Columbia Gas of Kentucky
A NiSource Company
2001 Mercer Road
Lexington, KY 40511

June 10, 2009

Mr. Jeff Derouen
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
P. O. Box 615
Frankfort, KY 40602

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JUN 10 2009
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COMMISSION

RE: Case No. 2009-00168

Dear Mr. Derouen:

Enclosed for docketing are the original and six (6) copies of Columbia Gas of Kentucky, Inc.'s responses to the First Data Request of Commission Staff in the above case. If you have any questions, please do not hesitate to contact me at 859-288-0242 or jmcoop@nisource.com.

Sincerely,

Judy Cooper

Judy M. Cooper
Director, Regulatory Policy

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Responses of Columbia Gas of Kentucky, Inc. to First Data Request of Commission Staff were served by First Class U.S. Mail postage prepaid on the following parties this 10th day of June 2009.

Stephen B. Seiple

Stephen B. Seiple
Attorney for
COLUMBIA GAS OF KENTUCKY, INC.

SERVICE LIST

Hon. Dennis G. Howard, II
Hon. Lawrence W. Cook
Hon. Paul D. Adams
Assistant Attorneys General
1024 Capital Center Drive
Suite 200
Frankfort, KY 40601-8204

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 001:

Refer to the table in paragraph (j) on page 3 of Columbia's application.

a. Provide a detailed description of how the estimated 2009 pension and other post-retirement benefits ("OPEB") expense amount was derived. Along with the requested description, this response should:

   i. Identify whether the estimated expense amount includes any actual expenses recorded for the early months of 2009;

   ii. Distinguish between pension expense and OPEB expense and explain why the year-to-year variances are so much greater for pension expense than for OPEB expense.

b. The OPEB amortization of transition obligation is an annual amount of $281,698. For how many years more years will Columbia be recording this amortization expense on its books of account?

c. For 2009 and the three prior calendar years, provide a breakdown of the pension and OPEB expenses shown in the table into the categories listed at the end of paragraph (i) on page 3 of the application.

Response:

a. Pension and OPEB amounts were calculated as described in paragraph (i) on page 3 of the application by an independent actuarial firm. Attachment A and B provide further details about the OPEB and Pension calculation.

i. The estimated expense amounts in paragraph (j) contain the following actual amounts through April 30, 2009

	Pension	OPEB	OPEB T.O.
926 Employee Pensions & Benefits	$ 345,915	$ 163,754	$ 93,902

ii. During the period under consideration, the main driver of expense volatility has been asset returns. A summary of recent return volatility can be found in the table in paragraph (o) on page 5 of the initial application. Because the pension plan is larger and better funded than the OPEB plans in aggregate, the dollar amount of pension assets is significantly greater than the dollar amount of OPEB assets. Therefore the asset return volatility has a relatively greater impact on pension expense than OPEB expense. Other factors such as the discount rate and the health care cost trend rate also impact expense from year to year, however these factors were less variable during the period in question.

b. The amortization of the transition obligation will continue through October 31, 2012.

c. Below is a breakdown of pension and OPEB expenses shown in the table into the categories listed at the end of paragraph (i) on page 3 of the application. This breakdown also reflects pension and OPEB costs capitalized to construction.

Pensions - Retirement Income Plan	Est. 2009	2008	2007	2006
Service Cost	670,761	642,096	776,859	604,894
Interest Cost	1,416,058	1,326,862	1,327,709	1,247,415
Expected Return on Assets	(1,206,207)	(2,048,289)	(2,060,456)	(1,910,548)
Amortization of Prior Service Cost	(69,337)	(72,884)	(48,315)	(46,687)
Amortization (Gain)/Loss	541,845	72	0	11,386
Gross Expense	1,353,120	(152,143)	(4,203)	(93,540)
Less: Amount Allocated to Capital	372,595	3	524	10,593
Net Pension Expense	980,525	(152,146)	(4,727)	(104,133)

OPEB-Retiree Medical & Group Life	Est. 2009	2008	2007	2006
Service Cost	178,037	201,521	199,682	334,123
Interest Cost	831,826	818,139	785,030	749,535
Expected Return on Assets	(417,745)	(671,216)	(707,622)	(605,993)
Amortization of Prior Service Cost	25,875	13,851	3,123	2,740
Amortization (Gain)/Loss	93,104	(17,125)	53,375	120,859
Gross Expense	711,097	345,170	333,588	601,264
Less: Amount Allocated to Capital	201,134	97,595	72,975	172,098
Net OPEB Expense	509,963	247,575	260,613	429,166

OPEB Allocation Methodology

Plan-Level Expense Development

- Hewitt collects January 1 participant data. Each participant has a company indicator. In addition, the active participants have a plan indicator while the retired participants have a retiree benefit program code.

