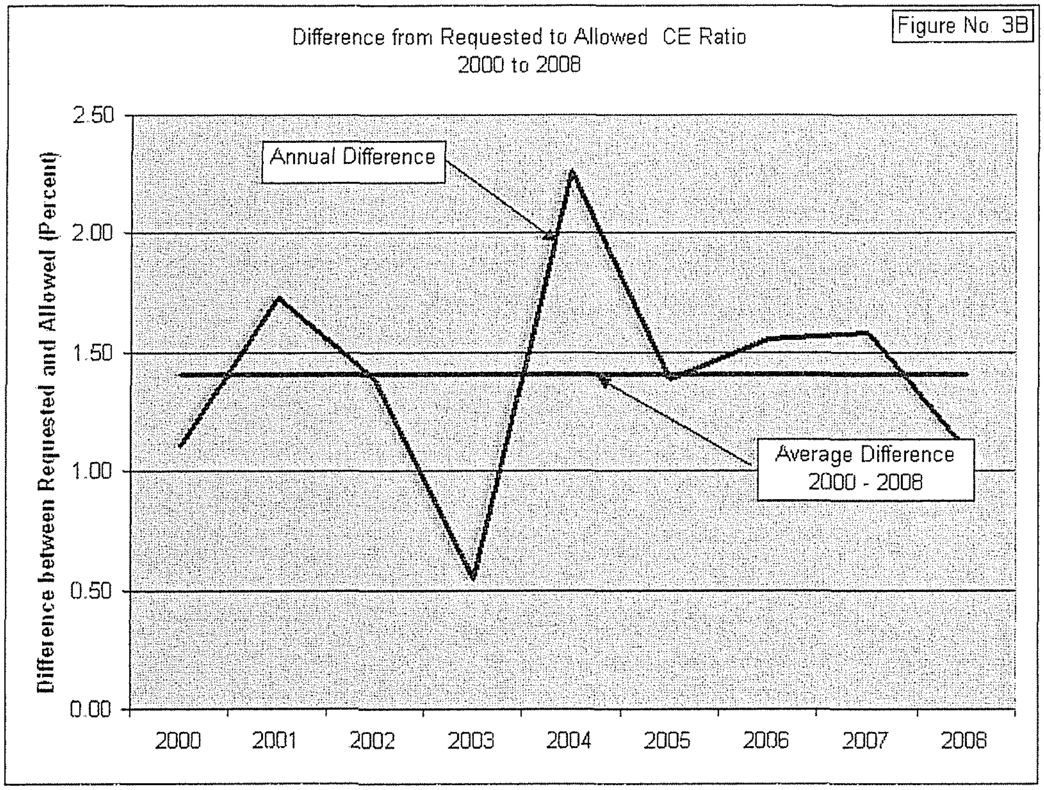
[5]Based on assumptions of an 11 percent RoE and a 6 percent interest rate, the pre-tax cost of a dollar of equity is approximately 17 percent, or 11 percentage points higher than the interest rate–thus according it only the debt cost rate under-prices the dollar of equity by 11 percent out of 17 percent, or 65 percent of its cost.

Figure No. 3A sets forth the average annual requested and allowed common equity ratios for the 348 LDC rate cases decided from 1990 through 2007 where a common equity ratio was stated. As with RoE, there were another 200 or so resolved rate cases wherein settlements did not state a number.



It is apparent from the plot that, beginning in the late 1990s, a broadening gap began emerging between the common-equity ratios represented by the LDCs themselves and those approved by regulators.

Figure No. 3B focuses on the 2000–2007 period, depicting the difference between requested and allowed common-equity ratios.



The annual decrement of allowed common–equity ratios below those requested by the LDCs has ranged between approximately 0.5 percent and slightly over 2.0 percent. The average for the eight-year period, represented by the red line, has been 1.41 percent.

This means that, on average, 1.41 percent of LDC rate base has been determined by regulators to be supported by lower-cost debt when the LDCs' own analyses indicated that it was supported by higher-cost common equity. Using a nationwide composite rate-base value for LDCs from the middle of the observation period,[6] this 1.41 percent difference would represent slightly more than $2 billion of investment that is "downgraded" from equity to debt.

When this happens, the LDC is left with a difficult choice: Allow equity investors to be chronically undercompensated, earning even less than the regulator's allowed return on equity, or refinance to higher leverage, thus incurring significantly higher financial risk. The end result of either course of action will be to disincent equity investment in the LDC.

[6] Per AGA Gas Facts, the 2004 net investment (plant minus accrued depreciation, plus other investments such as storage) was $168 billion for the entire US LDC industry. The total accumulated deferred income-tax balance was $24 billion, resulting in a net rate-base value of $144 billion. The 1.41 percent of rate base deemed to be debt rather than equity is thus worth $2.1 billion (1.41 percent of $144 billion).

B. Perceptions of the Industry – Implications for Utility Sector

As noted earlier, extensive interviews were conducted in 2007-2008 with equity analysts, bond rating agencies, and senior gas industry executives. The executives interviewed ranged from the chief executive officers of utility holding companies wherein the LDC business is one component, to the chief executive officers of LDC business units within holding companies, to chief executive officers of pure stand-alone LDC businesses. The geographic distribution of the selected executives spanned the lower–48 United States, from east to west and north to south. In the case of both the financial community representatives and industry executives interviewed, there is no further identification or attribution in this report, in order to avoid singling out any particular company or jurisdiction. The purpose of the interviews is to gain a sense of the industry's perception, and to gain the benefit of any insights that might have application beyond specific individual jurisdictions. Accordingly, the results of the interviews are presented within the context of thematic discussion of issues, rather than as the results of a poll.

The results are grouped around seven themes:

Theme 1 – Are allowed returns threatening capital availability?
Theme 2 – If returns are inadequate, why are you still investing?
Theme 3 – If capital gets tight, what are the consequences?
Theme 4 – How do investors view the importance of allowed RoE?
Theme 5 – How does RoE interact with other regulatory issues, such as decoupling, pass-through trackers, etc.?
Theme 6 – What is the state of LDC riskiness today, and is that level of risk reflected in allowed RoE?
Theme 7 – What sort of best practices were observed in the interaction of PUCs with the regulated LDCs?

Theme 1 – Are Allowed Returns Threatening Capital Availability?

External Competition: Certainly, favorable tax treatment of dividends has helped support utility stocks in general (although there appears to be evolving market concern over the potential for expiration of that treatment). However, concern over reductions in the allowed rate of return is beginning to show up in analyst opinions. Some of these expressions of concern see low returns as symptomatic of a broader unfavorable regulatory environment in the particular states involved, and some of the expressions of concern simply have to do with the absolute level of allowed return. One equity analyst opined that allowed returns below 10.0 percent "send up a red flag" that the LDC business may not be a good investment going forward. Additionally, analysts note that the investor population has changed substantially in recent years, with the growth of hedge funds, private equity firms, etc. These entities respond much more quickly to negative indications than did the institutional investors in the past. Thus, an overall perception that allowed returns are inadequate could, in the view of some analysts, cause a very rapid exodus of capital from the LDC industry.

Debt-rating analysts are somewhat less concerned, depending upon the quality of regulation in a jurisdiction. From a debt perspective, the return on equity constitutes the "cushion" of cash, the coverage ratio that protects debt from fluctuations in the business. Thus, debt-rating analysts weigh the overall stability of revenues in the totality of the ratemaking system against the security they would require from the return on equity. Like equity analysts, they see low allowed returns as potentially symptomatic of overall negative regulatory environments, which would concern them greatly. However, if they are satisfied that the rest of the ratemaking process is in fact fair and conducive to stability, the debt-rating analysts are less concerned over allowed return on equity.

One major concern raised by debt-rating analysts over low allowed returns is the impact it has on the rated company's incentives. Low allowed returns strongly incent a company to shift investment from the LDC business to higher-growth, higher-risk lines of business, in the words of one major bond-rating analyst, which then can increase the overall financial volatility of the whole company. Such increased volatility is of great concern to the debt analysts, and can rapidly lead to downgrades that then increase the cost and decrease the availability of debt.

Internal Competition: Within multi-business holding companies, it was indicated that discretionary investments in the LDC business must compete with investments in pipelines, in unregulated businesses, etc., all of which exhibit significantly higher returns than those being allowed in the regulatory process in most jurisdictions. A specific exception is California, where generically derived RoEs above 11 percent have kept LDC subsidiaries on a level playing field with the risk-adjusted returns from other business lines. In general it was indicated that allowed returns had to be above the 10.5 range to avoid causing major concern, and that it required returns above 11 percent for going–forward discretionary capital programs to be relatively secure. When allowed returns are observed or expected to drift below 10.0 percent, all of the senior executives expressed deep concern over the availability of internally competitive capital. Additionally, it was noted by at least one company that at a 10.0 percent return on book equity, there is inadequate cash generated to pay dividends while retaining enough to grow at the rate expected by investors. This phenomenon will be discussed later in Sections IV and V.

An additional issue raised by multi-state LDCs was the competition for capital within the LDC sector, but between jurisdictions. In other words, if the LDC serves two states and one of those states exhibits generally lower returns than the other, the low-return state may lose the competition for discretionary investment.

A point that was emphasized is that the internal competition for capital within holding companies is not driven at all by the cost of debt – it is driven by the expected return on equity to be derived from alternative investments. Thus, a holding company with a marginal cost of debt of 6 percent that is choosing between an LDC investment and a pipeline investment at 12.5 percent will require the LDC investment to match a risk-adjusted version of the pipeline investment, rather than some risk-premium-adjusted version of the cost of debt. Accordingly, it is the alternative equity investment, the 12.5 percent pipeline investment, which determines what the LDC must earn to be competitive. Based upon historic experience, this LDC equivalent investment would need to earn 11.25 percent or greater to meet that criterion.

An important point regarding the internal competition for capital was that most executives saw it not for the potential to deprive them of capital for needed projects–their companies will continue to invest as needed to maintain the health of their systems. Rather, they saw it as the front-line indicator, the "canary in the coal mine," indicating looming problems in external capital markets.

Today's current credit and financial turmoil clearly adds to the concern raised by the financial community. The rapidly evolving difficulties in raising all types of capital, both debt and equity, would suggest that any negatively perceived factor, such as inadequate or declining allowed rates of return, could exacerbate an already problematic situation in funding new infrastructure.

The overall summary of the analysts' and companies' assessments of the decline in allowed returns is that significant pressure is already being experienced in internally competitive investment choices, and that capital flight in public markets is a real possibility given changes in the investor population. Impacts are primarily seen in discretionary investment, in that the vast bulk of dollars invested by LDCs are required by the obligation to serve or by safety/integrity rules. As more than one senior executive put it, "As long as we are in this business, we will invest what it takes to run the business safely and reliably. However, we will not invest beyond what is necessary to do so, and we will increasingly look for ways to get out of the business if the observed declines in allowed returns are expected to continue."

Theme 2 – If Returns Are Inadequate, Why Are You Still Investing?

In spite of the deep level of concern expressed by the bulk of the senior executives, it is clear that each of them continues to compete for both internal and external funds, and that substantial discretionary investments are being promoted, sometimes successfully. This led to one of the most frequently asked questions in response to concern over low allowed rates of return: Why are infrastructure replacement projects, market growth projects, and LDC acquisitions still taking place, if the returns are inadequate? The answers from the senior executives were all grounded in a combination of the prevention of loss of opportunities and in a fundamental trust for the regulatory and legal process over time.

Effectively, the consistent answer was this: If an opportunity presents itself to extend into a new market, to enhance the long-term health of the system by replacing infrastructure, or to expand by acquiring another company, that opportunity has two characteristics: its availability is time-sensitive, and its impact is long-term, usually spanning multiple decades. If the opportunity is passed up because of what should be a short-term deficiency in allowed rates of return, the opportunity may be gone forever.

The corollary observation made by several of the senior executives, and by at least one equity analyst, is that low allowed returns today are being applied to investment made in past years, based upon the same level of trust in the system. Accordingly, the current steady decline in allowed returns runs the risk of undermining that trust, and threatens the credibility of the executives who promoted the past, now-embedded investment. It was made very clear that if there is not evidence of a reversal of the downward trend–that is, if the implicit belief that the regulatory and legal processes will bring allowed returns back to the more stable, higher levels that pertained in the 1993 to 2000 period, there is some point at which the combination of trust in the system and reluctance to let opportunities pass by will no longer sustain investment momentum. If that happens, the senior executives emphasized that the resulting frustration of new investment will take a long time to reverse.

<u>Theme 3 -- If Capital Gets Tight, What Are the Consequences?</u>

As noted, the executives interviewed all committed that as long as they are in the LDC business, they will invest what is necessary to run their systems safely and reliably. Thus the question is raised as to what happens, what suffers, if low allowed returns cause LDCs to be unable to attract capital. The first victim is discretionary investment, projects such as infrastructure replacement that can have long-term operating benefits to customers, but that are not absolutely required for current system operation. Discretionary investment can also include extensions outside of a current franchise area to bring service to new customers not subject to the obligation to serve. It can include operational enhancements such as storage, technological innovation, etc., that can add long-term efficiencies to a system, but that are not necessarily required. While the senior executives running LDCs continue to promote and fight for this kind of investment, the interviews yielded multiple anecdotes wherein the investment was not forthcoming.

While the primary bases for a fair rate of return are the constitutional and statutory standards requiring fairness to investors, the important public-policy consequence of inadequate returns would be the frustration of productive investment. This frustration and its impact on consumers are much harder to demonstrate for LDCs than for pipelines, primarily because LDCs are required to make such a large portion of their annual investment. However, from the sense of the interviews, the slowing of investment and the negative impact of that slowing are real.

One additional long-term impact on consumers of inadequate returns and a consequent reaction of investment markets was explained by the equity analysts. They described a scenario in which a combination of deteriorating debt coverage and perception by rating agencies that low returns demonstrate a negative regulatory environment ultimately lead to a downgrading of LDC debt. Characteristically, such downgrades take an extended period of time to reverse. So even if allowed returns are restored to healthier levels in response to a downgrade, the consumer cost of higher interest rates and of reduced limits on leverage could continue for years. The bottom line of this discussion was that the best answer for regulatory agencies is to "get it right in the first place."

Theme 4 – How Do Investors View the Importance of Allowed RoE?

The investment community's perspective on allowed RoE was best represented by the analysts interviewed. As noted, they spanned both equity analysts and bond–rating analysts. All felt fairly strongly that allowed returns are drifting down to levels that cause some alarm, but the extent of that alarm varied depending on the analyst.

In essence, the least alarmed of the analysts felt that, if a low RoE is part of a holistic package of rate and regulatory features crafted in an atmosphere of cooperation and trust between the LDC and the regulator, such a package can work. For example, the use of stabilization mechanisms such as decoupling, in concert with various types of incentive ratemaking can – again if and only if they have been the collaborative product of both the LDC and the regulator – go a long way to offset the impact of low rates of return.

However, the concern raised even by the least alarmed of the analysts is that low returns might become established when such a cooperative environment exists, then subsequent regulatory action begins to chip away at the stabilization and incentive mechanisms that balanced the low return. Additionally, as was pointed out not only by analysts but by company executives, it only takes a single major disallowance to cause major long-term financial damage to an LDC.

Beyond the holistic view expressed above, analysts are concerned that a combination of allowed RoE below 10 percent, with a demonstrated continuous downward slide for the last eight years, will cause broad disenchantment with LDC investment that could take years to reverse. The observation, expressed earlier, that shifts in the population of investors toward hedge funds and private equity make large, sudden shifts away from an industry easier and more likely than in the past was considered important by the analysts.

Uniformly, both equity and debt analysts considered the allowed RoE to be an important barometer of the regulatory treatment of the LDC. The steady decline demonstrated earlier is thus a matter of major concern. Additionally, of course, there is concern over the absolute level of the allowed returns, as compared with comparable investments of equal risk, either internally or externally. As allowed returns have drifted to and below 10 percent, the perception is that many investments of equivalent risk could earn more.

Theme 5 – How Does RoE Interact with Other Regulatory Issues, Such As Decoupling, Pass-through Trackers, etc.?

As is discussed in Theme 4, a broad, balanced package of rate and regulatory mechanisms including such stabilizing features as decoupling and some "upside" potential through mechanisms such as incentive rates can – if constructed collaboratively between the LDC and the regulator in an atmosphere of trust – offset some deficiencies in allowed return. It was emphasized by some analysts and executives that the development of this collaborative approach leads to the healthiest long-term regulatory environment.

However, beyond the role of such other issues as part of a balanced package, there is a strong tendency by regulators to accord great weight to the "de-risking" impact of mechanisms such as decoupling, resulting in decrements in the allowed rate or return. However, where RoE is set by reference to a proxy group of other LDCs, it is important to ask whether the observed results from those LDCs already reflect the impact of the same mechanisms. That is, if a population of proxy LDCs demonstrates an investor-required RoE of, say 11 percent, and if all of those proxy LDCs already have decoupling mechanism in place, it is inappropriate to apply an additional decrement to the indicated return to reflect the introduction of a decoupling mechanism in the LDC whose rates are being set. Among those in the industry, this kind of return decrement in response to mechanisms that stabilize rates for both the LDC and its customers was a matter of concern. All of them believe that such decrements are ill-advised and unfair.

Theme 6 – What is the State of LDC Riskiness Today, and Is that Level of Risk Reflected in Allowed RoE?

LDC executives expressed significant concern over regulatory perceptions that their business is not particularly risky. In particular, statements made by the FERC in its Kern River decision[7] to the effect that pipelines are more risky than LDCs drew a number of negative comments. However, at least when the pipeline-LDC comparison was explored more fully, it became clear that the LDC

[7] *Kern River Gas Transmission Company*, Opinion No. 486, 117FERC61,077 (2006).

executives were not demanding that they be considered fully as risky as pipelines, but rather that differences in allowed return between the two types of businesses should be maintained at no more than their historic levels. That is, whereas interstate pipeline rates of return have remained solidly in the 12 to 14 percent range for 30 years, LDC allowed rates of return have, at least in the decade prior to the current decline, stayed in a range from 10.75 to 12.5 percent. This would imply a fairly sustainable difference in allowed return between pipelines and LDCs of approximately 125 basis points.[8] The concern is that now, in a period when pipelines are expected to be at least at the lower end of the historically observed range of allowed returns (12 percent), LDC returns are experiencing a decrement from that level of at least 200 basis points, and in some cases 250 to 300 basis points. If pipelines prevail in their arguments at the FERC to move somewhat higher, say to 12.5 percent, the historic LDC decrement would suggest a prevailing LDC allowed return of 11.25 percent. In the view of the LDC executives, no rationale has been put forward to justify the much larger decrements being experienced.

Effect of Rate-Design Changes: As noted earlier, many regulatory authorities point to rate-design changes such as decoupling, weather normalization, etc., as having the effect of stabilizing the LDC's revenues and thus tempering volumetric risk. There is fairly broad acknowledgment among the LDC executives that, where such mechanisms are in place and are properly designed, they do have such an effect of stabilizing revenues and of stabilizing consumer costs. Of course, they point out, stability is a two-sided coin – protection against the down-side of load loss is offset by the loss of the upside of load gain. Thus, it is not as if the LDC has been unilaterally relieved of a risk, rather it has given up an upside gain opportunity for some protection against a downside risk.

