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Columbia Gas of Kentucky
A NiSource Company

November 28, 2018

HAND DELIVERED

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PUBLIC SERVICE COMMISSION

Ms. Gwen R. Pinson
Executive Director
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

RE: **KY PSC Case No. 2018-00356**

Dear Ms. Pinson,

Enclosed, please find an original and eight (8) copies of Columbia Gas of Kentucky, Inc.'s ("Columbia") responses to the Commission's First Set of Data Requests in the above captioned matter.

Sincerely,

Brooke E. Wancheck (gmc)

Brooke E. Wancheck
Assistant General Counsel
Columbia Gas of Kentucky, Inc.

Enclosures

COLUMBIA GAS OF KENTUCKY, INC.
RESPONSE TO STAFF'S FIRST REQUEST FOR INFORMATION
DATED NOVEMBER 21, 2018

1. Refer to the application, paragraph (e), and Exhibit A. Columbia Kentucky states that it is requesting authority to issue new notes or stock not to exceed a total of $40 million. The August 31, 2018 balance sheet included in Exhibit A shows that Columbia Kentucky has an equity-to-debt ratio of 55.8 to 44.2 percent.

a. Describe in detail the factors that will be considered in determining the amounts of notes and stock to be issued.

b. Provide Columbia Kentucky's target equity-to-debt ratio. If Columbia Kentucky continues to target a 52 to 48 equity-to-debt ratio based on Case No. 2016162,[1] explain why the equity component of its capital structure remains closer to 55 percent than 52 percent.

RESPONSE:

a. The key factors that will be considered in determining the amount of the notes that Columbia of Kentucky will issue during the authorization period

[1] Case No. 2016-00162, *Application of Columbia Gas of Kentucky, Inc. for an Increase in Base Rates* (Ky. PSC Dec. 22, 2016).

include: (a) the sequence and timing of the Company's construction program expenditures; (b) the timing of maturities of existing long-term debt that will occur during the authorization period; (c) the level of short-term borrowings that are outstanding through the NiSource money pool system; (d) the amount and timing of anticipated dividend payments to be made during the authorization period; and (e) the level of operating cash flows being generated by the Company's ongoing provision of utility services. After giving consideration to the above factors in the context of the Company's targeted capital structure, the Company would have sufficient information to determine the appropriate amount of long-term notes to issue to NiSource Inc.

Although the Company currently has no plans to issue new shares of stock to NiSource Gas Distribution Company, to the extent the Company's plans changed in this regard, the process of determining the amounts of such stock issuances would be the same as outlined above. Again, this determination would be made in the context of the Company's targeted capital structure.

b. Columbia Kentucky's targeted equity-to-debt ratio remains at 52 to 48 equity-to-debt[2]. Exhibit A provides actual data as of August 31, 2018 and does not include a planned long-term debt issuance in December 2018 of $13,000,000, subject to the Commission's approval in this case.

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[2] To be precise, it is actually Columbia of Kentucky's equity-to-total capitalization ratio that is targeted at approximately 52%.

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2. Refer to the application, paragraph (j).

a. Provide the estimated range within which Columbia Kentucky expects the interest rate(s) on the notes to fall, and whether Columbia Kentucky has established, or plans to establish, an upper limit on the interest rates at which it will issue new notes.

b. Describe the effect Columbia Kentucky expects current credit market conditions to have on the interest rates that will be applied to the notes as well as on the process of issuing the notes.

c. Explain how the method described in paragraph (j) for determining the interest rate will ensure that Columbia Kentucky obtains the most favorable interest rate available in the capital market.

d. Provide the current financial profile of NiSource Finance Corp. as well as a list of companies having a similar credit risk profile.

RESPONSE:

2a. Based upon current capital market conditions, the Company would expect that an intercompany note issuance to NiSource Inc. with a 10-year maturity would be assigned a market-based interest rate of between 4.30%-4.50%, while a note issuance with a 30-year maturity would currently be assigned an interest rate of between 4.90%-5.10%. However, it should be noted that the Company has no control over ever-changing capital market conditions, and the ultimate interest rates that are assigned to the Company's notes have the potential to fluctuate well above or well below the levels noted above. Along these lines, both short-term and long-term interest rates in the U.S. have recently been trending higher due to both an expanding U.S. economy and the monetary policy actions of the Federal Reserve.

Columbia has no plans to establish an upper limit on the interest rates at which it issues new notes, since this could potentially restrict or undermine the Company's ability to fulfill its financing requirements in the event of more challenging market environments. At the same time, to the extent that interest rates were to move markedly higher during the authorization period, Columbia would have the option of shortening the maturity of any new note issuances, which would serve to reduce the Company's overall financing costs in a rising interest rate environment.

2b. As the Company noted in its response to (2a), both short-term and long-term interest rates have recently been trending higher. Although the Federal Reserve is widely-expected to continue gradually increasing the Federal Funds target rate over the next few years, this particular monetary policy action has a much greater impact on short-term interest rates than it does on intermediate and long-term interest rates. Long-term interest rates tend to be more greatly influenced by macroeconomic growth trends and anticipated rates of future inflation. Although there is rarely unanimous consensus among economists as to the future direction of long-term interest rates, a majority of economists currently anticipate that over the near-to-intermediate term, long-term interest rates will likely trend marginally higher. As noted in (2a), to the extent that long-term interest rates were to trend higher, Columbia will have the option of controlling its overall borrowing costs by shortening the maturities of its future long-term debt issuances.

2c. The interest rate determination methodology outlined in paragraph (j) of the Company's application will ensure a favorable interest rate for two primary reasons. First, when determining the appropriate interest rate yield from the Bloomberg "C038" screens (as further described in the Company's application), the Company will reference the <u>higher rating</u> among NiSource's two current credit ratings, which is the BBB+ rating issued for NiSource by Standard and Poor's (S&P). By referencing S&P's BBB+ rating rather than the Baa2 rating issued for NiSource by Moody's Investor Services (the latter of which is one notch lower than S&P's BBB+ rating), Columbia is assured of being assigned an interest rate that is either equivalent to, or lower than, the interest rate yield that NiSource would secure in the external debt capital markets. Second, because Columbia will not incur any transactional costs (such as underwriting fees, legal fees, rating agency fees and audit fees) when issuing intercompany notes to NiSource Inc., this further ensures that Columbia's effective borrowing costs are at or below market rates.

2d. As the Company noted in its response to (2c) above, S&P currently assigns NiSource a long-term credit rating of BBB+, while Moody's has currently assigned NiSource a long-term credit rating of Baa2. There are literally hundreds, if not thousands of companies that are currently assigned credit ratings of BBB+ or Baa2 by S&P and Moody's, respectively.

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3. Refer to the application, paragraph (k). Columbia Kentucky states it "proposes to issue and sell to NiSource Gas Distribution Group up to 147,752 shares of authorized, but unissued Stock, at $25 par value, yielding up to $3,693,800 in additional equity capital."

a. State whether this is the same 147,752 shares of authorized but unissued stock Columbia Kentucky sought (in paragraph (k) of the applications) and received approval to issue in Case Nos. 2008-00403,[2] 2012-00418,[3] and 2015-00354.[4]

b. Explain why Columbia Kentucky has not issued stock as authorized in those proceedings, and whether it believes it is likely to issue this stock before December 31, 2020.

RESPONSE:

3a. Yes, this is the same 147,752 shares of authorized, but unissued stock that Columbia received approval to issue in its three previous financing applications.

3b. In recent years, Columbia has not had a need to issue any additional shares of common stock, and has maintained an appropriately balanced capital structure without any further share issuances. Nevertheless, the Company routinely includes the request for such authority in its financing applications to ensure maximum flexibility with respect to its future financing requirements. Based upon the Company's best information at this time, Columbia does not presently believe it is likely that it will issue new shares of common stock prior to December 31, 2020.

KY PSC Case No. 2018-00356
Commission Staff Data Requests Set 1 No. 4
Respondent: Frederick Susor

COLUMBIA GAS OF KENTUCKY, INC.
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DATED NOVEMBER 21, 2018

4. Refer to the application, Exhibit C. State whether any of these notes will be refinanced with funds requested in this proceeding.

RESPONSE:

Columbia does not plan on refinancing any of the notes on Exhibit C with the funds being requested in the current proceeding.

KY PSC Case No. 2018-00356
Commission Staff Data Requests Set 1 No. 5
Respondent: Frederick Susor, Vincent Rea

COLUMBIA GAS OF KENTUCKY, INC.
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5. Refer to the application, Exhibit D. Explain why the dividend rate was 23.103 percent in 2015, 16.802 percent in 2016, and 0 percent in 2017 and 2018.

RESPONSE:

Columbia Kentucky's dividend rate varies by year based on maintaining the targeted equity-to-debt structure and thus, no dividends were issued in 2017 or 2018. As discussed in the Company's response to (1a), there are many factors that determine the Company's overall financing requirements, as well as its ability to pay dividends to its parent company. In any given year, the net effect of these factors can fluctuate widely. Chief among these factors are the required expenditures for the Company's construction program, which has had the effect of limiting the amount of potential dividend payments.

At the same time, the Company has been able to keep its capital structure appropriately balanced through the issuance of long-term debt to finance its construction program, which has had the effect of keeping Columbia's equity capitalization layer within the targeted range.

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6. State whether Columbia Kentucky anticipates paying dividends in 2018.

RESPONSE:

Columbia Kentucky does not plan on paying any dividends during the remainder of 2018.