- Retiree medical and life insurance results are provided for the historical plans.

- Hewitt calculates Accumulated Postretirement Benefit Obligation (APBO) and normal cost as of January 1 for each participant.

- The January 1 APBO for each plan is rolled forward to December 31 using the plan's normal cost and net benefit payments paid during the year.

- The January 1 normal cost for each plan is rolled forward with interest to December 31 to generate the Service Cost component of the plan-level expense.

- Northern Trust provides asset values allocated by plan. The Columbia medical assets are further broken down by company. Employer contributions are also reported on these trust statements.

- Plan level contributions are developed based on our understanding of each plan's funding arrangement.

    - For groups covered by a trust, contributions are the actual contributions that are made to the VEBA trusts.

    - For groups not covered by a trust, the contributions are the actual benefits paid from general assets.

    - At the plan level, the total contribution amount is determined by applying the above methodology to each group covered by the plan.

- Each plan's expense is calculated based on the December 31 APBO, December 31 fair value of assets, service cost, fiscal year contributions, and fiscal year benefit payments.

Company-Level Expense Development

- Hewitt calculates each company's January 1 APBO and normal cost directly based on the January 1 census data.

- The December 31 plan-level APBO is allocated to each company based on the proportion of the January 1 APBO attributable to that company. These APBO allocations are based on plan participants' company membership on January 1. December 31 fair value of assets is allocated to each company based on January 1 APBO except for Columbia Medical. For Columbia Medical, the trust separately splits out assets by company.

- All plan level unrecognized items (prior service cost, transition obligation and gain/loss) are allocated based on January 1 APBO except for Columbia Medical. Beginning with year-end 2008 results, Columbia Medical g/l is separated into asset and liability with asset g/l allocated based on assets.

- Accumulated other comprehensive income for each company is calculated directly based on the company's allocation of unfunded APBO and unrecognized items.

- Expense is developed by calculating service cost directly from the January 1 census file. Interest cost, amortization of prior service cost and amortization of transition obligation are allocated from the plan level based on the company's January 1 APBO allocation percentage. Expected return on assets is allocated in a similar manner to the year-end fair value of assets allocation, while amortization of gain/loss is allocated similar to the year-end unrecognized gain/loss allocation.

- Cash contributions and benefit payments are allocated to the companies based on January 1 APBO.

Pension Allocation Methodology

Plan-Level Expense Development

- Hewitt collects January 1 participant data. Each participant has a plan indicator and a company indicator.

- Hewitt calculates Projected Benefit Obligation (PBO) and normal cost as of January 1 for each participant.

- The January 1 PBO for each plan is rolled forward to December 31 using the plan's normal cost and actual benefit payments paid from the plan during the year, and assuming the liability grows with interest at the chosen year-end discount rate.

- The January 1 normal cost for each plan is rolled forward with interest to December 31 to generate the Service Cost component of the plan-level expense.

- Northern Trust provides asset values allocated by plan.

    - Benefit payments are charged directly to the plan each retiree participated in.

    - Some expenses (e.g. legal expenses) are charged directly to the plan for which the services were rendered. Some expenses (e.g. investment management fees) and investment income is allocated to the plans based on the beginning of period balance.

    - Contributions are credited directly to the plan for which the payment was required.

- Each plan's expense is calculated based on the December 31 PBO, December 31 fair value of assets, service cost, and fiscal year contributions.

Company-Level Expense Development

- Hewitt calculates each company's January 1 PBO and normal cost directly based on the January 1 census data.

- The December 31 plan-level PBO is allocated to each company based on the proportion of the January 1 PBO attributable to that company. The December 31 PBO for each company cannot be calculated directly by rolling forward the January 1 PBO because Hewitt does not receive benefit payments allocated on a company-level basis. Additionally, these PBO allocations are based on plan participants' company membership on January 1.

- December 31 fair value of assets are allocated to each company based on January 1 PBO.

- The plan-level accrued or prepaid pension cost is allocated to each company based on January 1 PBO.

- Accumulated other comprehensive income for each company is calculated directly based on the company's allocation of unfunded PBO and accrued or prepaid pension cost.

- Expense is developed by calculating service cost directly from the January 1 census file. Most other components (interest cost, expected return on assets, amortization of gain/loss) are allocated from the plan-level based on the company's January 1 PBO allocation percentage.

  - In general, amortization of prior service cost is allocated from the plan-level to the company level based on January 1 PBO.

- Cash contributions are allocated to the companies based on January 1 PBO.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 002:

Refer to paragraph (k) on page 4 of the application, which states that the market value of Columbia's pension and OPEB plan assets are subject to changes due to fluctuations in long-term interest rates and trust asset returns in capital markets. Provide a table/chart, along with a narrative description depicting how the fluctuations in long-term interest rates for the years 2006, 2007, 2008 and 2009 affected the level of pension and OPEB expenses shown in the table in paragraph (j).

Response:

Pension and OPEB obligations represent the present value of benefits expected to be paid by the plans. These obligations are determined annually under SFAS No. 87 and No. 106 using a market discount rate. As the discount rate fluctuates from year to year, the present value of the plans' obligations will also fluctuate. For example, a fifty basis point decline in the discount rate can easily create a five percent or larger increase in a typical plan's obligations. This change in obligation in turn impacts the Service Cost, Interest Cost and Gain/Loss Amortization components of expense.

Please refer to Columbia's responses to questions 1(a)(ii) and 5 for discussions regarding asset returns. The table below illustrates the impact of asset returns on the CEG Qualified Pension and OPEB expense. Columbia's Pension and OPEB expense is directly impacted by the CEG Pension and OPEB plans.

Columbia Energy Group

	Qualified Pension Expense		OPEB Expense	
2006 Expense/(Income)		$ (5,817,000)		$ 12,318,000
Asset Experience	$ (2,100,000)		$ (841,000)	
All Other	$ 541,000		$ (2,672,000)	
2007 Expense/(Income)		$ (7,376,000)		$ 8,805,000
Asset Experience	$ (2,100,000)		$ (1,718,000)	
All Other	$ (1,918,000)		$ (3,505,000)	
2008 Expense/(Income)		$(11,394,000)		$ 3,582,000
Asset Experience	$ 50,400,000		$ 13,500,000	
All Other	$ 5,731,000		$ (1,673,000)	
2009 Expense/(Income)		$ 44,737,000		$ 15,409,000

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 003:

Verify, as may be inferred from the last sentence in paragraph (k), that the differences in the respective returns for pension plan assets and OPEB assets for 2008 reflect that there are two asset groups involved, one for pensions and one for OPEB.

Response:

There are separate asset pools for pensions and OPEB.

PSC Case No. 2009-00168
Staff Set 1 DR No. 004
Respondent(s): June M. Konold

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 004:

Refer to paragraph (l) on page 4 of the application. Explain whether only the NiSource Master Retirement Trust ("NiSource Trust") or the Columbia Energy Group Pension Plan ("CEG Plan"), or both, are relevant to Columbia's pension and OPEB expenses.

Response:

Both the NiSource Trust and the CEG Plan assets in paragraph (l) are relevant to Columbia's pension expense. However, approximately 99% of the expense relates to the CEG plan as the majority of CKY's employees participate in that plan. The assets in paragraph (l) are for pension plans only and are not relevant to OPEB expense.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 005:

Refer to the table in paragraph (m) on page 5 of the application. The 2008 expenses for the NiSource Trust and the CEG Plan are both negative amounts while the "2008 Asset Experience" amounts appear to be the primary drivers resulting in the 2009 expenses being positive amounts of a magnitude equal to roughly four to five times the 2008 expenses. Describe, in general terms, what is meant by "2008 Asset Experience" and how that relates to the changes in expense level from 2008 to 2009.

Response:

2008 Asset Experience refers to the difference between what the plan was expected to earn during 2008 and what it actually earned. For NiSource in total, this resulted in asset losses of $830 million during 2008. This asset loss impacts 2009 expense in two ways. First, the plan loses out on the expected return related to the lost assets (9% of $830 million = $74 million). Second, losses are amortized into expense over a period of years to the extent that those losses are outside the 10% corridor defined by SFAS No. 87. For NiSource in total, the asset loss contributed to almost $730 million in amortizable losses spread over a period of approximately 11.1 years ($730 million divided by 11.1 = $66 million).

NiSource – Asset Experience	
Expected Return	$ 74 million
Loss Amortization	$ 66 million
Total Experience	$140 million

For the Columbia Plan, the 2008 asset loss was $327 million. The lost return was $29 million (9% of $327 million) and the loss amortization was $21 million ($247 million in amortizable losses divided by 11.8 years).

Columbia Plan – Asset Experience	
Expected Return	$ 29 million
Loss Amortization	$ 21 million
Total Experience	$50 million

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 006:

Refer to the table in paragraph (n) on page 5 of the application.

a. Provide the full names of the indices indentified as "MSCI-EAFE" and MSCI-Emerging Markets."

b. The first five asset classes listed in the table reflect level ranging from -30.38 to -53.2 percent as their "2008 performance." Provide the annual performance percentages for the same five asset classes for each of the years from 2005 through 2007.

c. Explain why the CEG Plan is not included in this table along with the NiSource Trust.

Response:

a. The full names of the indices indentified as "MSCI-EAFE" and "MSCI-Emerging Markets" are as follows:

- MSCI-EAFE: Morgan Stanley Capital International-Europe, Australia, & Far East, and
- MSCI-Emerging Markets: Morgan Stanley Capital International – Emerging Markets.

b. The table below summarizes the annual performance percentages for the five asset classes specified in paragraph (n) for each of the years from 2005 through 2008.

		Performance			
Asset Class	**Index**	**2008**	**2007**	**2006**	**2005**
US Equity	S&P 500	-38.5%	5.5%	15.8%	4.9%
Small Cap US Equity	Russell 2000	-33.8%	-1.6%	18.4%	4.6%
International Equity	MSCI-EAFE	-43.4%	11.2%	26.3%	13.5%
Emerging Markets Equity	MSCI-Emering Mkts	-53.2%	39.8%	32.6%	34.5%
US Bonds	BC US Aggregate	5.2%	7.0%	4.3%	2.4%

c. As a participant in the NiSource Master Retirement Trust, the CEG defined benefit ("DB") plan holds an undivided interest in the performance of the trust. As a result, the investment performance of the CEG DB plan (and all other DB plans within the trust) is identical to the investment performance of the NiSource Master Retirement Trust.

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO FIRST DATA REQUEST OF COMMISSION STAFF

Data Request 007:

Columbia's estimated 2009 pension and OPEB expense is $1,772,186.

a. If Columbia has already recorded any of its 2009 Pension and OPEB expense on its books of account, provide the amounts so recorded and the accounts in which the amounts were recorded.

b. If its request in this matter is granted, provide the resulting accounting entries Columbia intends to make on its books of account.

Response:

a. As of April 30, 2009, Columbia recorded the following journal entries for Pension and OPEB Expense:

	Pension	OPEB	OPEB T.O.
926 Employee Pensions & Benefits	$ 345,915	$ 163,754	$ 93,902
228 Accumulated Provision for Pensions & Benefits	$ (345,915)	$ (163,754)	$ -
182 Regulatory Asset (Amortization of OPEB Transition Obligation)	$ -	$ -	$ (93,902)

b. If the request is granted, Columbia would defer the difference between the expense recognized and the amounts included in base rates. Using April 30, 2009 numbers as an example, Columbia would record the following entries.

	Pension	OPEB	OPEB T.O.
Annual Base Rate Recovery	$ (15,800)	$ 298,188	$ 281,695
Recovery through April 30, 2009	$ (5,267)	$ 99,396	$ 93,898
182 Regulatory Asset	$ 351,182	$ 64,358	$ 4
926 Employee Pensions & Benefits	$ (351,182)	$ (64,358)	$ (4)