It is also very important that mechanisms such as decoupling or revenue normalization be properly designed. For example, an adjustment mechanism to make up for load loss may, as is done in some jurisdictions, merely attempt to raise rates in only the same class of customer where the load was lost. Thus, for example, the impact of a lost industrial customer might be turned into a rate increase for the remaining industrial customers, but not for any of the other customers of the LDC. When that happens, the effect can easily be a death-spiral of the particular sector of load, the new rate increase driving off more industrial load, resulting in a further rate increase and so on. Thus, before the risk impact of any such revenue stabilization mechanism is built into a rate of return deliberation, the full impact of the mechanism must be understood.

A particular concern voiced by several executives was the tendency of regulators to apply a decrement either explicitly or implicitly to the allowed RoE as the trade-off for a decoupling mechanism. While the regulators justify doing so by

[8] This basis-point difference is consistent with FERC's finding in Kern River, where a 50-basis point difference was applied because the two out of four proxies had some significant share of LDC business, along with pipelines and production.

the allegation that the LDC's risks have been reduced, the executives point out that such a decision is often "double-counting." Because LDC RoE is usually set by reference to the financial results of other, similar utilities, if those utilities themselves have revenue-stabilization mechanisms in place, the impact of those mechanisms is already subsumed in the basic data being used to set RoE. Thus, the executives say, any additional decrement is unjustified and unfair.

Evolving and Increasing Business Risks: Meanwhile, regardless of the impact of such mechanisms, LDCs are exposed to a variety of risks that have been steadily increasing. These risks include unfunded government mandates, precipitous run-up in the cost of critical materials such as steel and in the cost of contract labor, the regulatory risk of cost disallowance, especially in periods of rapid gas-cost increase, and asymmetric regulation of uncollected gas cost (e.g., paying interest on overcollections but collecting no interest on undercollections). Additionally, in the competitive, unbundled world of today's interstate pipelines, the risk of bypass for LDCs' highest-volume customers – industrial and power generation – is pervasive.

It is important to contrast the impact of these evolving risks with the impact of the revenue volatility that is addressed by rate-design changes such as decoupling. As noted above, revenue stabilization is a two-sided coin: Before it took place, volatility caused by factors such as weather could and did result in increased earnings from time to time, in addition to the periods when it led to deficient earnings. Conversely, the evolving areas of increased risk are "one-way." They work only to the detriment of the LDC without the potential for a compensating upside. These areas of evolving risk are discussed individually:

- **Unfunded Government Mandates**

  Both the Federal and state governments place multiple, expensive requirements on LDCs that must be paid for not by funds provided by those governments, but by either ratepayers or investors. The most recent large-ticket examples of these requirements surround inspection and integrity evaluation. For example, under the Pipeline Safety Improvement Act of 2002 as enhanced by the Pipeline Inspection, Protection, Enforcement, and Safety Act of 2006, large scale and expensive inspections of transmission lines must be conducted, much more often than they were in the past. While much of the focus surrounding these statutes and the U.S. Department of Transportation regulations to implement them was on high-pressure interstate pipelines, there was actually an equal or larger estimated cost impact on LDCs. This is because LDC transmission lines – although far fewer and smaller than interstate transmission lines – are generally in "high-consequence" populated areas, thus triggering the most rigorous and costly requirements. The final DOT rule for distribution integrity management expected in 2009 would extend Federal inspection and integrity requirements to distribution systems themselves, at a cost estimated to be in the billions of dollars over the next several years.

As noted, every LDC executive interviewed reiterated the commitment to invest and spend the money necessary to ensure safety and reliability. On aging distribution systems, many of the costs required by Federal legislation may have been necessary anyway. However, the concern with uniform federally imposed mandates is that it can double the cost – performing the work required by Federal rules may not supplant the cost of inspections and replacements that would have gone on in the normal course of business.

The problem created by such unfunded mandates to incur operating expense and make substantial capital investment in inspections and replacements beyond what would normally be done is that they create costs that do not have any revenue-generation capability without a rate increase to customers. That is, investment in facilities that increase efficiency or add customers creates offsetting revenue that may preclude the need for a rate increase. However, required integrity investments must be recovered through increased rates, or will be absorbed by the LDC's investors.

None of the discussion questioned the advisability of uniform safety standards, but it was emphasized frequently that the full economic risk created by compliance falls on the LDC.

- **Increases in Construction Cost**

The LDC industry nationwide has consistently invested between $4 billion and $5 billion annually, for the last decade. Much of this investment has been required for system integrity, to meet regulatory mandates, and otherwise simply to maintain safe, reliable distribution networks. Much of the investment has also, of course, been made for purposes of providing new gas service to consumers. The cost of the inputs for all of this investment has risen dramatically in recent years.

According to anecdotal data provided by LDCs, individual components of LDC feeder line construction costs have increase 45–74% from 2002 to 2007:

- 4"-8" valves – 45%
- Steel fittings – 85%
- 2"-4" steel pipe – 4%
- 6"-12" steel pipe – 174%

In addition, contractor costs have risen dramatically, as demand for skilled services surged over the same period. Of course, regardless of construction cost, an LDC is theoretically allowed to include prudent investment in rate base. However, when costs increase at this pace, rate formulation can rarely keep up with them, even with a forward-looking test year. Additionally, to the extent that reduced allowed returns tend to place downward pressure on the LDC's ability to raise capital, radically increased size of those capital demands because of construction cost increases exacerbates the problem and thus becomes an ongoing risk increase for the LDC.

- **Gas-Cost Volatility**

Over the last few years, the wholesale market price for natural gas has experienced degrees of volatility never before seen. For example, during the last two winters, the spot price of gas at New York City has exceeded $30 per Dth, sometimes moving by double-digit amounts within one day. The primary industry benchmark wholesale price, Henry Hub, has generally been in a $7.00 to $8.00 range for some time, with significant daily and monthly volatility.

The impact of this volatility on LDCs has various aspects. Although virtually all LDCs do have a gas-cost tracking mechanism in their rates, the volatility of prices makes the forecast cost extremely difficult to predict. Thus, deviations between actual costs and forecast costs are frequent and large. If the deviation is an underrecovery, most LDCs are entitled to some manner of deferred recovery, but that recovery usually takes a full year and adds to the LDC's short-term financing requirements because in essence the unrecovered gas cost must be borrowed. If the deviation is an overrecovery, there is frequently a ratepayer backlash because of perceptions that the LDC was overcharging in past periods. Thus, volatility in gas prices has the dual effect of exposing large dollar amounts to extended recovery, financial cost and the attendant risk, combined with reaction and criticism among ratepayers and regulators when actuals deviate from forecasts, creating the risk of cost disallowance.

Most regulators view the LDC's ability to pass through gas costs as reducing risk. Certainly as compared with no such ability, such a reduction does occur. However, in RoE analyses that depend upon industry proxy groups, the risk-reducing effect of gas-cost tracking is a neutral factor, since all of the observed proxy companies have an equivalent ability. Meanwhile, it is important to recognize, as discussed above, that even a tracking mechanism cannot fully protect the LDC from the uncertainty and ratepayer backlash caused by large swings in gas cost.

- **Regulatory Disallowance**

  Of all the regulation-related risks, disallowance of costs is the most direct in its impact on the LDC's risk profile. Some costs such as contributions, economic development, dues and donations which are essential to the LDC's role as a member of its community, are routinely disallowed in some jurisdictions. This creates an automatic, chronic inability for the LDC to earn its allowed rate of return, despite the apparent business necessity of the expenses. The interviewees indicated that this sort of disallowance is never considered or compensated for in the model used to determine the allowed return.

  The larger risk, alluded to in discussing gas-cost volatility, is the unexpected disallowance of single major cost items, such as gas cost deemed to be excessive or the cost of treating certain supplies to meet quality specifications. The interviews cited at least one example of such a disallowance occurring in an amount equal to the LDC's full allowed return to investors for the year. That disallowance was ultimately reversed in court years later, but the financial market's perception of the risk remained. In general, PUC review of an LDC's gas cost and purchase policies is often after-the-fact, allowing attacks on past decisions with the benefit of hindsight. Accordingly, LDC sales service with its substantial gas-purchase obligation includes a good degree of risk in today's market.

- **Asymmetric Regulation of Uncollected Gas Cost**

  A factor affecting a number of LDCs, both in the risk/cost of gas-cost underrecoveries and in the pressure on their short-term financing capability is the treatment of the time value of deferred underrecoveries. Among LDCs recently surveyed as to the structure of their gas-cost,[9] it was learned that 62 percent either receive no interest on the recovery of unrecovered gas cost or they receive a lower time value of money than is paid on overrecoveries. This asymmetry adds to the financial risk entailed by gas-cost volatility and the probability of underrecoveries.

- **Risk of Bypass**

  LDCs have for years been faced with the potential to lose their largest individual customers, generally large industrial and power-generation loads. If such customers have access to the same interstate pipeline that serves the LDC, they frequently enjoy the economy of size to be able to justify connecting directly – eliminating the LDC as the middleman. This is especially true when the LDC's regulators have required a "tilt" in cost allocation and rate design in order to cause the large customers to

[9] This survey, conducted in 2005 for the American Gas Association, received responses from LDCs in 60 percent of the state jurisdictions, including all of the large, populous states.

subsidize smaller residential and commercial customers. According to the interviewees, market realities have largely forced regulators to phase out such subsidies – it has been recognized that maintaining the cross-subsidies runs the risk of losing the loads altogether.

For many LDCs, such large individual customers are still significant contributors to the LDC's total revenue profile. Yet, even if all rate cross-subsidies have been phased out of the charge to the large customer, it is still frequently cheaper to connect directly to a pipeline. Pipelines themselves are much more accessible and easily used by an industrial customer than was true in the past. FERC open-access, interconnection, capacity release, contract segmentation, and business-practice standardization have all served to make direct access to a pipeline much more feasible for an end-user than it was before those policies matured. In addition, many large marketers offer "asset management" services, whereby the end user can sign up for pipeline capacity, then hire the marketer to buy gas, manage the capacity, and make sure the correct quantities always reach the end user. Such marketers also manage large portfolios of capacity released by multiple shippers, sometimes including even the LDC's own pipeline contracts. These portfolios can allow them to serve the end user directly from the pipeline, without the end user ever being required to contract for pipeline capacity.

In short, bypass directly from pipelines to large end users has always been a risk for LDCs, but today the ease and feasibility of accomplishing that bypass are greater than ever. The impact of this risk varies widely across LDCs, depending on the degree of their reliance on large individual-customer loads.

Inability of New Business Margin to Sustain Growth: Another factor raised by some of the LDC executives, which goes partly to risk and partly to the inability of the LDC business to offset that risk, is the margin contribution from new business. When an LDC is compelled to add a new customer in its franchise area, the rules vary widely as to how the new customer's margin contribution will be set. In most jurisdictions, efforts have been made to avoid subsidization of the new customer by existing customers, so mechanisms such as capital contributions, limited-term surcharges, etc., have been used to ensure that the new customer fully covers its cost. However, this situation is at variance with many capital intensive businesses, where growth in demand actually gives a disproportionately large margin contribution. Basic capacity is put in place, and then marginal growth using that capacity has a low marginal growth and high marginal profitability. For LDCs who can barely cover the marginal cost of adding a new customer, growth does not offer this kind of contribution, which could make up for deficiencies in the earning capability of the embedded business. Thus, it is particularly important that the allowed rate of return on the embedded business be adequate.

<u>Theme 7 – What Sort of Best Practices Were Observed in the Interaction of PUCs with the Regulated LDCs?</u>

As noted in Theme 4, the financial community views with great favor those regulatory situations where the LDC and the regulator have worked together in an atmosphere of mutual trust, to craft balanced packages of rate and regulatory mechanisms. Such fairness and balance can offset some apparent deficiencies in allowed return since, first, such packages tend to stabilize revenues to reduce earnings volatility, and, second, where there is an atmosphere of mutual trust, the financial community can be confident that the regulator will work with the LDC to maintain financial integrity, regardless of the challenges faced – when there is a real problem, the LDC will be able to get timely relief. This is in sharp contrast to the more adversarial relationships that exist in some states, wherein the LDC faces a constant uphill struggle to achieve balance and stability in its regulated business. Thus, a definite "best practice" in both the regulator and the regulated is the development of collaborative initiatives that can foster an atmosphere of mutual trust. While this report does not generally single out specific jurisdictions, an exception is made here – according to analysts, New Jersey is an example of a state where such balance has been achieved.

Additionally, as noted in Theme 1, California has maintained mechanisms that periodically establish generic LDC returns in the state, using multiple analytical approaches to arrive at returns which the regulated LDCs have generally regarded as fair and adequate, at levels in excess of 11 percent. These were the sole LDCs interviewed that did not express concerns over capital constraints. Clearly some degree of trust and openness has evolved in the state to allow this to happen, and it is possible that other states could benefit by observing California.

IV. Reasons for Declines in Allowed RoE

There is no doubt that allowed returns on equity have steadily declined, as is measured and observed in Section III. Are the declines the result of changes in approach by regulators, or the result of the normal operation of the approved mechanisms, in the face of input numbers that have simply declined? For the most part, the reason appears to be the latter – simple evolution of the fundamental input data has been allowed to pull returns down through the mechanical operation of the favored regulatory tools for setting returns. A consistent theme sounded by industry executives in commenting on this evolution is the need for some sort of "human intervention," or benchmarking against actual investor expectations, to recalibrate the use of the approved mechanisms. This is often referred to as a "market-based reality check."

In particular, it is worth noting that the cost of debt built into rates is generally based upon an actual measurement of the debt instruments held by the subject utility, with the benefit of stated interest rates and other cost factors. In contrast, the cost of equity is always an estimate, based upon models that attempt to approximate investor requirements. Investors' actual requirements (the conceptual equivalent of an interest rate on a bond) are not directly measured. Accordingly, it would appear to be very important to find ways to ground RoE outcomes in something more than theoretical constructs that are merely assumed to mirror investor expectations.

There are three dominant mechanisms used to set allowed returns on equity in the regulatory arena: Discounted Cash Flow, Equity Risk Premium, and the Capital Asset Pricing Model. As a first step, each of the mechanisms will be explained, along with a brief description of the dynamics of the inputs to each. Then the interplay among the three mechanisms will be examined.

A. Discounted Cash Flow

Discounted Cash Flow, or DCF, is widely used throughout the state regulation of LDCs and is the exclusive method used at the FERC to set pipeline rates of return. DCF is an attempt to measure the expected cost of money for the typical investor in the stock of the regulated company. It does this by assuming that the market price of the stock is equal to the net present value of a perpetual future dividend stream, discounted to today's value at the investor's cost of money. This assumption is then turned into an equation to solve for the investor's cost of money in terms of the current stock price, the current dividend rate, and the expected rate of growth in earnings or enterprise value. Although the underlying math is fairly complex, the ultimate formula that results from the process is extremely simple:

$$\mathbf{K = D/P + g}$$

Where "K" is the investor's cost of money, "D" is the annual dividend, "P" is the stock price, and "g" is the rate of growth.

These factors are not generally directly available for an individual LDC, since most LDCs are subsidiaries of larger companies and thus are not publicly traded. So the normal practice is to use "proxy" companies, or a population of publicly traded companies with significant LDC business that are considered similar enough to the LDC in question to be used as benchmarks in determining what investors will expect out of the LDC in question.

Probably the best way to demonstrate the operation of the DCF formula by a PUC and to discuss its implicit issues is to use a real-world example. The example used here is taken from an actual LDC rate case in 2007, without naming the LDC or the jurisdiction. Similarly, the specific proxy companies used in the analysis have been designated simply as "LDC 1" through "LDC 12," to avoid any prejudice arising from their representation here. Based on the author's experience, this extract from a PUC staff witness's analysis (shown below in Figure No. 4) is quite typical of the application of DCF in the state regulatory arena throughout the United States.

DCF Example from PUC Staff Exhibits **Figure No. 4**

Company	13 week Avg. Price	Current Dividend	Dividend Yield	Average Growth [10]	Cost of Equity
LDC 1	$42.75	1.64	3.84%	5.9%	9.8%
LDC 2	$31.80	1.28	4.03%	6.2%	10.2%
LDC 3	$31.47	1.46	4.64%	4.4%	9.1%
LDC 4	$52.69	1.52	2.88%	6.6%	9.5%
LDC 5	$48.89	1.86	3.80%	2.9%	6.8%
LDC 6	$48.45	1.42	2.93%	4.7%	7.7%
LDC 7	$26.59	1.00	3.76%	4.2%	8.0%
LDC 8	$38.47	0.98	2.55%	9.4%	12.0%
LDC 9	$31.73	0.40	1.26%	11.3%	12.6%
LDC 10	$38.24	0.86	2.25%	6.6%	8.9%
LDC 11	$27.76	0.70	2.52%	11.6%	14.2%
LDC 12	$33.65	1.37	4.07%	3.1%	7.2%

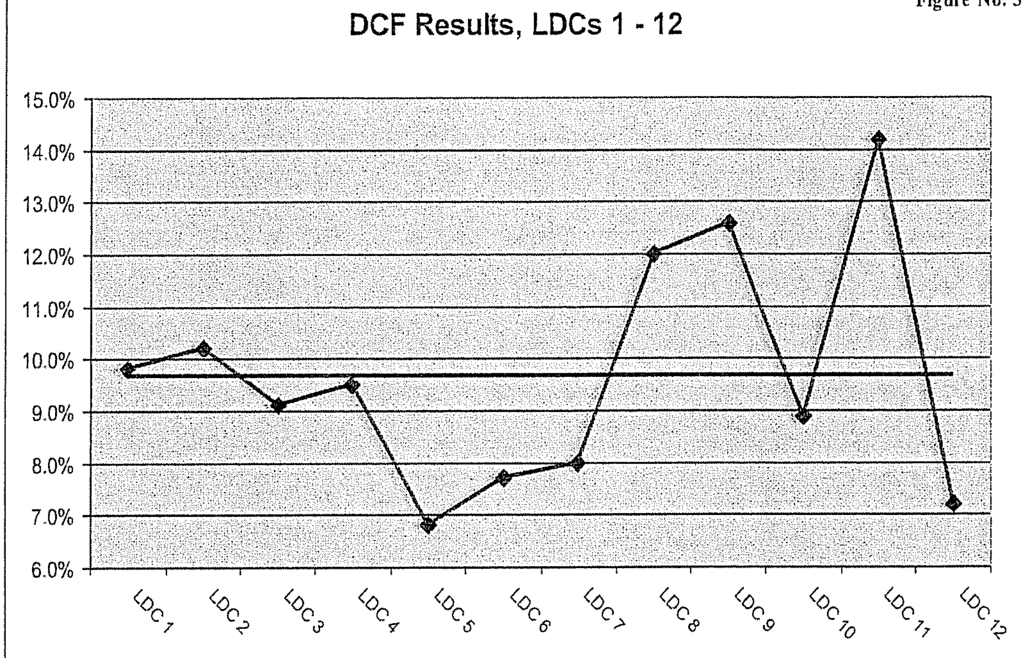
The DCF calculation described above is applied by first determining a dividend yield rate for each proxy (dividend divided by market price), then adding to that dividend yield rate the expected rate of growth in earnings and dividends. Then the resulting costs of equity for the proxy companies are used as a range within which the company at issue is placed, based on its relative risk. Typically, without compelling evidence to the contrary, a company is placed at the median, the midpoint, or the average of the range. In the range shown above, from a low of 6.8 percent to a high of 14.2 percent, the average would be 9.7 percent.

In other words, a typical PUC application of the DCF methodology using current market numbers yields the sort of below 10 percent result about which the industry interview subjects express such concern. Are there aspects of this calculation that argue for reexamination of the methodology? There are at least three observations that suggest something beyond this DCF calculation would be appropriate.

