

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE APPLICATION OF COLUMBIA)
GAS OF KENTUCKY, INC., FOR)
AUTHORITY FOR THE ISSUANCE) CASE NO. 8831
AND SALE OF PROMISSORY NOTES)

O R D E R

On September 12, 1983, Columbia Gas of Kentucky, Inc., ("Columbia") filed an application for rehearing of the Commission's August 19, 1983, Order approving the sale of certain securities.

On May 13, 1983, Columbia filed an application seeking authority to issue and sell to Columbia Gas system, Inc., ("System") \$1,900,000 of Installment Promissory Notes ("Notes") having an interest rate and terms that approximate those of the System's next securities sale.

On May 23, 1983, the Commission entered an Order requiring Columbia to provide additional information, including a statement of the maturities and interest rates of the proposed Notes. On June 3, 1983, Columbia filed its response and indicated that the interest rate and terms of the System's securities issue should be known by mid-July, 1983, and that Columbia would advise the Commission at that time.

On June 30, 1983, the Commission entered an Order stating that it would not give approval to the interest rate and the terms

of a securities issue prior to the negotiations for such issue. Columbia was ordered to advise the Commission in writing when the interest rate and terms were known.

On August 10, 1983, Columbia filed a Supplemental Response stating that the Notes which Columbia would issue to the System would be for a 15-year term and would have a 10.5 percent interest rate, based on the System's June, 1983, issue of preferred stock. The Supplemental Response also stated that the System was planning another issue of preferred stock in August, 1983, and the provisions of that issue should be close to those of the June, 1983, issue, depending on market conditions at the time. Therefore, the terms of any Notes issued by Columbia subsequent to the System's August, 1983, issue of preferred stock would reflect the cost to the System of that August issue of preferred stock.

On August 19, 1983, the Commission entered an Order authorizing Columbia to issue and sell \$1,900,000 of Notes with a 15-year term and a 10.5 percent interest rate. However, Columbia did not issue and sell any Notes prior to the System's August issue of preferred stock. Therefore, Columbia's entire issuance of Notes would be based upon the System's August issue of preferred stock.

In the application for rehearing, Columbia stated that the Commission's Order of August 19, 1983, inadvertently omitted any approval of the terms of Notes issued by Columbia subsequent to the System's August issue of preferred stock. In its Order, the Commission recognized that Columbia might base some of its debt on the System's August issue of preferred stock. However, the Order

deliberately omitted approval of any Notes issued by Columbia based on the then unknown interest rate and terms of the System's August preferred stock issue. The Commission tries to expedite Orders to minimize delays in security cases; however, it will not give open-ended authority to issue securities when the terms and interest rates are not known.

In its application for rehearing, Columbia stated that the System's recent issue of preferred stock had an adjustable interest rate, with the initial face interest rate, effective through November 30, 1983, set at 10.625 percent. Beginning on December 1, 1983, and each quarter thereafter, the face interest rate will be adjusted so that it is 110 basis points below the greater of the Treasury Bill Rate, the 10-Year Constant Maturity Rate or the 20-Year Constant Maturity Rate. Any Notes issued by Columbia will bear an interest rate based on the then-effective rate paid by the System times 1.027092, to reflect the difference between the principal and the System's actual net proceeds. Columbia's Notes will have a 15-year maturity and will be paid back in 15 equal installments beginning in January of 1985. Currently, the interest rate to Columbia will be 10.91 percent (10.625 X 1.027092).

The Commission, after consideration of the application for rehearing and all evidence of record and being advised, is of the opinion and finds that the proposed issuance and sale by Columbia of \$1,900,000 of its Notes with a 15-year term and an interest rate, as determined in the application for rehearing, is for lawful objects within the corporate purpose of its utility

operations, is necessary and appropriate for and consistent with the proper performance of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purposes.

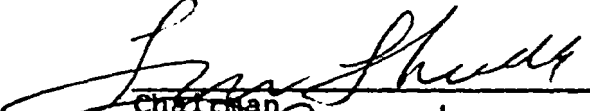
IT IS THEREFORE ORDERED that Columbia be and it hereby is authorized to issue and sell \$1,900,000 of its Notes with a 15-year term and an interest rate as determined in the application for rehearing.

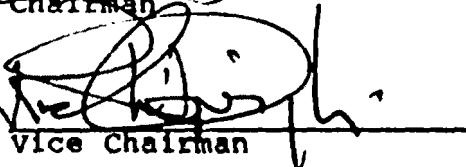
IT IS FURTHER ORDERED that the proceeds from the sale of the securities authorized herein shall be used only for the lawful purposes as set out in the original application.

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

Done at Frankfort, Kentucky, this 30th day of September, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary