NiSource
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PUBLIC SERVICE
COMMISSION

November 17, 2008

Ms. Stephanie Stumbo
Executive Director
Kentucky Public Service Commission
P. O. Box 615
Frankfort, KY 40602

RE: PSC Case No. 2008-00403

Dear Ms. Stumbo:

Enclosed for filing with the Commission are the original and five copies of Columbia Gas of Kentucky's Response to the Initial Data Request submitted by the Staff of the Public Service Commission in Case No. 2008-00403. Please call me at (614) 460-4648 or Judy Cooper at (859) 288-0242 should you have any questions about this matter.

Sincerely,

Stephen B. Seiple

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

Enclosure

cc: Richard S. Taylor

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2008-00403
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
ORDER DATED OCTOBER 30, 2008

Question No. 1:

In Section E of the application, Columbia states that it is requesting authority to issue new notes and/or stock not to exceed a total of $30,000,000. Given that its June 30, 2008 balance sheet, included as Exhibit A of the application, shows that Columbia has an equity-to-debt ratio of 64 percent to 36 percent, describe in detail the factors that will be considered to determine the mix of notes and stock to be issued.

Response:

When analyzing Columbia's financing needs, the first consideration is to balance Columbia's total capitalization levels to total rate base. Second, Columbia aims to maintain an appropriate debt-equity ratio. Due to the cyclical nature of the gas industry, equity can be high coming out of the winter period. We perform a dividend analysis semi-annually in May and November to determine if dividends should be paid to the corporate parent or if earnings should be retained to balance total capitalization with total rate base and to achieve an appropriate debt-equity ratio. Finally, Columbia determines the level of debt and equity that needs to be issued to target a debt-equity ratio similar to that proposed in the last rate case.

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Question No. 2:

In Section H of the application, Columbia states that new money of up to $30,000,000 is needed in order to finance its capital program "and for other corporate purposes". List and describe the "other corporate purposes" for which the money is to be used.

Response:

Columbia requires the new money to meet its public service obligations. Typical in the gas industry, capital expenditures require the largest cash outflow. Examples of "other corporate purposes" would be paying down short-term debt balances or meeting other operating expense needs, such as payroll, gas purchases, etc. "Other corporate purposes" is a general term Columbia used to describe all cash flow requirements other than capital expenditures.

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Question No. 3:

Section J of the application states that the interest rate of the notes will be determined by the corresponding applicable Treasury yield plus the yield spread on corresponding maturities for companies with a credit risk profile equivalent to that of Columbia's affiliate, NiSource finance Corp. ("NiSource"), effective on the date of issue.

a. Provide the estimated range within which Columbia expects the interest rate(s) on the notes to fall. Also explain whether Columbia 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 expects the current condition of the credit market will have on the rate of interest that will be incurred on the notes as well as the process of issuing the notes.

c. Explain how the method described in Section J for determining the interest rate will ensure that Columbia obtains the lowest interest rate that would be available in the capital markets.

d. Provide the current financial profile of NiSource.

e. Provide a list of companies having financial profiles similar to NiSource.

f. Refer to Columbia's response to Item 1 of the Commission Staff's first data request in Case No. 2005-0400[1], which stated that Columbia did not have a stand-alone credit rating and that there were no plans to secure an independent credit rating for Columbia. Has this condition changed since that case was finalized? If so, provide Columbia's current financial profile.

[1] The Application of Columbia Gas of Kentucky for an Order Authorizing the Issuance and Sale of Promissory Notes, final Order dated December 22, 2005.

Response:

(a) - Based upon current applicable Treasury yields and yield spreads for companies with a credit risk profile equivalent to that of NiSource Finance Corp., the estimated range of interest rates would be 8.85% for a 10-year note and 9.55% for a 30-year bond. Columbia does not plan on establishing an upper limit on the interest rate for new intercompany debt issuances, as the policy of both Columbia and NiSource Finance Corp. has always been to issue new debt securities at market rates of interest. This ensures full objectivity in the interest rate setting process.

(b) – The current condition of the credit markets has resulted in wider corporate credit spreads versus credit spreads experienced in recent years. For BBB-utility credits, this spread widening has been as much as 300-350 basis points. However, because Treasury yields are currently closer to historical lows than to historical highs, the "all-in" coupon rates of current debt issuances are not nearly as high as they might otherwise have been.

The process of issuing the inter-company notes will not be impacted by current credit conditions, as this is a process internal to Columbia and NiSource Finance Corp.

(c) - The method described in Section J ensures that Columbia will receive a current market-based rate of interest available in the debt capital markets. However, because Columbia will avoid the transactional costs associated with an external debt capital markets transaction, the "all-in" financing cost will be lower for Columbia's intercompany note, versus an external debt financing transaction.

(d) - NiSource Finance Corp. (implied rating for NiSource Inc.) currently is rated BBB by Standard and Poor's; Baa3 by Moody's; and BBB by Fitch Ratings. All three of these ratings are investment grade ratings.

(e) - Other utility/energy companies having similar financial profiles to NiSource include: Centerpoint Energy Resources, Atmos Energy Corp., Southern Union Co, and the Williams Companies.

(f) - There have been no changes in this regard. There are no plans to secure an independent credit rating for Columbia.

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Question No. 4:

Section K of the application states that Columbia is proposing to issue up to 147,752 shares of authorized but unissued stock. As stated in Section F of the application, Columbia has 1,100,000 shares of common stock authorized and 952,248 shares issued and outstanding; therefore, Columbia is requesting approval to issue all of its remaining authorized shares of stock.

a. State the effect, if any, the issuance of all of its authorized stock will have on Columbia.

b. State whether Columbia has plans to authorize additional shares of stock.

Response:

a.) Columbia is a wholly owned subsidiary of Columbia Energy Group. Columbia would issue the remaining authorized stock to its Parent, and Columbia's common stock equity account would increase by $3,693,800.

b.) Columbia has no plans to authorize additional shares of stock at this time.