[10] The Growth rates used are averages of four different calculations, including historic and projected growth in earnings per share, historic and projected growth in book value per share, and growth in assumed retained earnings. The end result is intended to represent the rate of growth in earnings and dividends that investors could reasonably expect from each proxy company.

First, there is simply the very wide diversity of the results, for twelve companies that should ostensibly be quite similar. Graphically, as presented in Figure No. 5, this wide diversity is quite apparent:

Figure No. 5



From the lowest result to the highest result, there is a difference of 740 basis points. Interestingly, there is very little similarity between the "proxy" results shown for these twelve individual companies, and the actual allowed rates of return determined by their own PUCs. In short, there is a real question as to whether this genuinely defines the range of real investor expectations that can simply be averaged to yield a fair return. The potential for shortcomings in this analysis have been less apparent in the past when depressed stock prices gave high yield rates, and when various measures of growth pushed the numbers somewhat higher. However, today, arguing that a measured cost of money ranges from 6.8 percent to 14.2 percent, and that therefore an average of 9.7 percent is appropriate would appear to be a misuse of averages.

The second observation as to this DCF approach is its inherent circularity. As noted, the approach set forth in Figure No. 4 is very typical of PUC applications of the methodology, both in the calculation itself and in the selection of the proxies. If all the proxy companies are LDCs whose returns are set the same way, then measuring historical performance and Wall Street expectations of growth will always reflect the outcome of the same methodology that is being applied to measure that outcome. So if the DCF methodology is yielding an inadequate result, the inadequacy would affect most or all of the proxy companies as well. Thus, even if accurate, DCF would measure the cost of money necessary to compete for capital with other LDCs, but would not measure the ability of the whole industry to compete for capital with other businesses with similar risk not subject to this regulatory regime.

The last observation goes not to the theory or calculation of the DCF cost of money, but to the use to which it is put. By developing a cost of equity based upon stockholder expectations in the stock market, at best the methodology yields the individual investor's expectation of long-term return on a share of LDC stock. The next step, applying this number directly as a return on book equity, creates a potential disconnect – it is now limiting the specific cash return on rate base that will be available to achieve the investor's expectations. That cash be sufficient? To answer this question, we have to assess two factors: The LDC's ability to pay its current dividend and the LDC's ability to achieve the growth in earnings and net book that is required by investors. If we assume that the primary driver of growth in earnings per share or net book value per share is the growth in retained earnings, it is possible to test the DCF-derived return for adequacy.

Figure No. 6 first derives the average values for each of the building blocks and for overall return, for the proxy group from Figure No. 4. Then it adds one more piece of data, the average book value per share for the proxy group (which is 19.22 as of the time of the other data used in the analysis, for a market-to-book ratio of 2.0). In essence, we are building the hypothetical "average" LDC on which the return is based. A dividend yield of 3.3 percent is added to a growth rate of 6.4 percent, for a cost of equity of 9.7 percent.

Test for Growth Deficiency						Figure No. 6
Price	Dividend	Yield	Growth	Cost of Equity	Average Book	Market-Book
$37.71	$1.21	3.3%	6.4%	9.7%	19.22	2.0
EPS	Dividend	Remaining Earnings	Growth in Book	Marginal EPS	Growth in EPS	Growth Deficiency
$1.86	$1.21	$0.65	3.5%	$0.063	3.4%	-3.0%

But then we come to the second line of Figure No. 6. What happens when the 9.7 percent return is applied to book rate base? The book value of equity rate base is only $19.22 per share, as opposed to a market stock price of $37.71. Thus, 9.7 percent times rate base will generate earnings of $1.86 per share. Those earnings must first pay the current dividend of $1.21, leaving 65¢ per share to fuel growth. How much growth will it fuel? The 65¢ represents a 3.5 percent growth in the net book value of $19.22. As a rate of growth in earnings per share, we would multiply the 9.7 percent rate of return times that 65¢ of new equity, generating 6.3 cents of new earnings, or a rate of growth in earnings per share of 3.4 percent. According to the original study, however, investors require a rate of growth of 6.4 percent–there is an apparent growth deficiency of 3.0 percent, between the required rate and the average of the actual book and earnings growth rates. This could be problematic – the effect over time would be for the LDC to miss investor expectations by a significant amount, causing declines in the stock price. The natural reaction of the LDC's owners – indeed, their fiduciary responsibility to their investors – would be to invest in other activities that would make up the deficiency. Investment would flow away from the LDC.

Many of the issues raised over the use of DCF in setting returns have to do with the original purpose of DCF analysis – and the way it is still used by major investment analysts. That original purpose was and is for the comparison of alternative investments, rather than to derive an absolute level of investor-required return. For example, DCF is quite useful for distinguishing the twelve proxy companies from each other, regardless of the absolute level of return that might be appropriate. Its accuracy as to such absolute levels has been assumed more than demonstrated. It is this tension that underlies many of the concerns over the intersection between DCF financial theory and application of that theory in a cost-based regulatory arena.

Possible approaches for addressing the various observed concerns regarding DCF analysis are discussed in Section V – Potential Changes and Adjustments.

B. Equity Risk Premium and the Capital Asset Pricing Model

Equity Risk Premium (ERP) is an approach that simply assumes the cost of equity will track the interest rates for various types of debt. The realized returns in equity markets are compared over time with concurrent interest rates, to determine the premium that must be earned by stockholders in order to attract them from less risky debt to more risky equity. Sometimes the ERP is measured from "risk-free" debt, generally long-term government bonds; sometimes it is measured from various high-quality corporate bonds.

The Capital Asset Pricing Model (CAPM) is really just a further refinement of ERP. Whereas ERP determines a premium generally required of equity markets, CAPM translates it to the individual stock, using a measure of that stock's volatility vs. the stock market at large.

It is not necessary to produce representative studies to show the role of ERP and CAPM in the current decline in allowed returns. No one questions that interest rates have declined substantially over the past decade, so any method that holds a constant relationship between equity and debt costs will result in substantially reduced returns on equity.

Equity Risk Premium

ERP is more often used as a check than as a primary source of allowed returns. However, probably its more significant impact is that even when ERP is not technically the method being applied, it is clearly behind the regulatory psychology surrounding returns on equity, regardless of how they are derived. In times of deeply reduced interest rates, regulators and consumers expect utility allowed returns to be reduced equally substantially (although, unfortunately, this logic does not always fully work in the other direction, when interest rates are high).

There are two issues often raised as to this assumption. First, the relative size of an equity risk premium over debt cost has been the subject of much debate-especially as to how that premium behaves in different interest-rate regimes. The argument is made that the ERP expands during low-interest rate periods and contracts during high-interest-rate periods. As a practical matter, this was certainly the approach taken by regulators in the early 1980s, when the prime rate was in the high teens.

It is also the approach that has evolved over time in Canada, where since the mid-1990s returns on equity have been set by automatic formulae that track long-term bond interest rates. As those interest rates change, the allowed return on equity is adjusted by just 75 percent (the "elasticity factor") of the change, not by the full movement. This has the effect of shrinking the ERP when interest rates are high and expanding the ERP when interest rates are low. There is considerable debate in Canada over the size of the elasticity factor. Most of the industry and some prominent former regulators have suggested that the factor should have been lower-probably at approximately 50 percent. However, the concept is the same – an acceptance that market-required returns on equity do not track interest rates percent-for-percent.

The other issue, less empirical than the observed movement of the cost of equity as compared with interest rates, is the basic competition for capital in which the cost of equity is the measure of competitiveness. As the 2006 INGAA paper referenced earlier pointed out, and as was emphasized repeatedly by both senior executives and analysts in this AGF Study effort, the cost of equity is an opportunity cost issue, whether in the open market or in the capital-allocation process of a multi-business holding company. Essentially, if an investor's only alternative to investing in an LDC stock is to buy a bond, the required risk-premium to move the decision in favor of the LDC equity is important. However, a bond is generally not the only alternative investment – in the actual market, the investor can choose among multiple equities of which the LDC stock is one. In making this choice, the only important factor is what the investor's earnings would have been in those alternative equity investments. In other words, in the case of the stand-alone LDC the equity investor is free to move his or her capital to other businesses with that offer better returns without a significant increase in risk.

Similarly, if a holding company is solely making a choice between investing in its LDC subsidiary and issuing or retiring debt, the difference between the expected LDC earnings rate and the interest rate on the debt in question is relevant and important. However, if the holding company is allocating a fixed capital pool (consisting in part of borrowings based on achieving a particular corporate capital structure), the holding company is making choices among competing investments, requiring the LDC to meet the risk-adjusted return from the alternatives. If the holding company could earn 12.5 percent by investing in a pipeline and, in the holding company's judgment, the risk adjustment between the pipeline and the LDC is the historically observed 125 basis points, the LDC must earn 11.25 percent to compete – regardless of what the holding company's debt cost may be.

Capital Asset Pricing Model

As noted, CAPM is primarily a refinement of ERP, in that it adjusts the risk premium for the individual stock's observed relationship to the stock market as a whole. This relationship is defined by the stock's Beta, or volatility. Like DCF, CAPM is characterized by a great deal of background mathematical analysis (its original creators won the Nobel Prize for it), but a very simple ultimate formula:

$$K = Rf + \beta \text{ X } ERP$$

where "K" is the equity investor's cost of money, "Rf" is a risk-free interest rate (usually long-term Treasury bills), "β" is the individual stock's volatility vs. the overall stock market, and "ERP" is the equity risk premium for stocks generally.

The obvious issue with CAPM is that if "Beta" is less than 1.0, the company being examined will be assumed to need a lower than average risk premium. Many utilities exhibit Betas below 1.0.

Figure No. 7 sets forth the Betas for the twelve proxy companies examined in Section IV A.

Figure No. 7

Company	Beta
LDC 1	0.32
LDC 2	0.59
LDC 3	0.92
LDC 4	0.62
LDC 5	0.65
LDC 6	0.77
LDC 7	0.58
LDC 8	0.66
LDC 9	1.20
LDC 10	0.59
LDC 11	0.70
LDC 12	0.90

Of these twelve major LDC holding companies, only one has a Beta above one. There is also the same sort of extremely wide diversity observed in the DCF comparison, with Betas ranging from 0.32 to 1.20. This would mean that for an ERP of, for example, 7.1 percent, [11] the indicated returns for the proxy LDCs would vary by as much as 625 basis points.

Assuming a risk-free rate and a Market Risk Premium of 4.66 percent and 7.08 percent respectively,[12] the resulting returns are as shown in Figure No. 8. The average is coincidentally the same as the average of the DCF results, but the high is 100 basis points lower and the low is 200 basis points higher than the DCF results – and the individual companies vary quite widely, by as much as 460 basis points (LDC 11, at 9.60 percent here, but 14.20 percent per the DCF study).

Figure No. 8

Company	Beta	Cost of Equity
LDC 1	0.32	6.9%
LDC 2	0.59	8.8%
LDC 3	0.92	11.2%
LDC 4	0.62	9.0%
LDC 5	0.65	9.3%
LDC 6	0.77	10.1%
LDC 7	0.58	8.8%
LDC 8	0.66	9.3%
LDC 9	1.20	13.2%
LDC 10	0.59	8.8%
LDC 11	0.70	9.6%
LDC 12	0.90	11.0%
	Average	9.7%

As is discussed above with regard to ERP, CAPM follows a lock-step relationship with interest rates that does not reflect equity-to-equity competition based on opportunity cost. Thus, as with DCF, CAPM can be a useful tool for the comparison of similar investments, but may be of questionable use in deriving an absolute cost of capital.

[11] The widely accepted Ibbotson-Sinquefield average for 1928 through 2005 is 7.08 percent. Some other sources, such as Damodaran Online, quantify a lower MRP, at or below 5 percent.

[12] The MRP of 7.08 percent is per footnote 10, the 4.66 percent Rf is per Damodaran Online.

Obviously, if the growth objectives quantified in the DCF analysis are to be met, a 9.7 percent return derived by CAPM is just as deficient as a 9.7 percent return derived with DCF.

V. Potential Changes and Adjustments

As is noted earlier, adjustments could be made to each of the prevailing methodologies, or somewhat different approaches taken, to respond to perceived deficiencies. This section itemizes what those changes might be and the challenges in implementing such changes.

A. Broaden Proxy Groups

Along the same lines as the debate recently resolved involving pipeline proxy groups (see B. below), LDCs could look farther afield than their own industry for proxy companies. The standard to date for the selection of proxies has always started with the notion that the comparable companies must be regulated utilities, primarily in the gas business. However, this standard implicitly causes the circularity discussed in Section IV. Since the key distinguishing factor is risk, LDCs and regulators could be well served to identify unregulated infrastructure companies with risk levels analogous to those of the LDC. The measured market expectations for those unregulated companies would then be undiluted by the results of regulatory policy.

B. Use FERC Decisions as Reference Point, Maintain Historic Gap

There have been several references to the historic 125 basis point difference between pipeline returns and LDC returns. One option would be to maintain that difference. This approach has been uncertain to fix all deficiencies unless pipeline rates of return were maintained at their historic levels in the 12 to 14 percent range. The Kern River decision, cited earlier, resulted in a return on equity of 11.20 percent – application of the 125 basis-point difference to that number would fall below 10 percent, but the pipeline industry has been adamant that the Kern River decision was itself an inadequate rate of return.

The key issue in the pipeline industry has been the composition of proxy groups, with pipelines seeking the inclusion of pipelines organized as master limited partnerships (MLPs), in order to repopulate the proxy groups. On April 17, 2008, the FERC issued a statement of policy and a reopening of the Kern River case, allowing such inclusion of MLPs. The statement of policy requires some adjustment to the assumed long-term growth rate for the MLP members of the proxy group, but overall, it appears that the resulting rates of return will be restored to approximately the 12 percent level.[13] Thus, something on the order of

[13] FERC Docket No. PL07-2.

10.75 percent to 11.00 percent would be implied for LDCs, if the FERC level is maintained and the pipeline-LDC gap is maintained as well.

C. Variations on CAPM, Particularly Fama-French

The Fama-French methodology is a variant of CAPM that uses more than the broad, full-market average results for stocks to derive a risk premium. It includes some proportion of high-growth and small-cap stocks, thus generally resulting in significantly higher returns than unadjusted CAPM would have. Some LDCs, both in the U.S. and Canada, have tried to gain acceptance of Fama-French in their own proceedings, with mixed but very limited success.

D. Restore Growth Deficiency in DCF

The inherent deficiency of growth below that assumed to be necessary in the DCF formula should be a fertile ground to explore. Regulators can argue that growth can come from sources other than retained earnings. However, regulators appear generally to accept the notion that a buildup of retained earnings is necessary to sustain growth in either book value or earnings per share.

The adjustment to compensate for the deficiency is simple – in the example, where growth is 3.0 percent below expectations, the 3.0 percent is simply added to the indicated return, for a total of 12.7 percent (if full restoration of the growth deficiency is deemed appropriate). In the Figure No. 6 example in Section IV, using the 12.7 percent return on book equity would yield $2.43 of earnings, which, when netted for the $1.21 dividend, would leave $1.22 of retained earnings. Investing the $1.22 in the LDC business at a return of 12.7 percent would yield 15.5¢ of new earnings, which is 6.4 percent of the original $2.43 of base earnings. In other words, the $2.43 of earnings per share is growing at 6.4 percent, as it is supposed to. Net book, which started at $19.22 per share, grows by $1.22, which is also a 6.4 percent rate of growth.

How does this 12.7 percent indicated return reconcile with the earlier observations that something lower, perhaps 11.25 percent, should be adequate? The reconciliation could be based upon restoring only part of the growth deficiency, assuming that some factors other than retained earnings from return-times-rate base do contribute – 11.25 percent would represent restoring just over half of the growth deficiency.

The central rationale of the growth-deficiency restoration is that the application of a market-based DCF result to book rate base does not generate enough money to pay required dividends and generate the growth that the regulator itself has determined is expected by investors. However, there are counter arguments to making the adjustment – most notably the argument that rates are being set to sustain market share values above book. The tension between this concern and the concern that returns be set to put LDC investment on a level playing field deserve a full policy discussion with regulators.

E. Thresholds for Adjustments to Be Contemplated by Regulators

The mechanics of changes, whether they are changes in the proxy group, references to pipeline returns, or adoptions of new methodologies such as Fama-French or growth-deficiency restoration, all require a willingness and enthusiasm on the part of regulators that is not apparent in most jurisdictions. The challenge for the industry is to generate sufficient credibility and confidence in state commissions that a steady decline in allowed returns is causing a looming public-policy problem. Certainly, each LDC can go forward based on the statutory right to a fair return, but moving toward significant changes will probably take more proactive help from regulators than can be gained from winning a court case. Clearly, the lesson learned through the analysis process was that the jurisdictions with an atmosphere of trust and collaboration appear to be fostering the healthiest LDCs.

The bottom line in all instances is credibility. If credibility is generated within the state commission, more positive changes are likely to happen, although there is no guarantee the state commission will incur the political heat of increasing rates. If credibility is generated with legislators and courts, there is more likely acceptance of the types of analyses contained within this AGF Report. In some notable instances (one leading one being the FERC conference in 1998), it has been the face-to-face interaction of senior executives and analysts with regulators, in a public arena where critics are free to criticize, that has generated enough credibility to foster significant change in rates of return. Most LDCs already have such discussions at the state level, but the trend in allowed returns suggests that more are needed.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 196:

With reference to page 8, lines 1-14, please provide copies of all studies performed by Mr. Moul which compare the customer classes and demand issues of Columbia Gas of Kentucky, Inc. to the companies in the proxy group.

Response:

To the extent that these data are reported to investors, the comparisons are shown below (on second page):

Gas Group Throughput
Fiscal Year 2008

Residential	Percent
AGL Resources, Inc.	N/A
Atmos Energy Corp.	37.63%
New Jersey Resources Corp.	40.96%
Northwest Natural Gas	34.01%
Piedmont Natural Gas Co.	24.69%
South Jersey Industries, Inc.	16.30%
WGL Holdings, Inc.	38.83%
Average	32.07%
Commercial	
AGL Resources, Inc.	N/A
Atmos Energy Corp.	21.66%
New Jersey Resources Corp.	9.04%
Northwest Natural Gas	21.06%
Piedmont Natural Gas Co.	17.49%
South Jersey Industries, Inc.	8.19%
WGL Holdings, Inc.	12.74%
Average	15.03%
Industrial	
AGL Resources, Inc.	N/A
Atmos Energy Corp.	5.01%
New Jersey Resources Corp.	0.00%
Northwest Natural Gas	10.69%
Piedmont Natural Gas Co.	38.90%
South Jersey Industries, Inc.	8.90%
WGL Holdings, Inc.	0.00%
Average	10.58%
All Other [1]	
AGL Resources, Inc.	N/A
Atmos Energy Corp.	35.70%
New Jersey Resources Corp.	50.00%
Northwest Natural Gas	34.23%
Piedmont Natural Gas Co.	18.93%
South Jersey Industries, Inc.	66.62%
WGL Holdings, Inc.	48.43%
Average	42.32%

[1] Consists of: public authorities, transportatior off-system, interruptible, incentive, power generation, cogeneration, capacity release & storage, and other sales.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 197:

With reference to page 8, lines 16-24, please provide copies of all studies performed by Mr. Moul that compare the magnitude of the capital expenditure program for Columbia Gas of Kentucky, Inc. to that of the companies in the proxy group. Please provide copies of the source documents, work papers, and data sources in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

The forecast capital expenditures for Columbia are estimated to be approximately $70.9 million during the years 2009 through 2014, or approximately $11.8 million yearly on average. Based upon data revealed to investors in filings with the SEC, the forecast construction expenditures for the Gas Group are:

		Amount	
Capital Expenditures	Period Covered	Total	Yearly average
		($ millions)	
AGL Resources, Inc.	2009	$ 453.0	$ 453.0
Atmos Energy Corp.	-------------Not Reported-------------		
New Jersey Resources Corp.	2009 & 2010	$ 144.2	$ 72.1
Northwest Natural Gas	2009 through 2013	$450.0 to $500.0	$ 95.0
Piedmont Natural Gas Co.	2009	$ 246.2	$ 246.2
South Jersey Industries, Inc.	2009, 2010 & 2011	$ 191.2	$ 63.7
WGL Holdings, Inc.	2009 through 2013	$ 882.3	$ 176.5

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 198:

With reference to page 9, lines 7-24, please provide copies of all studies performed by Mr. Moul that: (1) that compare the rate making and design mechanisms, including the WNA, proposed by the Company to those of the companies in the proxy group; and (2) demonstrate the effect of these rate design and making mechanisms on the business risk of the proxy group companies. Please provide copies of the source documents, work papers, and data sources in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

(1) Please refer to the tabulation that is attached in Attachment A. The source of this information was filings by each company with the SEC posted on each company's internet website. All of the sources are public documents available on the internet.

(2) Please refer to Mr. Moul's testimony at pages 9 through 12 regarding the risk implications of the WNA.

AGL Resources, Inc.

Weather Normalization Adjustment Rider (TN)	For residential, multi-family and C&I General Service customers from November - April annually. Implemented in 1991, it uses predetermined factors as determined in a rate case of a Weighted Average Non-Gas Base Rate, a Heat Sensitive Factor, and a Base Load factor for each customer class in CCF along with the difference between Normal and Actual Degree Days to calculate an adjustment.
Interruptible Margin Credit Rider (TN)	Interruptible Margin Credit Rider applies to firm customers and recovers 90% of fiscal year annual gross margin losses resulting from negotiated rate contracts and 50% of gross margin losses resulting from off-system sales transactions.
Performance-Based Ratemaking Mechanism (PBRM) (TN)	The PBRM is a trigger for a reporting mechanism, not a cost-sharing mechanism. Commencing each July 1, an annual index is created that establishes predetermined monthly benchmark indices against which actual commodity gas costs are compared. Annual reporting required if there is a minimum 1% overrun deviation at the end of the plan year, and monthly reporting required if there is a deviation of over 2% for any month.
Rider B - Weather Normalization Clause (WNC) (NJ)	Applicable October - May annually to residential, multi-family and general service customers. Uses three factors: 1) Degree Days - Takes difference in degree days from a monthly list of degree day factors determined in each rate case with a 0.5% deadband; 2) Consumption Factor - Takes difference in number of customers and therms per degree day, using a monthly listing of baseline values for each updated annually, 3) Margin Revenue Factor - Weighted average of tail block margin of Distribution Charges, set at $.2242/therm in most recent rate case.
Rider C - On-System Margin Sharing Credit (OSMC) (NJ)	Monthly per therm credit for all full-service and residential transportation customers to reflect system margin over-recovery . One rate for all classes and period months set annually on July 31, utilizing an annual program period of July 1 - June 30.
Rider D - Societal Benefits Charge (SBC) including NJ Clean Energy Program (NJ)	Monthly per therm charge, applicable to all service classes except special contracts, that has 4 specified components representing charges for: 1) New Jersey Clean Energy Program (CEP); 2) Remediation Adjustment Charge (RAC) for costs incurred in manufactured gas plant remediation; 3) Energy Education Charge (EEC); and 4) Universal Service Fund Lifeline (USF). Each component is a per therm charge (same per month), determined annually. Each of the CEP, the RAC and the EEC have annual recovery periods of October 1 - September 30 of expenses incurred for the previous 12 months ended June 30, with annual filing by July 31.
Rider B - Energy Conservation Cost Recovery Adjustment (ECCR) (FL)	Per therm charge applied monthly and determined annually for each of 9 rate classes to recover conservation expenditures. Each rate class has a different charge that is the same each month. Annual program period commencing each January 1.
Rider C - Competitive Rate Adjustment (CRA) (FL)	Per therm adjustment to recover the difference in annual revenues from special contracts compared to tariff rates. Annual adjustment period January 1 - December 31 to recover or refund amounts of the annual determination period of 12 months ended September 30. Adjustment rate is the same per class and therm over the adjustment period, using sales forecasts and annual true-ups.
Rider B, the Experimental Weather Normalization Adjustment Rider, was filed and effected as of October 3, 2002. (VA)	First WNA approved in the State of Virginia - filed in April, 2002 and effective October 3, 2002. For residential, multi-family and general service customers from November - May annually. Uses predetermined (@ each rate case) factors of a Weighted Average Non-Gas Base Rate and a Customer Usage Per Degree Day rate that are multiplied by the number of bills issued in that billing cycle and the difference between Normal and Actual Degree Days. This product is divided by the aggregate volume of gas billed in that cycle for each customer class in CCF to calculate an adjustment.
Straight Fixed Variable Rates (SFV) (GA)	SFV is a method of determining demand and commodity rates whereby all costs classified as fixed are assigned to the demand component. Required through SB 215, Georgia's 1997 Natural Gas Competition and Deregulation Act; Effective July, 1998.

AGL Resources, Inc. (cont'd)

Pipeline Replacement Program (PRP) Cost Recovery Rider (GA)	Recovers costs of replacing bare steel and cast iron pipe. Approved in September, 1998 and applicable to 6 Firm distribution rate class schedules, until June, 2005 was equal to a forecast amount of associated costs for a year divided by the estimated number of customers in those rate classes. A Stipulation Agreement was reached on June 10, 2005 in a general rate case 18638-U whereby each class pays a fixed monthly charge depending on their classification. A specific scheduled monthly per customer charge was set for residential and small service classes, with the General G-11 service class paying 3x and the General - Conditional G-12 service class paying 12x the residential and small service amount of $1.29 through 9/30/07, and $1.95 after.
Social Responsibility Cost Rider (SRC) (GA)	Senior citizens at least 65 with a maximum annual income of $12,000 receive a maximum $14 monthly credit. The SRC rider recovers $10.50 of that amount, and is charged to remaining residential customers during the following month as a per customer charge.

	2007	2006	2005	2004	2003	2002	2001
Weather Normalization Adjustment Rider (TN)	X	X	X	X	X	X	X
Interruptible Margin Credit Rider (TN)	X	X	X	X			
Performance-Based Ratemaking Mechanism	X	X	X	X			
Rider B - Weather Normalization Clause (WNC)	X	X	X	X	X	X	X
Rider C - On-System Margin Sharing Credit (OSMC) (NJ)	X	X	X	X	X	X	X
Rider D - Societal Benefits Charge (SBC) including NJ Clean Energy Program (NJ)	X	X	X	X	X	X	X
Rider B - Energy Conservation Cost Recovery Adjustment	X	X	X	X			
Rider C - Competitive Rate Adjustment (CRA) (FL)	X	X	X	X			
Rider B, the Experimental Weather Normalization Adjustment Rider, was filed and effected as of October 3,	X	X	X	X	X	X	
Straight Fixed Variable Rates (SFV) (GA)	X	X	X	X	X	X	X
Pipeline Replacement Program (PRP) Cost Recovery Rider (GA)	X	X	X	X	X	X	X
Social Responsibility Cost Rider (SRC) (GA)	X	X	X	X	X	X	

Atmos Energy Corp.

Weather Normalization Adjustment Rider (TX) (LA) (KN) (TN) (GA) (KY) (MS)	WNA in the Mississippi Valley subsidiary is applicable to the non-gas charge billing components for November - May. Total usage is adjusted by a Normalized Consumption formula in which estimated daily Baseload (Non-Heating) Consumption, equal to either the most recent actual non-heating period use or a set factor depending on customer class, is multiplied by the number of billing days in the period and added to the product of Actual less Baseload Consumption multiplied by the ratio of Normal Heating Degree Days to Actual. Variations of the WNA are also in effect in Texas, Kansas, Tennessee, Georgia, Louisiana and Kentucky.
Gas Reliability Infrastructure Program (GRIP) (TX)	Gas Reliability Infrastructure Program (GRIP) allows natural gas utilities the opportunity to include in their rate base annually approved capital costs incurred in the prior calendar year. Natural gas utilities that enter the program will be required to file a complete rate case at least once every five years.
Rate Stabilization Clause (RSC)	Return stabilization mechanisms approved in LA & MS.
Performance Based Rate Program	In February 2006, the KPSC approved the company's request to continue the performance-based ratemaking mechanism for an additional fiveyear period. Under the performance-based mechanism, the company and customers jointly share in any actual gas cost savings achieved when compared to pre-determined benchmarks. Rates are also subject to WNA.

	2007	2006	2005	2004	2003	2002	2001
Weather Normalization Adjustment Rider	X	X	X	X	X	X	X
Gas Reliability Infrastructure Program (GRIP) (TX)	X	X	X				
Rate Stabilization Clause (RSC)	X	X	X	X	X	X	X
Performance Based Rate Program	X	X	X	X	X	X	X

New Jersey Resources Corp.

Weather Normalization Clause	Effective during the Winter Period (8 months: October 1-May 31) and updated annually using as a basis normal Degree Days from the 20 yr. weighted average of the NOAA First Order Weather Observation Stations at 3 locations (Newark, Philadelphia, Atlantic City airports). Stabilizes revenues and minimizes customer bill volatility, but diminishes upside earnings potential.
Clean Energy Program Clause	Recovery of funds expended under a state-sponsored Clean Energy Program. Per therm charge, determined annually and recovered over 12 month period commencing October 1, to recover estimated forward year expenses and any over/under recovery of previous year's expenses. Same charge applicable to 16 different rate classes. Uses a forward estimate of both costs and therm sales for an annual period, with true-up over the next year. Interim filings to adjust the charge is allowed if actual collections indicate a large divergence of forecast vs. actual.
Societal Benefits Charge (SBC) that is inclusive of the NJ Clean Energy Program (NJ)	Monthly per therm charge, applicable to all service classes except special contracts, and includes components for: 1) New Jersey Clean Energy Program (CEP); 2) Remediation Adjustment Charge (RAC) for costs incurred in manufactured gas plant remediation; 3) Energy Education Charge (EEC); and 4) Universal Service Fund Lifeline (USF).
Conservation Incentive Program (CIP)	The CIP is a three-year pilot program, designed to decouple the link between customer usage and NJNG's utility gross margin to allow NJNG to encourage its customers to conserve energy. For the term of the pilot the existing WNC would be suspended and replaced with the CIP tracking mechanism, which addresses utility gross margin variations related to both weather and customer usage in comparison to established benchmarks. Recovery of such utility gross margin variations is subject to additional conditions including an earnings test and an evaluation of Basic Gas Supply Service (BGSS)-related savings achieved.

	2007	2006	2005	2004	2003	2002	2001
Weather Normalization Clause	X	X	X	X	X	X	X
Clean Energy Program Clause	X	X	X	X	X	X	X
Societal Benefits Charge (SBC) that is inclusive of the NJ Clean Energy Program (NJ)	X	X	X	X	X	X	X
Conservation Incentive Program (CIP)	X	X					

Northwest Natural Gas

Distribution Margin Normalization	A "conservation tariff," which is a rate mechanism designed to adjust margins for changes in average consumption patterns due to residential and commercial customers' conservation efforts. The tariff is a partial decoupling mechanism that is intended to break the link between earnings and the quantity of gas consumed by customers, removing any incentive for the utility to discourage customers' conservation efforts.
'Weather Normalization	In November 2003, the OPUC authorized, and the company implemented, a weather normalization mechanism in Oregon that helps stabilize utility margins by adjusting residential and commercial customer billings based on temperature variances from average weather. The current normalization mechanism is applied to residential and commercial customers' bills between December 1 and May 15 for each heating season. The mechanism adjusts the margin component of customers' rates to reflect "average" weather using the 25-year average temperature for each day of the billing period.

	2007	2006	2005	2004	2003	2002	2001
Distribution Margin Normalization	X	X	X	X	X	X	
'Weather Normalization	X	X	X	X	X		

Piedmont Natural Gas Co.

Weather Normalization Adjustment (WNA)	Implemented in South Carolina and Tennessee in 1993. Implemented in North Carolina in 1991 but discontinued in favor of a Customer Utilization Tracker in 2005. WNA mechanisms partially offset weather impacts. Affects bills rendered November - March. In NC and TN, adjustments made directly to customers' bills. In SC, adjustments calculated per individual customer, recorded in a deferred account and applied to base rates for all customers in the class. Utilizes 30-year historical normal data.
Customer Utilization Tracker (CTU)	Replaced the WNA mechanism in NC in 2005 as part of a general rate case. CTU is a 3 year experimental rider revenue decoupling mechanism effective to November 1, 2008. To gain the CUT, Piedmont agreed to a $500K annual contribution for conservation programs, to be chosen jointly with NC Attorney General and Public Staff. Rates are adjusted twice yearly to reflect margin true-up - April 1 (for under/overrecovery to most recent Jan. 31) and November 1 (for under/overrecovery to most recent August 31).
Revenue decoupling mechanism (NC)	Effective in North Carolina as of November 1, 2005.
Uncollectible Expense - Gas Component Recovery	Effective in North Carolina as of November 1, 2005.
Pipeline Integrity Management Regulations (USDOT)	In both of their NC entities - Piedmont Natural Gas and North Carolina Natural Gas, effective December 2004, received approval from the North Carolina Utilities Commission to segregate O&M and payroll compliance costs of PIM compliance (estimated at $3MM annually over several years) into a deferred account and postpone and lengthen recovery, after a prudence review, until the next general rate case for each entity. Continued per the 2005 rate case
Rate Stabilization Mechanism	On February 16, 2005, the Natural Gas Rate Stabilization Act of 2005 became effective in South Carolina. The law provides electing natural gas utilities, including Piedmont, with a mechanism for the regular, periodic and more frequent (annual) adjustment of rates which is intended to: (1) encourage investment by natural gas utilities, (2) enhance economic development efforts, (3) reduce the cost of rate adjustment proceedings and (4) result in smaller but more frequent rate changes for customers. If the utility elects to operate under the Act, the annual filing will provide that the utility's rate of return on equity will remain within a 50-basis points band above or below the current allowed rate of return on equity.

	2007	2006	2005	2004	2003	2002	2001
Weather Normalization Adjustment (WNA)			X	X	X	X	X
Customer Utilization Tracker (CTU)	X	X	X				
Revenue decoupling mechanism (NC)	X	X	X				
Uncollectible Expense - Gas Component Recovery	X	X	X				
Pipeline Integrity Management Regulations (USDOT)	X	X	X	X			
Rate Stabilization Mechanism	X	X					

South Jersey Industries, Inc.

Temperature Adjustment Clause (TAC)	Through September 30, 2006, SJG's tariff included a TAC to mitigate the effect of variations in heating season temperatures from historical norms. Each TAC year ran from November 1 through May 31 of the following year. Once the TAC year ended, the net earnings impact was filed with the BPU for future recovery. As a result, the cash inflows or outflows generally would not begin until the next TAC year. Because of the timing delay between the earnings impact and the recovery, the net result can be either a regulatory asset or liability.
New Jersey Clean Energy Program (NJCEP)	This mechanism recovers costs associated with SJG's energy efficiency and renewable energy programs. NJCEP adjustments affect revenue and cash flows but do not directly affect earnings as related costs are deferred and recovered through rates on an on-going basis.
Remediation Adjustment Clause (RAC)	Remediation Adjustment Charge (RAC) for costs incurred in manufactured gas plant remediation
Universal Service Fund Lifeline (USF)	The USF is a statewide program through which funds for the USF and Lifeline Credit and Tenants Assistance Programs are collected from customers of all New Jersey electric and gas utilities.
Conservation Incentive Program (CIP)	The primary purpose of the CUA is to promote conservation efforts, without negatively impacting financial stability and to base SJG's profit margin on the number of customers rather than the amount of natural gas distributed to customers. In October 2006, the BPU approved the CUA as a 3-year pilot program and renamed it the Conservation Incentive Program. Each CIP year begins October 1 and ends September 30 of the subsequent year. On a monthly basis during the CIP year, SJG records adjustments to earnings based on weather and customer usage factors, as incurred. Subsequent to each year, SJG will make filings with the BPU to review and approve amounts recorded under the CIP. BPU approved cash inflows or outflows generally will not begin until the next CIP year.

	2007	2006	2005	2004	2003	2002	2001
Temperature Adjustment Clause (TAC)	X	X	X	X	X	X	X
New Jersey Clean Energy Program (NJCEP)	X	X	X	X	X	X	X
Remediation Adjustment Clause (RAC)	X	X	X	X	X	X	X
Universal Service Fund Lifeline (USF)	X	X	X	X	X		
Conservation Incentive Program (CIP)	X	X					

WGL Holdings, Inc.

Revenue Normalization Adjustment (RNA) Clause (MD)	RNA in effect within state of Maryland since 1999 (BG&E), implemented at WGL October 1, 2005. Columbia Gas of Maryland and Chesapeake Utilities has a WNA in lieu of the RNA. Compares target or recent base rate determination of revenue against actual revenues, adjusted for growth. Adjustments to the monthly Distribution Charge for each of 6 applicable rate classes. Monthly computation comprised of a current factor and a reconciliation factor that has a 2 month

	2007	2006	2005	2004	2003	2002	2001
Revenue Normalization Adjustment (RNA) Clause	X	X	X				

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 199:

With reference to page 9, lines 20-23, please provide: (1) copies of all documents that support the statement that "All of the companies in my Gas Group have some form of revenue stabilization mechanism;" (2) the percent of each company's gas revenues that are affected by the revenue stabilization mechanisms; and (3) demonstrate the effect of these regulatory mechanisms on the business risk of the proxy group companies. Please provide copies of the source documents, work papers, and data sources in both hard copy and electronic (Microsoft Excel)

Response:

(1) Please refer to the response to AG DR Set 1-198.

(2) The companies that comprise the Gas Group do not separately report revenues that are derived from these mechanisms.

(3) The effects of these mechanisms are already reflected in the price component of each company's dividend yield and the analysts' forecast of earnings growth. Mr. Moul is unaware of a process to objectively disaggregate the effects of these mechanisms on the price of stock and the forecast growth rates published by the financial analysts.

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 200:

With reference to page 11, lines 9-13, please indicate exactly how your recommendation takes into account the various rate making mechanisms.

Response:

By using the market based models of the cost of equity derived from companies that already have these mechanisms in place, the result of the models reflect the benefit of these mechanisms.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 201:

With reference to page 15, lines 1-6, please provide the data used in the credit spread study. Please provide copies of the source documents, work papers, and data sources in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

Please refer to the Microsoft spreadsheet that is attached in Attachment A.

Period	Schedule Reference	Baa-Rated Public Utility Bond Yield	A-Rated Public Utility Bond Yield	Yield Differential Baa v. A
Annual:				
2003-2007 Average	Attachment PRM-11 Page 2 of 5	6.36%	6.11%	0.25%
2008	Attachment PRM-11 Page 2 of 5	7.24%	6.53%	0.71%
Through February 2009:				
Twelve-Month Average	Attachment PRM-11 Page 2 of 5	7.47%	6.57%	0.90%
Six-Month Average	Attachment PRM-11 Page 2 of 5	8.08%	6.81%	1.27%
Three-Month Average	Attachment PRM-11 Page 2 of 5	7.92%	6.40%	1.52%

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 202:

With reference to pages 15-18, please provide copies of the individual company data for Columbia Gas of Kentucky, Inc. and the proxy group used in: (1), the study of common equity ratios; (2) the coefficient of variation study on return on book equity; (3) the comparison of operating ratios; (4) the study of interest coverage ratios; (5) the quality of earnings; and (6) the study of internally generated funds. Please provide copies of the source documents, work papers, and data in hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

Please refer to the Microsoft Excel spreadsheets that are attached (see Attachment A for Columbia of Kentucky and Attachment B for the Gas Group).

(1) The common equity ratios are provided in cells D15, F15, H15, J15, L15, D19, F19, H19, J19, and L19.

(2) The coefficients of variation (standard deviation ÷ mean) of the rates of return on book equity are cells N22, P22 and R22.

(3) The operating ratios are provided in cells D24, F4, H24, J24, and L24.

(4) The pre-tax interest coverages are provided in cells D31, F31, H31, J31, and L31.

(5) The quality of earnings data are provided in cells D35, F35, H35, J35, L35, D36, F36, H36, J36, and L6.

(6) The internally generated funds percentages are shown in cell D37, F37, H37, J37, and L37.

Columbia Gas of Kentucky, Inc.
Capitalization and Financial Statistics
2004-2008, Inclusive

	2008	2007	2006	2005	2004	Average
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 167.5	$ 159.9	$ 148.1	$ 117.8	$ 119.6	
Short-Term Debt	$ -	$ -	$ -	$ -	$ -	
Total Capital	$ 167.5	$ 159.9	$ 148.1	$ 117.8	$ 119.6	
Capital Structure Ratios						
Based on Permanent Capital:						
Long-Term Debt	43.0%	36.3%	39.2%	30.8%	35.2%	36.9%
Common Equity (1)	57.0%	63.7%	60.8%	69.2%	64.8%	63.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	43.0%	36.3%	39.2%	30.8%	35.2%	36.9%
Common Equity (1)	57.0%	63.7%	60.8%	69.2%	64.8%	63.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity (1)	10.6%	12.1%	9.9%	10.0%	10.6%	10.6%
Operating Ratio (2)	91.7%	89.2%	92.5%	92.0%	90.0%	91.1%
Coverage incl. AFUDC (3)						
Pre-tax: All Interest Charges	5.52 x	6.22 x	5.52 x	4.34 x	4.86 x	5.29 x
Post-tax: All Interest Charges	3.78 x	4.30 x	3.88 x	3.12 x	3.39 x	3.69 x
Coverage excl. AFUDC (3)						
Pre-tax: All Interest Charges	5.51 x	6.20 x	5.44 x	4.33 x	4.84 x	5.26 x
Post-tax: All Interest Charges	3.77 x	4.29 x	3.79 x	3.11 x	3.37 x	3.67 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	0.3%	0.5%	3.1%	0.3%	0.8%	1.0%
Effective Income Tax Rate	38.5%	36.7%	36.4%	36.6%	38.1%	37.3%
Internal Cash Generation/Construction (4)	37.1%	226.0%	107.4%	100.0%	2.8%	94.7%
Gross Cash Flow/ Avg. Total Debt (5)	34.2%	38.7%	20.0%	38.2%	21.9%	30.6%
Gross Cash Flow Interest Coverage (6)	6.91 x	7.41 x	4.11 x	4.98 x	3.69 x	5.42 x

See Page 2 for Notes.

Gas Group
Capitalization and Financial Statistics [1]
2003-2007, Inclusive

	2007	2006	2005	2004	2003	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 1,979.7	$ 1,900.4	$ 1,823.5	$ 1,530.7	$ 1,233.7	
Short-Term Debt	$ 232.6	$ 263.5	$ 187.8	$ 141.9	$ 218.6	
Total Capital	$ 2,212.3	$ 2,163.9	$ 2,011.3	$ 1,672.6	$ 1,452.3	
Market-Based Financial Ratios						Average
Price-Earnings Multiple	17 x	16 x	16 x	15 x	14 x	16 x
Market/Book Ratio	195.4%	192.9%	198.4%	187.4%	180.9%	191.0%
Dividend Yield	3.7%	3.7%	3.7%	4.0%	4.5%	3.9%
Dividend Payout Ratio	60.2%	59.4%	59.6%	61.4%	61.5%	60.4%
Capital Structure Ratios						
Based on Permanent Capital:						
Long-Term Debt	44.9%	46.4%	46.1%	45.7%	46.7%	45.9%
Preferred Stock	0.5%	0.5%	0.4%	0.5%	0.3%	0.4%
Common Equity [2]	54.6%	53.2%	53.5%	53.8%	53.0%	53.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	51.5%	53.8%	51.9%	50.9%	55.2%	52.6%
Preferred Stock	0.4%	0.4%	0.4%	0.4%	0.3%	0.4%
Common Equity [2]	48.1%	45.8%	47.7%	48.7%	44.5%	47.0%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity [2]	11.7%	12.4%	12.2%	12.1%	13.0%	12.3%
Operating Ratio [3]	88.7%	89.1%	89.1%	88.1%	86.7%	88.3%
Coverage incl. AFUDC [4]						
Pre-tax: All Interest Charges	4.07 x	4.14 x	4.43 x	4.61 x	4.44 x	4.34 x
Post-tax: All Interest Charges	2.89 x	2.92 x	3.11 x	3.22 x	3.11 x	3.05 x
Overall Coverage: All Int. & Pfd. Div.	2.88 x	2.91 x	3.10 x	3.21 x	3.10 x	3.04 x
Coverage excl. AFUDC [4]						
Pre-tax: All Interest Charges	4.04 x	4.11 x	4.41 x	4.59 x	4.42 x	4.31 x
Post-tax: All Interest Charges	2.86 x	2.89 x	3.10 x	3.20 x	3.09 x	3.03 x
Overall Coverage: All Int. & Pfd. Div.	2.85 x	2.88 x	3.08 x	3.19 x	3.08 x	3.02 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	1.9%	1.8%	0.9%	1.2%	1.2%	1.4%
Effective Income Tax Rate	38.2%	38.5%	38.1%	38.0%	38.1%	38.2%
Internal Cash Generation/Construction [5]	110.5%	78.0%	84.6%	94.4%	120.4%	97.6%
Gross Cash Flow/ Avg. Total Debt [6]	21.1%	18.9%	20.3%	22.0%	22.6%	21.0%
Gross Cash Flow Interest Coverage [7]	4.80 x	4.15 x	4.53 x	5.28 x	5.32 x	4.82 x
Common Dividend Coverage [8]	3.41 x	3.10 x	3.06 x	3.50 x	3.71 x	3.36 x

See Page 2 for Notes.

AGL RESOURCES INC
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 3,395.0	$ 3,305.0	$ 3,205.0	$ 3,090.0	$ 2,018.8	
Short-Term Debt	$ 580.0	$ 539.0	$ 522.0	$ 334.0	$ 306.4	
Total Capital	$ 3,975.0	$ 3,844.0	$ 3,727.0	$ 3,424.0	$ 2,325.2	
Market-Based Financial Ratios						Average
Price-Earnings Multiple	15 x	14 x	14 x	13 x	12 x	14 x
Market/Book Ratio	188.2%	186.3%	191.1%	183.8%	188.6%	187.6%
Dividend Yield	4.1%	4.0%	3.6%	3.8%	4.3%	4.0%
Dividend Payout Ratio	58.3%	54.2%	51.8%	49.0%	51.5%	53.0%
Capital Structure Ratios						
Based on Permanent Captial:						
Long-Term Debt	49.3%	49.1%	50.4%	52.5%	51.2%	50.5%
Preferred Stock	1.4%	1.3%	1.2%	1.2%	0.0%	1.0%
Common Equity [1]	49.3%	49.7%	48.4%	46.3%	48.8%	48.5%
	100.0%	100.1%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	56.7%	56.2%	57.3%	57.2%	57.6%	57.0%
Preferred Stock	1.2%	1.1%	1.0%	1.1%	0.0%	0.9%
Common Equity [1]	42.1%	42.7%	41.6%	41.8%	42.4%	42.1%
	100.0%	100.0%	99.9%	100.1%	100.0%	100.0%
Rate of Return on Book Common Equity [1]	12.7%	13.3%	12.9%	12.7%	15.6%	13.4%
Operating Ratio [2]	80.4%	81.4%	83.7%	81.9%	75.4%	80.6%
Coverage incl. AFUDC [3]						
Pre-tax: All Interest Charges	3.70 x	3.77 x	3.84 x	4.42 x	3.94 x	3.93 x
Post-tax: All Interest Charges	2.69 x	2.72 x	2.77 x	3.15 x	2.79 x	2.82 x
Overall Coverage: All Int. & Pfd. Div.	2.69 x	2.72 x	2.77 x	3.15 x	2.79 x	2.82 x
Coverage excl. AFUDC [3]						
Pre-tax: All Interest Charges	3.67 x	3.73 x	3.84 x	4.42 x	3.94 x	3.92 x
Post-tax: All Interest Charges	2.66 x	2.68 x	2.77 x	3.15 x	2.79 x	2.81 x
Overall Coverage: All Int. & Pfd. Div.	2.66 x	2.68 x	2.77 x	3.15 x	2.79 x	2.81 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	1.9%	2.4%	0.0%	0.0%	0.0%	0.9%
Effective Income Tax Rate	37.6%	37.8%	37.7%	37.0%	39.0%	37.8%
Internal Cash Generation/Construction [4]	139.4%	104.0%	113.9%	87.5%	131.9%	115.3%
Gross Cash Flow/ Avg. Total Debt [5]	21.9%	17.4%	19.7%	18.6%	20.3%	19.6%
Gross Cash Flow Interest Coverage [6]	4.89 x	3.92 x	4.52 x	5.01 x	4.48 x	4.56 x
Common Dividend Coverage [7]	3.93 x	3.37 x	4.04 x	4.08 x	3.99 x	3.88 x

See Page 2 for Notes.

AGL RESOURCES INC

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	2494.000	2621.000	2718.000	1832.000	983.700	868.900
I/S - Operating Inc Taxes-Total (MM$)	127.000	129.000	117.000	90.000	86.800	58.000
I/S - Operating Exps-Total (MM$)	2132.000	2262.000	2393.000	1590.000	828.100	718.700
I/S - Nonoperating Inc Taxes-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Gross Inc (Inc Bef Int) (MM$)	366.000	358.000	324.000	242.000	211.300	189.000
I/S - Interest Charges-Total (MM$)	125.000	123.000	109.000	71.000	75.600	86.000
I/S - Allow for Funds Used During Const-Total	4.000	5.000	0.000	0.000	0.000	0.000
I/S - Subsidiary Preferred Dividends (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	211.000	212.000	193.000	153.000	135.700	103.000
I/S - Earnings/Share (Primary) Excl. Extra. Itei	2.740	2.730	2.500	2.300	2.150	1.840
B/S - Common Equity-Total (MM$)	1661.000	1609.000	1499.000	1385.000	945.300	710.100
B/S - Subsidiary Preferred Stock at Carrying \	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MN	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	47.000	42.000	38.000	36.000	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	1674.000	1622.000	1615.000	1623.000	956.100	994.200
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	3382.000	3273.000	3152.000	3044.000	1901.400	1704.300
B/S - Debt (Long-Term Due Within One Year)	0.000	0.000	0.000	0.000	77.000	30.000
B/S - Short-Term Debt (Total) (MM$)	580.000	539.000	522.000	334.000	306.400	388.600
B/S - Pref/Preference Stock Sinking Fund Rec	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	211.000	212.000	193.000	153.000	135.700	103.000
C/F - Depr. and Depl. (MM$)	144.000	138.000	133.000	99.000	91.400	89.100
C/F - Amortization (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Def. Inc Taxes-Net (MM$)	30.000	133.000	17.000	81.000	52.500	81.900
C/F - Invest. Tax Credit-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Allow for Funds Used During Constr. (M	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Other Internal Sources-Net (MM$)	99.000	-109.000	61.000	-27.000	-0.700	-5.200
C/F - Util Plant-Gross Additions (MM$)	259.000	253.000	267.000	264.000	158.400	187.000
C/F - Cash Div on Common Stock (MM$)	123.000	111.000	100.000	75.000	69.900	53.200
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Interest Paid-Net (MM$)	127.000	108.000	89.000	50.000	59.600	73.300
C/F - Inc Taxes Paid (MM$)	118.000	37.000	89.000	27.000	23.000	15.300
Adjustment Factor (Cumulative) by Ex-Date (F	1.000	1.000	1.000	1.000	1.000	1.000
Adjustment Factor (Cumulative)-Payable Date	1.000	1.000	1.000	1.000	1.000	1.000
Common Dividends (MM$)	123.000	115.000	100.000	75.000	69.900	60.500
Common Div. Paid per Share by Ex-Date ($&(	1.640	1.480	1.300	1.150	1.110	1.080
Common Dividends Paid/Share by Payable Di	1.640	1.480	1.300	1.150	1.110	1.080
Price-High ($&¢)	44.670	40.090	39.320	33.650	29.350	25.000
Price-Low ($&¢)	35.240	34.400	32.000	26.500	21.900	17.250
Price-Close ($&¢)	37.640	38.910	34.810	33.240	29.100	24.300
Common Shares Outstanding (MM)	76.400	77.700	77.800	76.700	64.500	56.700
Other Comprehensive Income	-13.000	-32.000	-53.000	-46.000	-40.400	-49.200
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 2.74	$ 2.73	$ 2.50	$ 2.30	$ 2.15	$ 1.84
Common Div. Paid per Share by Ex-Date (	$ 1.64	$ 1.48	$ 1.30	$ 1.15	$ 1.11	$ 1.08
Common Dividends Paid/Share by Payabl	$ 1.64	$ 1.48	$ 1.30	$ 1.15	$ 1.11	$ 1.08
Price-High ($&¢)	$ 44.67	$ 40.09	$ 39.32	$ 33.65	$ 29.35	$ 25.00
Price-Low ($&¢)	$ 35.24	$ 34.40	$ 32.00	$ 26.50	$ 21.90	$ 17.25
Price-Close ($&¢)	$ 37.64	$ 38.91	$ 34.81	$ 33.24	$ 29.10	$ 24.30
Common Shares Outstanding (MM)	76.400	77.700	77.800	76.700	64.500	56.700
Book Value per Share	$ 21.74	$ 20.71	$ 19.27	$ 18.06	$ 14.66	$ 12.52

ATMOS ENERGY CORP
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 4,112.1	$ 3,875.5	$ 3,792.1	$ 2,015.2	$ 1,732.2	
Short-Term Debt	$ 150.6	$ 382.4	$ 144.8	$ -	$ 118.6	
Total Capital	$ 4,262.7	$ 4,257.9	$ 3,936.9	$ 2,015.2	$ 1,850.8	
Market-Based Financial Ratios						Average
Price-Earnings Multiple	15 x	16 x	16 x	16 x	13 x	15 x
Market/Book Ratio	136.0%	146.4%	144.8%	146.9%	152.4%	145.3%
Dividend Yield	4.5%	4.3%	4.5%	4.8%	5.2%	4.7%
Dividend Payout Ratio	66.3%	69.2%	72.9%	77.4%	69.6%	71.1%
Capital Structure Ratios						
Based on Permanent Captial:						
Long-Term Debt	51.8%	56.3%	57.7%	43.0%	50.4%	51.8%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	48.2%	43.7%	42.3%	57.0%	49.6%	48.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	53.5%	60.3%	59.2%	43.0%	53.6%	53.9%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	46.5%	39.7%	40.8%	57.0%	46.4%	46.1%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity (1)	9.2%	9.0%	9.9%	8.6%	10.8%	9.5%
Operating Ratio (2)	93.1%	93.4%	93.0%	93.4%	93.3%	93.2%
Coverage incl. AFUDC (3)						
Pre-tax: All Interest Charges	2.77 x	2.58 x	2.61 x	3.07 x	2.96 x	2.80 x
Post-tax: All Interest Charges	2.14 x	1.98 x	2.00 x	2.29 x	2.23 x	2.13 x
Overall Coverage: All Int. & Pfd. Div.	2.14 x	1.98 x	2.00 x	2.29 x	2.23 x	2.13 x
Coverage excl. AFUDC (4)						
Pre-tax: All Interest Charges	2.75 x	2.55 x	2.59 x	3.05 x	2.95 x	2.78 x
Post-tax: All Interest Charges	2.12 x	1.96 x	1.99 x	2.28 x	2.22 x	2.11 x
Overall Coverage: All Int. & Pfd. Div.	2.12 x	1.96 x	1.99 x	2.28 x	2.22 x	2.11 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	1.8%	2.4%	1.8%	1.4%	1.0%	1.7%
Effective Income Tax Rate	35.8%	37.6%	37.7%	37.4%	37.1%	37.1%
Internal Cash Generation/Construction (5)	88.1%	84.4%	72.0%	80.3%	101.2%	85.2%
Gross Cash Flow/ Avg. Total Debt (6)	18.9%	18.8%	21.2%	23.6%	23.7%	21.2%
Gross Cash Flow Interest Coverage (7)	4.11 x	4.06 x	3.27 x	4.28 x	4.32 x	4.01 x
Common Dividend Coverage (8)	4.10 x	4.51 x	3.42 x	3.29 x	3.92 x	3.85 x

See Page 2 for Notes.

ATMOS ENERGY CORP

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	5898.431	6152.363	4973.326	2920.037	2799.916	950.849
I/S - Operating Inc Taxes-Total (MM$)	94.092	89.153	82.233	51.538	46.910	35.180
I/S - Operating Exps-Total (MM$)	5587.543	5835.953	4706.904	2777.880	2658.986	830.698
I/S - Nonoperating Inc Taxes-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Gross Inc (Inc Bef Int) (MM$)	313.728	294.344	268.443	151.664	143.121	118.830
I/S - Interest Charges-Total (MM$)	148.236	150.207	135.158	66.637	64.460	60.474
I/S - Allow for Funds Used During Const-Total	3.000	3.600	2.500	1.200	0.800	1.300
I/S - Subsidiary Preferred Dividends (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	168.492	147.737	135.785	86.227	79.461	59.656
I/S - Earnings/Share (Primary) Excl. Extra. Itei	1.940	1.830	1.730	1.600	1.720	1.450
B/S - Common Equity-Total (MM$)	1965.754	1648.098	1602.422	1133.459	857.517	573.235
B/S - Subsidiary Preferred Stock at Carrying \	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MM	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	2126.315	2180.362	2183.104	861.311	863.918	670.463
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	4092.069	3828.460	3785.526	1994.770	1721.435	1243.698
B/S - Debt (Long-Term Due Within One Year)	3.831	3.186	3.264	5.908	9.345	21.980
B/S - Short-Term Debt (Total) (MM$)	150.599	382.416	144.809	0.000	118.595	145.791
B/S - Pref/Preference Stock Sinking Fund Rec	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	168.492	147.737	135.785	86.227	79.461	59.656
C/F - Depr. and Depl. (MM$)	199.055	185.967	178.796	98.112	89.194	83.921
C/F - Amortization (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Def. Inc Taxes-Net (MM$)	62.121	86.178	12.669	36.997	53.867	14.509
C/F - Invest. Tax Credit-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Allow for Funds Used During Constr. (M	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Other Internal Sources-Net (MM$)	27.614	41.427	11.522	-1.772	-5.885	-3.371
C/F - Util Plant-Gross Additions (MM$)	392.435	425.324	333.183	190.285	159.439	132.252
C/F - Cash Div on Common Stock (MM$)	111.664	102.275	98.978	66.736	55.291	48.646
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Interest Paid-Net (MM$)	151.616	149.031	103.418	65.700	62.088	59.639
C/F - Inc Taxes Paid (MM$)	8.939	77.265	51.490	1.677	0.408	16.588
Adjustment Factor (Cumulative) by Ex-Date (F	1.000	1.000	1.000	1.000	1.000	1.000
Adjustment Factor (Cumulative)-Payable Date	1.000	1.000	1.000	1.000	1.000	1.000
Common Dividends (MM$)	111.664	102.275	98.978	66.736	55.291	48.646
Common Div. Paid per Share by Ex-Date ($&(	1.280	1.260	1.240	1.220	1.200	1.180
Common Dividends Paid/Share by Payable Di	1.280	1.260	1.240	1.220	1.200	1.180
Price-High ($&¢)	33.470	33.090	29.970	27.590	25.500	24.550
Price-Low ($&¢)	23.870	25.550	25.000	23.400	20.850	17.560
Price-Close ($&¢)	28.040	31.910	26.160	27.350	24.300	23.320
Common Shares Outstanding (MM)	89.327	81.740	80.539	62.800	51.476	41.676
Other Comprehensive Income	-16.198	-43.850	-3.341	-14.529	-1.459	-41.380
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 1.94	$ 1.83	$ 1.73	$ 1.60	$ 1.72	$ 1.45
Common Div. Paid per Share by Ex-Date (	$ 1.28	$ 1.26	$ 1.24	$ 1.22	$ 1.20	$ 1.18
Common Dividends Paid/Share by Payabl	$ 1.28	$ 1.26	$ 1.24	$ 1.22	$ 1.20	$ 1.18
Price-High ($&¢)	$ 33.47	$ 33.09	$ 29.97	$ 27.59	$ 25.50	$ 24.55
Price-Low ($&¢)	$ 23.87	$ 25.55	$ 25.00	$ 23.40	$ 20.85	$ 17.56
Price-Close ($&¢)	$ 28.04	$ 31.91	$ 26.16	$ 27.35	$ 24.30	$ 23.32
Common Shares Outstanding (MM)	89.327	81.740	80.539	62.800	51.476	41.676
Book Value per Share	$ 22.01	$ 20.16	$ 19.90	$ 18.05	$ 16.66	$ 13.75

NEW JERSEY RESOURCES CORP
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 1,033.3	$ 864.1	$ 818.4	$ 813.9	$ 676.7	
Short-Term Debt	$ 256.5	$ 280.7	$ 174.1	$ 259.7	$ 185.8	
Total Capital	$ 1,289.7	$ 1,144.8	$ 992.5	$ 1,073.6	$ 862.5	
Market-Based Financial Ratios						Average
Price-Earnings Multiple	22 x	17 x	16 x	16 x	14 x	17 x
Market/Book Ratio	222.8%	246.5%	274.8%	251.3%	241.4%	247.4%
Dividend Yield	3.0%	3.0%	3.0%	3.2%	3.6%	3.2%
Dividend Payout Ratio	65.0%	51.1%	49.1%	50.1%	51.4%	53.3%
Capital Structure Ratios						
Based on Permanent Captial:						
Long-Term Debt	37.5%	38.9%	39.2%	42.2%	38.5%	39.3%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	62.5%	61.1%	60.8%	57.8%	61.5%	60.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	49.9%	53.9%	49.8%	56.2%	51.7%	52.3%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	50.1%	46.1%	50.2%	43.8%	48.3%	47.7%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity (1)	11.1%	15.3%	15.8%	16.1%	16.6%	15.0%
Operating Ratio (2)	95.7%	95.6%	95.7%	95.0%	95.2%	95.4%
Coverage incl. AFUDC (3)						
Pre-tax: All Interest Charges	4.62 x	5.80 x	6.95 x	8.32 x	8.56 x	6.85 x
Post-tax: All Interest Charges	3.24 x	3.93 x	4.62 x	5.46 x	5.58 x	4.57 x
Overall Coverage: All Int. & Pfd. Div.	3.24 x	3.93 x	4.62 x	5.46 x	5.58 x	4.57 x
Coverage excl. AFUDC (4)						
Pre-tax: All Interest Charges	4.51 x	5.76 x	6.92 x	8.28 x	8.54 x	6.80 x
Post-tax: All Interest Charges	3.13 x	3.89 x	4.60 x	5.42 x	5.56 x	4.52 x
Overall Coverage: All Int. & Pfd. Div.	3.13 x	3.89 x	4.60 x	5.42 x	5.56 x	4.52 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	4.9%	1.4%	0.8%	0.9%	0.4%	1.7%
Effective Income Tax Rate	38.2%	38.9%	39.1%	39.1%	39.4%	38.9%
Internal Cash Generation/Construction (5)	130.5%	40.1%	96.9%	100.1%	133.8%	100.3%
Gross Cash Flow/ Avg. Total Debt (6)	19.8%	10.9%	16.1%	18.2%	21.2%	17.2%
Gross Cash Flow Interest Coverage (7)	5.19 x	3.10 x	5.05 x	6.73 x	7.56 x	5.53 x
Common Dividend Coverage (8)	2.98 x	1.54 x	2.38 x	2.71 x	2.88 x	2.50 x

See Page 2 for Notes.

NEW JERSEY RESOURCES CORP

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	3021.765	3299.608	3138.162	2533.607	2544.379	1830.754
I/S - Operating Inc Taxes-Total (MM$)	40.312	50.022	48.913	45.945	42.462	35.924
I/S - Operating Exps-Total (MM$)	2930.827	3203.167	3052.407	2452.334	2465.490	1762.299
I/S - Nonoperating Inc Taxes-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Gross Inc (Inc Bef Int) (MM$)	92.894	104.188	96.814	86.969	79.404	73.400
I/S - Interest Charges-Total (MM$)	29.135	26.769	21.068	16.055	14.270	16.923
I/S - Allow for Funds Used During Const-Total	3.209	1.100	0.594	0.660	0.278	0.367
I/S - Subsidiary Preferred Dividends (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	65.281	78.519	76.340	71.574	65.412	56.844
I/S - Earnings/Share (Primary) Excl. Extra. Itei	2.340	2.820	2.770	2.600	2.410	2.120
B/S - Common Equity-Total (MM$)	644.797	621.662	438.052	467.917	418.941	361.453
B/S - Subsidiary Preferred Stock at Carrying \	0.000	0.000	0.000	0.000	0.000	0.295
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MN	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	383.184	332.332	317.204	315.887	257.899	370.628
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	1027.981	953.994	755.256	783.804	676.840	732.376
B/S - Debt (Long-Term Due Within One Year)	4.338	3.739	3.253	27.736	2.448	26.942
B/S - Short-Term Debt (Total) (MM$)	256.479	280.700	174.100	259.700	185.800	59.900
B/S - Pref/Preference Stock Sinking Fund Rec	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	65.281	78.519	76.340	71.574	65.412	56.844
C/F - Depr. and Depl. (MM$)	36.536	34.753	33.675	32.449	31.965	31.844
C/F - Amortization (MM$)	0.000	0.301	1.552	1.801	4.410	3.893
C/F - Def. Inc Taxes-Net (MM$)	17.762	-11.896	-0.234	3.788	15.221	18.759
C/F - Invest. Tax Credit-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Allow for Funds Used During Constr. (M	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Other Internal Sources-Net (MM$)	5.174	-40.971	-22.983	-13.976	-21.322	-40.556
C/F - Util Plant-Gross Additions (MM$)	63.524	53.060	52.801	60.313	46.653	42.314
C/F - Cash Div on Common Stock (MM$)	41.869	39.446	37.164	35.269	33.245	32.012
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Interest Paid-Net (MM$)	26.403	22.186	18.085	12.353	12.191	14.516
C/F - Inc Taxes Paid (MM$)	52.549	38.101	47.812	39.277	12.365	31.410
Adjustment Factor (Cumulative) by Ex-Date (F	1.500	1.500	1.500	1.500	1.500	1.500
Adjustment Factor (Cumulative)-Payable Date	1.500	1.500	1.500	1.500	1.500	1.500
Common Dividends (MM$)	42.446	40.136	37.514	35.843	33.615	32.282
Common Div. Paid per Share by Ex-Date ($&(	1.520	1.440	1.360	1.300	1.240	1.200
Common Dividends Paid/Share by Payable D:	1.120	1.420	1.345	1.285	1.230	1.193
Price-High ($&¢)	56.450	53.160	49.340	44.550	39.540	33.600
Price-Low ($&¢)	45.500	41.490	40.681	36.500	30.010	24.350
Price-Close ($&¢)	50.020	48.580	41.890	43.340	38.510	31.590
Common Shares Outstanding (MM)	27.741	27.625	27.546	27.741	27.233	26.917
Other Comprehensive Income	-0.931	93.637	-59.871	-2.380	2.553	-12.374
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 1.56	$ 1.88	$ 1.85	$ 1.73	$ 1.61	$ 1.41
Common Div. Paid per Share by Ex-Date (	$ 1.01	$ 0.96	$ 0.91	$ 0.87	$ 0.83	$ 0.80
Common Dividends Paid/Share by Payabl	$ 0.75	$ 0.95	$ 0.90	$ 0.86	$ 0.82	$ 0.80
Price-High ($&¢)	$ 37.63	$ 35.44	$ 32.89	$ 29.70	$ 26.36	$ 22.40
Price-Low ($&¢)	$ 30.33	$ 27.66	$ 27.12	$ 24.33	$ 20.01	$ 16.23
Price-Close ($&¢)	$ 33.35	$ 32.39	$ 27.93	$ 28.89	$ 25.67	$ 21.06
Common Shares Outstanding (MM)	41.612	41.438	41.319	41.612	40.850	40.376
Book Value per Share	$ 15.50	$ 15.00	$ 10.60	$ 11.24	$ 10.26	$ 8.95

NORTHWEST NATURAL GAS CO
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	Average
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 1,115.3	$ 1,148.4	$ 1,118.3	$ 1,069.4	$ 1,007.7	
Short-Term Debt	$ 143.1	$ 100.1	$ 126.7	$ 102.5	$ 85.2	
Total Capital	$ 1,258.4	$ 1,248.5	$ 1,245.0	$ 1,171.9	$ 1,092.9	
Market-Based Financial Ratios						
Price-Earnings Multiple	17 x	17 x	17 x	16 x	16 x	17 x
Market/Book Ratio	208.2%	176.9%	171.9%	153.4%	144.1%	170.9%
Dividend Yield	3.1%	3.6%	3.7%	4.2%	4.6%	3.8%
Dividend Payout Ratio	51.8%	60.4%	62.6%	69.4%	71.5%	63.1%
Capital Structure Ratios						
Based on Permanent Captial:						
Long-Term Debt	46.4%	47.6%	47.3%	46.7%	49.7%	47.5%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	53.6%	52.4%	52.7%	53.3%	50.3%	52.5%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	52.5%	51.8%	52.7%	51.3%	53.6%	52.4%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	47.5%	48.2%	47.3%	48.7%	46.4%	47.6%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity (1)	12.4%	10.7%	10.0%	9.4%	9.2%	10.3%
Operating Ratio (2)	85.0%	86.5%	85.7%	84.5%	83.3%	85.0%
Coverage incl. AFUDC (3)						
Pre-tax: All Interest Charges	4.14 x	3.49 x	3.40 x	3.16 x	2.88 x	3.41 x
Post-tax: All Interest Charges	2.97 x	2.58 x	2.54 x	2.41 x	2.25 x	2.55 x
Overall Coverage: All Int. & Pfd. Div.	2.97 x	2.58 x	2.54 x	2.41 x	2.23 x	2.55 x
Coverage excl. AFUDC (4)						
Pre-tax: All Interest Charges	4.14 x	3.47 x	3.39 x	3.11 x	2.84 x	3.39 x
Post-tax: All Interest Charges	2.97 x	2.56 x	2.52 x	2.37 x	2.20 x	2.52 x
Overall Coverage: All Int. & Pfd. Div.	2.97 x	2.56 x	2.52 x	2.37 x	2.18 x	2.52 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	0.0%	1.3%	0.9%	3.3%	3.8%	1.9%
Effective Income Tax Rate	37.2%	36.4%	36.0%	34.4%	33.7%	35.5%
Internal Cash Generation/Construction (5)	95.6%	88.0%	65.9%	70.7%	59.4%	75.9%
Gross Cash Flow/ Avg. Total Debt (6)	19.6%	18.8%	15.1%	22.8%	19.1%	19.1%
Gross Cash Flow Interest Coverage (7)	4.41 x	4.03 x	3.49 x	4.79 x	3.87 x	4.12 x
Common Dividend Coverage (8)	3.32 x	3.19 x	2.62 x	3.85 x	3.27 x	3.25 x

See Page 2 for Notes.

NORTHWEST NATURAL GAS CO

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	1033.193	1013.172	910.486	707.604	611.256	641.376
I/S - Operating Inc Taxes-Total (MM$)	44.060	36.234	32.720	26.531	23.340	23.444
I/S - Operating Exps-Total (MM$)	922.330	912.644	813.459	624.109	532.324	548.562
I/S - Nonoperating Inc Taxes-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Gross Inc (Inc Bef Int) (MM$)	112.308	102.662	95.432	86.323	81.082	77.924
I/S - Interest Charges-Total (MM$)	37.811	40.047	37.803	35.751	36.833	34.682
I/S - Allow for Funds Used During Const-Total	0.000	0.800	0.520	1.690	1.734	0.550
I/S - Subsidiary Preferred Dividends (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.294	2.280
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	74.497	63.415	58.149	50.572	45.689	41.512
I/S - Earnings/Share (Primary) Excl. Extra. Itei	2.780	2.300	2.110	1.870	1.770	1.630
B/S - Common Equity-Total (MM$)	594.751	599.545	586.931	568.517	506.316	483.103
B/S - Subsidiary Preferred Stock at Carrying \	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	8.250
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MM	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	512.000	517.000	521.500	484.027	500.319	445.945
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	1106.751	1116.545	1108.431	1052.544	1006.635	937.298
B/S - Debt (Long-Term Due Within One Year)	5.000	29.500	8.000	15.000	0.000	20.000
B/S - Short-Term Debt (Total) (MM$)	143.100	100.100	126.700	102.500	85.200	69.802
B/S - Pref/Preference Stock Sinking Fund Re	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	74.497	63.415	58.149	50.572	45.983	43.792
C/F - Depr. and Depl. (MM$)	68.343	64.435	61.645	57.371	54.249	52.090
C/F - Amortization (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Def. Inc Taxes-Net (MM$)	-5.252	-16.440	9.551	36.713	29.186	10.450
C/F - Invest. Tax Credit-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Allow for Funds Used During Constr. (M	0.000	0.000	0.520	1.690	1.734	0.550
C/F - Other Internal Sources-Net (MM$)	-9.334	10.749	-33.617	-7.819	-20.531	15.746
C/F - Util Plant-Gross Additions (MM$)	93.785	95.307	89.779	143.175	126.394	80.080
C/F - Cash Div on Common Stock (MM$)	38.613	38.298	36.376	35.105	32.655	32.024
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.392	2.579
C/F - Interest Paid-Net (MM$)	38.508	39.294	36.874	36.061	35.210	34.640
C/F - Inc Taxes Paid (MM$)	56.215	31.270	28.479	2.500	13.940	33.474
Adjustment Factor (Cumulative) by Ex-Date (F	1.000	1.000	1.000	1.000	1.000	1.000
Adjustment Factor (Cumulative)-Payable Date	1.000	1.000	1.000	1.000	1.000	1.000
Common Dividends (MM$)	38.613	38.298	36.376	35.105	32.655	32.024
Common Div. Paid per Share by Ex-Date ($&(	1.440	1.390	1.320	1.300	1.270	1.260
Common Dividends Paid/Share by Payable D:	1.440	1.390	1.320	1.300	1.270	1.260
Price-High ($&¢)	52.850	43.690	39.630	34.130	31.300	30.700
Price-Low ($&¢)	39.790	32.830	32.420	27.460	24.050	23.460
Price-Close ($&¢)	48.660	42.440	34.180	33.740	30.750	27.060
Common Shares Outstanding (MM)	26.407	27.284	27.579	27.547	25.938	25.586
Other Comprehensive Income	-3.502	-2.356	-1.911	-1.818	-1.016	-3.084
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 2.78	$ 2.30	$ 2.11	$ 1.87	$ 1.77	$ 1.63
Common Div. Paid per Share by Ex-Date (	$ 1.44	$ 1.39	$ 1.32	$ 1.30	$ 1.27	$ 1.26
Common Dividends Paid/Share by Payabl(	$ 1.44	$ 1.39	$ 1.32	$ 1.30	$ 1.27	$ 1.26
Price-High ($&¢)	$ 52.85	$ 43.69	$ 39.63	$ 34.13	$ 31.30	$ 30.70
Price-Low ($&¢)	$ 39.79	$ 32.83	$ 32.42	$ 27.46	$ 24.05	$ 23.46
Price-Close ($&¢)	$ 48.66	$ 42.44	$ 34.18	$ 33.74	$ 30.75	$ 27.06
Common Shares Outstanding (MM)	26.407	27.284	27.579	27.547	25.938	25.586
Book Value per Share	$ 22.52	$ 21.97	$ 21.28	$ 20.64	$ 19.52	$ 18.88

PIEDMONT NATURAL GAS CO
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 1,702.5	$ 1,706.6	$ 1,546.4	$ 1,515.1	$ 1,094.1	
Short-Term Debt	$ 195.5	$ 170.0	$ 158.5	$ 109.5	$ 555.1	
Total Capital	$ 1,898.0	$ 1,876.6	$ 1,704.9	$ 1,624.6	$ 1,649.2	
Market-Based Financial Ratios						Average
Price-Earnings Multiple	18 x	20 x	18 x	17 x	17 x	18 x
Market/Book Ratio	212.3%	222.3%	207.5%	212.1%	211.2%	213.1%
Dividend Yield	4.0%	3.7%	3.8%	3.9%	4.3%	3.9%
Dividend Payout Ratio	70.5%	74.2%	68.5%	66.5%	73.8%	70.7%
Capital Structure Ratios						
Based on Permanent Captial:						
Long-Term Debt	48.5%	48.3%	42.7%	43.6%	42.2%	45.1%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	51.5%	51.7%	57.3%	56.4%	57.8%	54.9%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	53.8%	53.0%	48.0%	47.4%	61.7%	52.8%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Equity (1)	46.2%	47.0%	52.0%	52.6%	38.3%	47.2%
	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity (1)	11.9%	11.0%	11.6%	12.8%	12.1%	11.9%
Operating Ratio (2)	89.0%	90.2%	89.9%	88.3%	88.3%	89.1%
Coverage incl. AFUDC (3)						
Pre-tax: All Interest Charges	3.78 x	3.84 x	4.45 x	4.21 x	3.98 x	4.05 x
Post-tax: All Interest Charges	2.71 x	2.73 x	3.14 x	2.94 x	2.80 x	2.86 x
Overall Coverage: All Int. & Pfd. Div.	2.71 x	2.73 x	3.14 x	2.94 x	2.80 x	2.86 x
Coverage excl. AFUDC (4)						
Pre-tax: All Interest Charges	3.72 x	3.77 x	4.39 x	4.15 x	3.92 x	3.99 x
Post-tax: All Interest Charges	2.65 x	2.66 x	3.07 x	2.89 x	2.74 x	2.80 x
Overall Coverage: All Int. & Pfd. Div.	2.65 x	2.66 x	3.07 x	2.89 x	2.74 x	2.80 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	3.6%	4.0%	3.1%	2.7%	3.0%	3.3%
Effective Income Tax Rate	38.6%	39.1%	38.1%	39.5%	39.5%	39.0%
Internal Cash Generation/Construction (5)	105.9%	67.0%	72.2%	95.8%	162.4%	100.7%
Gross Cash Flow/ Avg. Total Debt (6)	21.9%	23.0%	26.2%	22.3%	23.1%	23.3%
Gross Cash Flow Interest Coverage (7)	4.66 x	4.69 x	5.41 x	4.95 x	5.37 x	5.02 x
Common Dividend Coverage (8)	3.00 x	2.90 x	2.99 x	3.15 x	3.31 x	3.07 x

See Page 2 for Notes.

PIEDMONT NATURAL GAS CO

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	1711.292	1924.628	1761.091	1529.739	1220.822	832.028
I/S - Operating Inc Taxes-Total (MM$)	51.315	50.543	51.880	51.485	40.093	30.784
I/S - Operating Exps-Total (MM$)	1573.945	1785.979	1635.791	1402.424	1117.716	741.901
I/S - Nonoperating Inc Taxes-Net (MM$)	14.311	11.887	10.446	10.562	8.524	9.010
I/S - Gross Inc (Inc Bef Int) (MM$)	161.659	149.499	146.128	142.600	115.379	102.821
I/S - Interest Charges-Total (MM$)	61.071	56.203	47.393	49.033	41.332	42.042
I/S - Allow for Funds Used During Const-Total	3.799	3.893	3.137	2.615	2.263	3.424
I/S - Subsidiary Preferred Dividends (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	104.387	97.189	101.270	95.188	74.362	62.217
I/S - Earnings/Share (Primary) Excl. Extra. Itei	1.410	1.280	1.320	2.560	2.230	1.900
B/S - Common Equity-Total (MM$)	878.374	882.925	884.192	854.898	630.195	589.596
B/S - Subsidiary Preferred Stock at Carrying \	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MN	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	824.887	825.000	625.000	660.000	460.000	462.000
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	1703.261	1707.925	1509.192	1514.898	1090.195	1051.596
B/S - Debt (Long-Term Due Within One Year)	0.000	0.000	35.000	0.000	2.000	47.000
B/S - Short-Term Debt (Total) (MM$)	195.500	170.000	158.500	109.500	555.059	46.500
B/S - Pref/Preference Stock Sinking Fund Re(	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	104.387	97.189	101.270	95.188	74.362	62.217
C/F - Depr. and Depl. (MM$)	93.355	94.111	91.677	87.336	64.161	58.393
C/F - Amortization (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Def. Inc Taxes-Net (MM$)	23.854	22.021	18.278	21.337	45.792	14.104
C/F - Invest. Tax Credit-Net (MM$)	-0.434	-0.534	-0.541	-0.550	-0.550	-0.556
C/F - Allow for Funds Used During Constr. (M	0.000	3.893	3.137	2.615	2.263	3.424
C/F - Other Internal Sources-Net (MM$)	-0.359	0.051	0.102	-1.658	0.000	0.000
C/F - Util Plant-Gross Additions (MM$)	139.030	208.009	194.544	144.376	80.198	83.536
C/F - Cash Div on Common Stock (MM$)	73.561	72.107	69.366	63.267	54.912	51.909
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Interest Paid-Net (MM$)	63.703	54.669	48.888	43.868	40.268	39.696
C/F - Inc Taxes Paid (MM$)	27.423	56.615	35.888	44.396	30.554	34.166
Adjustment Factor (Cumulative) by Ex-Date (F	1.000	1.000	1.000	2.000	2.000	2.000
Adjustment Factor (Cumulative)-Payable Date	1.000	1.000	1.000	1.000	2.000	2.000
Common Dividends (MM$)	73.561	72.107	69.366	63.267	54.912	51.909
Common Div. Paid per Share by Ex-Date ($&(	0.990	0.950	0.905	1.705	1.645	1.585
Common Dividends Paid/Share by Payable D:	0.990	0.950	0.905	1.068	1.645	1.585
Price-High ($&¢)	27.980	28.440	25.800	48.700	43.950	38.000
Price-Low ($&¢)	22.000	23.210	21.260	38.320	33.220	27.350
Price-Close ($&¢)	26.160	26.750	24.160	46.480	43.460	35.350
Common Shares Outstanding (MM)	74.208	75.464	76.698	38.335	33.655	33.090
Other Comprehensive Income	0.720	1.340	-2.253	-0.166	-1.932	-2.983
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 1.41	$ 1.28	$ 1.32	$ 1.28	$ 1.12	$ 0.95
Common Div. Paid per Share by Ex-Date (	$ 0.99	$ 0.95	$ 0.91	$ 0.85	$ 0.82	$ 0.79
Common Dividends Paid/Share by Payabl(	$ 0.99	$ 0.95	$ 0.91	$ 0.53	$ 0.82	$ 0.79
Price-High ($&¢)	$ 27.98	$ 28.44	$ 25.80	$ 24.35	$ 21.98	$ 19.00
Price-Low ($&¢)	$ 22.00	$ 23.21	$ 21.26	$ 19.16	$ 16.61	$ 13.68
Price-Close ($&¢)	$ 26.16	$ 26.75	$ 24.16	$ 23.24	$ 21.73	$ 17.68
Common Shares Outstanding (MM)	74.208	75.464	76.698	76.670	67.310	66.180
Book Value per Share	$ 11.84	$ 11.70	$ 11.53	$ 11.15	$ 9.36	$ 8.91

SOUTH JERSEY INDUSTRIES INC
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	Average
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 849.8	$ 811.7	$ 724.3	$ 677.1	$ 610.2	
Short-Term Debt	$ 118.3	$ 194.6	$ 147.3	$ 92.3	$ 112.8	
Total Capital	$ 968.1	$ 1,006.3	$ 871.6	$ 769.4	$ 723.0	
Market-Based Financial Ratios						
Price-Earnings Multiple	17 x	12 x	17 x	15 x	13 x	15 x
Market/Book Ratio	231.1%	209.3%	221.2%	195.3%	169.6%	205.3%
Dividend Yield	2.8%	3.1%	3.0%	3.5%	4.4%	3.4%
Dividend Payout Ratio	47.3%	37.2%	50.2%	52.4%	57.1%	48.8%
Capital Structure Ratios						
Based on Permanent Capital:						
Long-Term Debt	42.1%	44.4%	44.4%	49.4%	51.5%	46.4%
Preferred Stock	0.1%	0.1%	0.1%	0.3%	0.3%	0.2%
Common Equity [1]	57.8%	55.5%	55.6%	50.4%	48.3%	53.5%
	100.0%	100.0%	100.1%	100.1%	100.1%	100.1%
Based on Total Capital:						
Total Debt incl. Short Term	49.2%	55.2%	53.8%	55.4%	59.0%	54.5%
Preferred Stock	0.0%	0.0%	0.0%	0.2%	0.2%	0.1%
Common Equity [1]	50.8%	44.8%	46.2%	44.3%	40.7%	45.4%
	100.0%	100.0%	100.0%	99.9%	99.9%	100.0%
Rate of Return on Book Common Equity [1]	13.3%	16.9%	13.1%	13.5%	12.8%	13.9%
Operating Ratio [2]	86.4%	84.3%	88.9%	88.9%	88.8%	87.5%
Coverage incl. AFUDC [3]						
Pre-tax: All Interest Charges	4.81 x	5.25 x	4.93 x	4.50 x	3.82 x	4.66 x
Post-tax: All Interest Charges	3.26 x	3.52 x	3.32 x	3.09 x	2.68 x	3.17 x
Overall Coverage: All Int. & Pfd. Div.	3.26 x	3.52 x	3.32 x	3.09 x	2.68 x	3.17 x
Coverage excl. AFUDC [4]						
Pre-tax: All Interest Charges	4.80 x	5.22 x	4.93 x	4.50 x	3.82 x	4.65 x
Post-tax: All Interest Charges	3.24 x	3.49 x	3.32 x	3.09 x	2.68 x	3.16 x
Overall Coverage: All Int. & Pfd. Div.	3.24 x	3.49 x	3.32 x	3.09 x	2.68 x	3.16 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	0.8%	1.4%	0.0%	0.0%	0.0%	0.4%
Effective Income Tax Rate	40.7%	40.7%	41.0%	40.4%	40.6%	40.7%
Internal Cash Generation/Construction [5]	125.2%	76.2%	47.0%	89.6%	118.9%	91.4%
Gross Cash Flow/ Avg. Total Debt [6]	19.2%	16.2%	15.2%	20.9%	21.4%	18.6%
Gross Cash Flow Interest Coverage [7]	4.55 x	3.85 x	4.28 x	5.30 x	5.58 x	4.71 x
Common Dividend Coverage [8]	3.34 x	3.09 x	2.79 x	3.95 x	4.77 x	3.59 x

See Page 2 for Notes.

SOUTH JERSEY INDUSTRIES INC

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	956.371	931.428	920.982	819.076	696.820	505.126
I/S - Operating Inc Taxes-Total (MM$)	43.056	49.683	33.767	29.079	23.596	20.404
I/S - Operating Exps-Total (MM$)	869.804	835.309	852.965	757.416	642.573	456.455
I/S - Nonoperating Inc Taxes-Net (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Gross Inc (Inc Bef Int) (MM$)	89.874	99.921	69.538	63.546	55.169	50.146
I/S - Interest Charges-Total (MM$)	27.715	28.671	20.950	20.573	20.616	20.734
I/S - Allow for Funds Used During Const-Total	0.500	1.000	0.000	0.000	0.000	0.000
I/S - Subsidiary Preferred Dividends (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	62.659	72.250	48.588	42.973	34.553	29.412
I/S - Earnings/Share (Primary) Excl. Extra. Itei	2.130	2.480	1.720	3.140	2.750	2.440
B/S - Common Equity-Total (MM$)	481.080	443.036	391.185	344.412	297.961	237.792
B/S - Subsidiary Preferred Stock at Carrying \	0.000	0.000	0.000	1.690	1.690	1.690
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MM	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	0.440	0.461	0.394	0.227	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	357.896	358.022	319.066	328.914	308.781	273.016
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	839.416	801.519	710.645	675.243	608.432	512.498
B/S - Debt (Long-Term Due Within One Year)	0.106	2.369	2.364	5.348	5.273	10.696
B/S - Short-Term Debt (Total) (MM$)	118.290	194.600	147.300	92.300	112.800	166.500
B/S - Pref/Preference Stock Sinking Fund Rec	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	62.659	72.250	48.588	42.973	34.553	29.412
C/F - Depr. and Depl. (MM$)	32.865	30.834	26.842	27.720	27.640	24.864
C/F - Amortization (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Def. Inc Taxes-Net (MM$)	12.030	21.829	25.179	15.272	4.622	14.690
C/F - Invest. Tax Credit-Net (MM$)	0.000	0.000	0.000	-0.342	-0.348	-0.347
C/F - Allow for Funds Used During Constr. (M	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Other Internal Sources-Net (MM$)	-8.374	-41.866	-32.576	3.360	27.519	0.270
C/F - Util Plant-Gross Additions (MM$)	55.539	73.677	92.906	74.148	62.488	84.740
C/F - Cash Div on Common Stock (MM$)	29.656	26.874	24.397	22.534	19.717	18.204
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Interest Paid-Net (MM$)	27.025	27.341	21.608	20.084	21.056	17.811
C/F - Inc Taxes Paid (MM$)	22.461	28.171	15.054	17.551	8.699	8.433
Adjustment Factor (Cumulative) by Ex-Date (F	1.000	1.000	1.000	2.000	2.000	2.000
Adjustment Factor (Cumulative)-Payable Date	1.000	1.000	1.000	2.000	2.000	2.000
Common Dividends (MM$)	29.656	26.874	24.397	22.534	19.717	18.204
Common Div. Paid per Share by Ex-Date ($&(	1.005	0.920	0.863	1.640	1.560	1.510
Common Dividends Paid/Share by Payable D:	1.005	0.920	0.863	1.640	1.560	1.880
Price-High ($&¢)	41.270	34.260	32.380	53.100	40.700	36.650
Price-Low ($&¢)	31.200	25.630	24.940	39.360	30.550	28.200
Price-Close ($&¢)	36.090	33.410	29.140	52.560	40.500	33.020
Common Shares Outstanding (MM)	29.607	29.326	28.982	13.880	13.229	12.206
Other Comprehensive Income	-10.315	-7.791	-11.261	3.453	3.471	-5.902
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 2.13	$ 2.48	$ 1.72	$ 1.57	$ 1.38	$ 1.22
Common Div. Paid per Share by Ex-Date (	$ 1.01	$ 0.92	$ 0.86	$ 0.82	$ 0.78	$ 0.76
Common Dividends Paid/Share by Payabl	$ 1.01	$ 0.92	$ 0.86	$ 0.82	$ 0.78	$ 0.94
Price-High ($&¢)	$ 41.27	$ 34.26	$ 32.38	$ 26.55	$ 20.35	$ 18.33
Price-Low ($&¢)	$ 31.20	$ 25.63	$ 24.94	$ 19.68	$ 15.28	$ 14.10
Price-Close ($&¢)	$ 36.09	$ 33.41	$ 29.14	$ 26.28	$ 20.25	$ 16.51
Common Shares Outstanding (MM)	29.607	29.326	28.982	27.760	26.458	24.412
Book Value per Share	$ 16.25	$ 15.11	$ 13.50	$ 12.41	$ 11.26	$ 9.74

WGL HOLDINGS INC
Capitalization and Financial Statistics
2003-2007, Inclusive

	2007	2006	2005	2004	2003	
			(Millions of Dollars)			
Amount of Capital Employed						
Permanent Capital	$ 1,649.6	$ 1,591.7	$ 1,560.2	$ 1,533.9	$ 1,495.9	
Short-Term Debt	$ 184.2	$ 177.4	$ 40.9	$ 95.6	$ 166.7	
Total Capital	$ 1,833.9	$ 1,769.1	$ 1,601.1	$ 1,629.5	$ 1,662.6	
Market-Based Financial Ratios						Average
Price-Earnings Multiple	15 x	16 x	15 x	15 x	11 x	14 x
Market/Book Ratio	169.5%	162.8%	177.3%	169.0%	159.3%	167.6%
Dividend Yield	4.1%	4.4%	4.1%	4.4%	4.9%	4.4%
Dividend Payout Ratio	62.3%	69.3%	62.2%	65.2%	55.3%	62.9%
Capital Structure Ratios						
Based on Permanent Captial:						
Long-Term Debt	38.6%	40.0%	40.7%	42.4%	43.4%	41.0%
Preferred Stock	1.7%	1.8%	1.8%	1.8%	1.9%	1.8%
Common Equity (1)	59.6%	58.2%	57.5%	55.7%	54.7%	57.1%
	99.9%	100.0%	100.0%	99.9%	100.0%	100.0%
Based on Total Capital:						
Total Debt incl. Short Term	44.8%	46.0%	42.2%	45.8%	49.0%	45.6%
Preferred Stock	1.5%	1.6%	1.8%	1.7%	1.7%	1.7%
Common Equity (1)	53.7%	52.4%	56.1%	52.5%	49.3%	52.8%
	100.0%	100.0%	100.1%	100.0%	100.0%	100.0%
Rate of Return on Book Common Equity (1)	11.3%	10.4%	11.8%	11.5%	14.2%	11.8%
Operating Ratio (2)	91.5%	92.3%	86.9%	84.7%	82.6%	87.6%
Coverage incl. AFUDC (3)						
Pre-tax: All Interest Charges	4.67 x	4.26 x	4.83 x	4.60 x	4.92 x	4.66 x
Post-tax: All Interest Charges	3.24 x	2.99 x	3.41 x	3.22 x	3.45 x	3.26 x
Overall Coverage: All Int. & Pfd. Div.	3.15 x	2.91 x	3.31 x	3.13 x	3.36 x	3.17 x
Coverage excl. AFUDC (4)						
Pre-tax: All Interest Charges	4.67 x	4.26 x	4.83 x	4.60 x	4.92 x	4.66 x
Post-tax: All Interest Charges	3.24 x	2.99 x	3.41 x	3.22 x	3.45 x	3.26 x
Overall Coverage: All Int. & Pfd. Div.	3.15 x	2.91 x	3.31 x	3.13 x	3.36 x	3.17 x
Quality of Earnings & Cash Flow						
AFC/Income Avail. for Common Equity	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Effective Income Tax Rate	39.1%	39.0%	37.0%	38.3%	37.4%	38.2%
Internal Cash Generation/Construction (5)	88.9%	86.0%	124.4%	137.1%	135.4%	114.4%
Gross Cash Flow/ Avg. Total Debt (6)	26.1%	27.2%	28.8%	27.9%	29.3%	27.9%
Gross Cash Flow Interest Coverage (7)	5.79 x	5.42 x	5.68 x	5.93 x	6.08 x	5.78 x
Common Dividend Coverage (8)	3.19 x	3.10 x	3.20 x	3.48 x	3.82 x	3.36 x

See Page 2 for Notes

WGL HOLDINGS INC

	2007	2006	2005	2004	2003	2002
I/S - Operating Revs-Total (MM$)	2646.008	2637.883	1379.390	1267.948	1301.057	925.131
I/S - Operating Inc Taxes-Total (MM$)	70.137	61.313	49.182	58.463	68.633	28.702
I/S - Operating Exps-Total (MM$)	2491.298	2496.806	1247.919	1132.315	1143.304	827.710
I/S - Nonoperating Inc Taxes-Net (MM$)	0.000	0.000	12.436	2.439	-0.665	3.175
I/S - Gross Inc (Inc Bef Int) (MM$)	158.088	144.318	148.264	142.102	160.043	86.318
I/S - Interest Charges-Total (MM$)	48.868	48.304	43.451	44.145	46.381	45.877
I/S - Allow for Funds Used During Const-Total	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Subsidiary Preferred Dividends (MM$)	1.320	1.320	1.320	1.320	1.320	1.320
I/S - Pref. Dividend Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Preference Div. Requirements (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
I/S - Available for Common After Adj. for Com	107.900	94.694	103.493	96.637	112.342	39.121
I/S - Earnings/Share (Primary) Excl. Extra. Itei	2.190	1.940	2.130	1.990	2.310	0.810
B/S - Common Equity-Total (MM$)	980.767	921.807	893.992	853.424	818.218	766.403
B/S - Subsidiary Preferred Stock at Carrying \	28.173	28.173	28.173	28.173	28.173	28.173
B/S - Premium on Subsidiary Preferred Stock	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preferred Stock at Carrying Value (MM$	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preferred Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Preference Stock at Carrying Value (MN	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Premium on Preference Stock (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Minority Interest (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Long-Term Debt (Total) (MM$)	616.419	576.139	584.150	590.164	636.650	667.951
B/S - Treasury Stock-Dollar Amount-Preferrec	0.000	0.000	0.000	0.000	0.000	0.000
B/S - Capitalization (MM$)	1625.359	1526.119	1506.315	1471.761	1483.041	1462.527
B/S - Debt (Long-Term Due Within One Year)	21.094	60.994	50.122	60.639	12.180	42.396
B/S - Short-Term Debt (Total) (MM$)	184.247	177.376	40.876	95.634	166.662	90.865
B/S - Pref/Preference Stock Sinking Fund Rec	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Net Inc Bef Extra Items & After MI (MM$	107.900	94.694	103.493	96.637	112.342	39.121
C/F - Depr. and Depl. (MM$)	93.256	96.843	94.627	96.245	89.273	77.922
C/F - Amortization (MM$)	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Def. Inc Taxes-Net (MM$)	6.866	9.667	7.648	28.178	41.625	-7.391
C/F - Invest. Tax Credit-Net (MM$)	-0.896	-0.896	-0.897	-0.897	-0.898	-0.901
C/F - Allow for Funds Used During Constr. (M	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Other Internal Sources-Net (MM$)	6.017	2.498	-0.266	-1.944	-5.678	-5.115
C/F - Util Plant-Gross Additions (MM$)	164.531	159.757	113.012	113.439	129.083	162.383
C/F - Cash Div on Common Stock (MM$)	66.818	65.338	64.024	62.746	61.948	61.433
C/F - Cash Div on Pref/Preference Stock (MM	0.000	0.000	0.000	0.000	0.000	0.000
C/F - Interest Paid-Net (MM$)	69.976	58.848	42.031	43.355	45.283	44.951
C/F - Inc Taxes Paid (MM$)	47.541	47.215	57.322	22.073	45.275	36.102
Adjustment Factor (Cumulative) by Ex-Date (F	1.000	1.000	1.000	1.000	1.000	1.000
Adjustment Factor (Cumulative)-Payable Date	1.000	1.000	1.000	1.000	1.000	1.000
Common Dividends (MM$)	67.213	65.640	64.406	63.002	62.091	61.556
Common Div. Paid per Share by Ex-Date ($&(	1.360	1.340	1.315	1.290	1.275	1.265
Common Dividends Paid/Share by Payable D;	1.360	1.340	1.315	1.290	1.275	1.265
Price-High ($&¢)	35.910	33.550	34.790	31.430	28.790	29.480
Price-Low ($&¢)	29.790	27.040	28.850	26.660	23.150	19.250
Price-Close ($&¢)	32.760	32.580	30.060	30.840	27.790	23.920
Common Shares Outstanding (MM)	49.316	48.878	48.704	48.653	48.612	48.565
Other Comprehensive Income	-3.192	-4.629	-3.773	-1.469	-0.716	0.000
Per Share (or Shares) Adjusted for Splits/Stock Dividends						
Earnings/Share (Primary) Excl. Extra. Item	$ 2.19	$ 1.94	$ 2.13	$ 1.99	$ 2.31	$ 0.81
Common Div. Paid per Share by Ex-Date (	$ 1.36	$ 1.34	$ 1.32	$ 1.29	$ 1.28	$ 1.27
Common Dividends Paid/Share by Payabl	$ 1.36	$ 1.34	$ 1.32	$ 1.29	$ 1.28	$ 1.27
Price-High ($&¢)	$ 35.91	$ 33.55	$ 34.79	$ 31.43	$ 28.79	$ 29.48
Price-Low ($&¢)	$ 29.79	$ 27.04	$ 28.85	$ 26.66	$ 23.15	$ 19.25
Price-Close ($&¢)	$ 32.76	$ 32.58	$ 30.06	$ 30.84	$ 27.79	$ 23.92
Common Shares Outstanding (MM)	49.316	48.878	48.704	48.653	48.612	48.565
Book Value per Share	$ 19.89	$ 18.86	$ 18.36	$ 17.54	$ 16.83	$ 15.78

**COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE
ATTORNEY GENERAL**

Data Request 203:

With reference to pages 20-22 and Attachment PRM-5, please provide (1) copies of the data, source documents, and work papers used to develop the capital structure for the company; (2) show the details and magnitude of all adjustments that were made to the capitalizations of the proxy group capitalizations; and (3) the monthly amounts of short-term debt used to develop the short-term debt in the capital structure. Please provide copies of the source documents, work papers, and data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

(1) Please refer to Schedule J-1, which is part of the Company's May 1, 2009 filing.

(2) No adjustments were made to the proxy group capitalization.

(3) Please refer to the response to Staff DR Set 1-003 data Format 3, Schedule 2.

The actual capitalization for the test year can be found in the Company's 2008 FERC Form No. 2. A copy of the report was filed with the filing requirements (Tab 31 in Volume 2 of 8).

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 204:

With reference to page 19, lines 8-18, please provide the quarterly capitalization amounts and ratios, including and excluding short-term debt, for the past three years for NiSource, Columbia Energy Group and Columbia Gas of Kentucky, Inc. Please provide the data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

Please see Attachment A, which includes the quarterly capitalization amounts for NiSource Inc. (Page 4 with short-term debt and Page 5 without short-term debt), Columbia Energy Group (Page 3) and Columbia Gas of Kentucky, Inc. (Page 1 with short-term debt and Page 2 without short-term debt).

Columbia Gas of Kentucky, Inc.

Case No. 2009-00141

Comparative Capital Structures (Excluding JDIC)
For the Periods as Shown

Line No.	Columbia Gas of Kentucky, Inc. Type of Capital	March 31, 2006 Amount	March 31, 2006 Ratio	June 30, 2006 Amount	June 30, 2006 Ratio	September 30, 2006 Amount	September 30, 2006 Ratio	December 31, 2006 Amount	December 31, 2006 Ratio	March 31, 2007 Amount	March 31, 2007 Ratio	June 30, 2007 Amount	June 30, 2007 Ratio
1.	Long-Term Debt	$42,055,002	32.54%	$42,055,002	32.68%	$42,055,002	30.92%	$58,055,000	38.60%	$58,055,000	37.62%	$ 58,055,000	37.70%
2.	Short-Term Debt	$0	0.00%	$0	0.00%	$8,052,333	5.92%	$4,567,371	3.04%	$882,110	0.57%	$882,110	0.57%
3.	Preferred & Preference Stock												
4.	Common Equity	$87,190,883	67.46%	$86,613,700	67.32%	$85,925,539	63.17%	$87,792,276	58.37%	$95,386,292	61.81%	$ 95,065,830	61.73%
5.	Other (Itemize by type)												
6.	Total Capitalization	$129,245,885	100.00%	$128,668,702	100.00%	$136,032,874	100.00%	$150,414,647	100.00%	$154,323,402	100.00%	$ 154,002,940	100.00%

No.	Columbia Gas of Kentucky, Inc. Type of Capital	September 30, 2007 Amount	September 30, 2007 Ratio	December 31, 2007 Amount	December 31, 2007 Ratio	March 31, 2008 Amount	March 31, 2008 Ratio	June 30, 2008 Amount	June 30, 2008 Ratio	September 30 2008 Amount	September 30 2008 Ratio	Test Year December 31, 208 Amount	Test Year December 31, 208 Ratio	Average Test Year Amount	Average Test Year Ratio
1.	Long-Term Debt	$ 58,055,000	37.03%	$ 58,055,000	36.25%	$ 58,055,000	34.67%	$ 58,055,000	36.12%	$58,055,000	35.40%	$72,055,000	40.63%		#DIV/0!
2.	Short-Term Debt	$882,110	0.56%	$ 233,698	0.15%	$233,698	0.14%	$ 233,698	0.15%	$ 4,064,362	2.48%	9,861,432	5.56%		#DIV/0!
3.	Preferred & Preference Stock														
4.	Common Equity	$ 97,832,926	62.41%	$ 101,870,712	63.61%	$ 109,176,516	65.19%	$ 102,443,740	63.74%	$101,864,224	62.12%	$95,419,310	53.81%		#DIV/0!
5.	Other (Itemize by type)														
6.	Total Capitalization	$ 156,770,036	100.00%	$ 160,159,410	100.00%	$ 167,465,214	100.00%	$ 160,732,438	100.00%	$ 163,983,586	100.00%	$ 177,335,742	100.00%		#DIV/0!

Note: Short-Term Debt represents a thirteen-month average.

Columbia Gas of Kentucky, Inc.

Case No. 2009-00141

Comparative Capital Structures (Excluding JDIC)
For the Periods as Shown

Line No.	Columbia Gas of Kentucky, Inc. Type of Capital	March 31, 2006 Amount	Ratio	June 30, 2006 Amount	Ratio	September 30, 2006 Amount	Ratio	December 31, 2006 Amount	Ratio	March 31, 2007 Amount	Ratio	June 30, 2007 Amount	Ratio
1.	Long-Term Debt	$42,055,002	32.54%	$42,055,002	32.68%	$42,055,002	32.86%	$58,055,000	39.81%	$58,055,000	37.84%	$ 58,055,000	37.91%
2.	Short-Term Debt	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
3.	Preferred & Preference Stock												
4.	Common Equity	$87,190,883	67.46%	$86,613,700	67.32%	$85,925,539	67.14%	$87,792,276	60.19%	$95,386,292	62.16%	$ 95,065,830	62.09%
5.	Other (Itemize by type)												
6.	Total Capitalization	$129,245,885	100.00%	$128,668,702	100.00%	$127,980,541	100.00%	$145,847,276	100.00%	$153,441,292	100.00%	$ 153,120,830	100.00%

No.	Columbia Gas of Kentucky, Inc. Type of Capital	September 30, 2007 Amount	Ratio	December 31, 2007 Amount	Ratio	March 31, 2008 Amount	Ratio	June 30, 2008 Amount	Ratio	September 30 2008 Amount	Ratio	Test Year December 31, 208 Amount	Ratio	Average Test Year Amount	Ratio
1.	Long-Term Debt	$ 58,055,000	37.24%	$ 58,055,000	36.30%	$ 58,055,000	34.72%	$ 58,055,000	36.17%	$58,055,000	36.30%	$72,055,000	43.02%		#DIV/0!
2.	Short-Term Debt	$0	0.00%	$ -	0.00%	$0	0.00%	$ -	0.00%	$ -	0.00%	0	0.00%		#DIV/0!
3.	Preferred & Preference Stock														
4.	Common Equity	$ 97,832,926	62.76%	$ 101,870,712	63.70%	$ 109,176,516	65.28%	$ 102,443,740	63.83%	$101,864,224	63.70%	$95,419,310	56.98%		#DIV/0!
5.	Other (Itemize by type)														
6.	Total Capitalization	$ 155,887,926	100.00%	$ 159,925,712	100.00%	$ 167,231,516	100.00%	$ 160,498,740	100.00%	$ 159,919,224	100.00%	$ 167,474,310	100.00%		#DIV/0!

Columbia Gas of Kentucky, Inc.

Case No. 2009-00141

Comparative Capital Structures (Excluding JDIC)
For the Periods as Shown

Line No.	Columbia Energy Group Type of Capital	March 31, 2006 Amount	March 31, 2006 Ratio	June 30, 2006 Amount	June 30, 2006 Ratio	September 30, 2006 Amount	September 30, 2006 Ratio	December 31, 2006 Amount	December 31, 2006 Ratio	March 31, 2007 Amount	March 31, 2007 Ratio	June 30, 2007 Amount	June 30, 2007 Ratio
1.	Long-Term Debt	$8,000,000	0.28%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$ -	0.00%
2.	Short-Term Debt	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
3.	Preferred & Preference Stock												
4.	Common Equity	$2,833,450,309	99.72%	$2,722,815,982	100.00%	$2,727,888,189	100.00%	$2,777,476,318	100.00%	$2,859,278,179	100.00%	$ 2,743,498,056	100.00%
5.	Other (Itemize by type)												
6.	Total Capitalization	$2,841,450,309	100.00%	$2,722,815,982	100.00%	$2,727,888,189	100.00%	$2,777,476,318	100.00%	$2,859,278,179	100.00%	$ 2,743,498,056	100.00%

No.	Columbia Energy Group Type of Capital	September 30, 2007 Amount	September 30, 2007 Ratio	December 31, 2007 Amount	December 31, 2007 Ratio	March 31, 2008 Amount	March 31, 2008 Ratio	June 30, 2008 Amount	June 30, 2008 Ratio	September 30 2008 Amount	September 30 2008 Ratio	Test Year December 31, 208 Amount	Test Year December 31, 208 Ratio	Average Test Year Amount	Average Test Year Ratio
1.	Long-Term Debt	$ -	0.00%	$ -	0.00%	$ -	0.00%	$ -	0.00%	$0	0.00%	$538,000,000	15.82%		#DIV/0!
2.	Short-Term Debt	$0	0.00%	$ -	0.00%	$0	0.00%	$ -	0.00%	$ -	0.00%	0	0.00%		#DIV/0!
3.	Preferred & Preference Stock														
4.	Common Equity	$ 2,756,669,300	100.00%	$ 2,832,907,557	100.00%	$ 2,997,256,499	100.00%	$ 2,736,652,753	100.00%	$2,741,015,079	100.00%	$2,862,446,829	84.18%		#DIV/0!
5.	Other (Itemize by type)														
6.	Total Capitalization	$ 2,756,669,300	100.00%	$ 2,832,907,557	100.00%	$ 2,997,256,499	100.00%	$ 2,736,652,753	100.00%	$ 2,741,015,079	100.00%	$ 3,400,446,829	100.00%		#DIV/0!

Columbia Gas of Kentucky, Inc.

Case No. 2009-00141

Comparative Capital Structures (Excluding JDIC)
For the Periods as Shown
"000 Omitted"

Line No.	NiSource Inc. Type of Capital	March 31, 2006 Amount	Ratio	June 30, 2006 Amount	Ratio	September 30, 2006 Amount	Ratio	December 31, 2006 Amount	Ratio	March 31, 2007 Amount	Ratio	June 30, 2007 Amount	Ratio
1.	Long-Term Debt	$5,672,300	51.30%	$5,605,300	51.44%	$5,635,100	49.86%	$5,239,500	45.78%	$5,243,200	47.71%	$ 5,181,000	45.94%
2.	Short-Term Debt	$379,200	3.43%	$420,000	3.85%	$861,000	7.62%	$1,193,000	10.42%	$620,000	5.64%	$1,021,500	9.06%
3.	Preferred & Preference Stock	$81,100	0.73%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
4.	Common Equity	$4,924,500	44.54%	$4,871,700	44.71%	$4,805,400	42.52%	$5,013,600	43.80%	$5,127,300	46.65%	$ 5,074,500	45.00%
5.	Other (Itemize by type)												
6.	Total Capitalization	$11,057,100	100.00%	$10,897,000	100.00%	$11,301,500	100.00%	$11,446,100	100.00%	$10,990,500	100.00%	$11,277,000	100.00%

No.	NiSource Inc. Type of Capital	September 30, 2007 Amount	Ratio	December 31, 2007 Amount	Ratio	March 31, 2008 Amount	Ratio	June 30, 2008 Amount	Ratio	September 30 2008 Amount	Ratio	Test Year December 31, 208 Amount	Ratio	Average Test Year Amount	Ratio
1.	Long-Term Debt	$ 5,984,300	51.32%	$ 5,628,300	47.84%	$ 5,472,200	49.03%	$ 6,103,000	53.44%	$6,343,200	51.67%	$6,413,176	52.12%		#DIV/0!
2.	Short-Term Debt	$673,000	5.77%	$ 1,061,000	9.02%	$624,700	5.60%	$ 506,000	4.43%	$ 1,263,000	10.29%	1,163,500	9.46%		#DIV/0!
3.	Preferred & Preference Stock	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%		
4.	Common Equity	$ 5,004,200	42.91%	$ 5,076,600	43.15%	$ 5,064,200	45.37%	$ 4,810,900	42.13%	$4,670,800	38.05%	$4,728,800	38.43%		#DIV/0!
5.	Other (Itemize by type)														
6.	Total Capitalization	$ 11,661,500	100.00%	$ 11,765,900	100.00%	$ 11,161,100	100.00%	$ 11,419,900	100.00%	$ 12,277,000	100.00%	$ 12,305,476	100.00%		#DIV/0!

Note: Short-Term Debt represents balance at end of the quarter (per 10Q and 10K).

Columbia Gas of Kentucky, Inc.

Case No. 2009-00141

Comparative Capital Structures (Excluding JDIC)
For the Periods as Shown
"000 Omitted"

Line No.	**NiSource Inc.** Type of Capital	March 31, 2006 Amount	March 31, 2006 Ratio	June 30, 2006 Amount	June 30, 2006 Ratio	September 30, 2006 Amount	September 30, 2006 Ratio	December 31, 2006 Amount	December 31, 2006 Ratio	March 31, 2007 Amount	March 31, 2007 Ratio	June 30, 2007 Amount	June 30, 2007 Ratio
1.	Long-Term Debt	$5,672,300	53.12%	$5,605,300	53.50%	$5,635,100	53.97%	$5,239,500	51.10%	$5,243,200	50.56%	$ 5,181,000	50.52%
2.	Short-Term Debt	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
3.	Preferred & Preference Stock	$81,100	0.76%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
4.	Common Equity	$4,924,500	46.12%	$4,871,700	46.50%	$4,805,400	46.03%	$5,013,600	48.90%	$5,127,300	49.44%	$ 5,074,500	49.48%
5.	Other (Itemize by type)												
6.	Total Capitalization	$10,677,900	100.00%	$10,477,000	100.00%	$10,440,500	100.00%	$10,253,100	100.00%	$10,370,500	100.00%	$10,255,500	100.00%

No.	**NiSource Inc.** Type of Capital	September 30, 2007 Amount	September 30, 2007 Ratio	December 31, 2007 Amount	December 31, 2007 Ratio	March 31, 2008 Amount	March 31, 2008 Ratio	June 30, 2008 Amount	June 30, 2008 Ratio	September 30 2008 Amount	September 30 2008 Ratio	Test Year December 31, 208 Amount	Test Year December 31, 208 Ratio	Average Test Year Amount	Average Test Year Ratio
1.	Long-Term Debt	$ 5,984,300	54.46%	$ 5,628,300	52.58%	$ 5,472,200	51.94%	$ 6,103,000	55.92%	$6,343,200	57.59%	$6,413,176	57.56%		#DIV/0!
2.	Short-Term Debt	$0	0.00%	$ -	0.00%	$0	0.00%	$ -	0.00%	$ -	0.00%	0	0.00%		#DIV/0!
3.	Preferred & Preference Stock	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%		
4.	Common Equity	$ 5,004,200	45.54%	$ 5,076,600	47.42%	$ 5,064,200	48.06%	$ 4,810,900	44.08%	$4,670,800	42.41%	$4,728,800	42.44%		#DIV/0!
5.	Other (Itemize by type)														
6.	Total Capitalization	$ 10,988,500	100.00%	$ 10,704,900	100.00%	$ 10,536,400	100.00%	$ 10,913,900	100.00%	$ 11,014,000	100.00%	$ 11,141,976	100.00%		#DIV/0!

PSC Case No. 2009-00141
AG DR Set 1-205
Respondent(s): Paul R. Moul

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO REQUESTS FOR INFORMATION OF THE ATTORNEY GENERAL

Data Request 205:

With reference to page 21, lines 8-15, please provide all data, work papers, and source documents, and calculations used in determining the appropriate amount of short-term debt to include in the capital structure. Please provide the data in both hard copy and electronic (Microsoft Excel) formats, with all data and formulas intact.

Response:

The short-term debt was the actual thirteen-month average amount for the test year, and is also shown on the response to Staff DR Set 1-003 Format 3, Schedule 2.