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

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December 10, 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 Third 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 (gmc)

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 DECEMBER 4, 2008

Question No. 1:

Given the current conditions in the credit markets, how critical is it for Columbia to initiate the proposed financing in the immediate or near future?

Response:

Columbia's optimal goal is to finance long-term uses of funds with long-term sources of funds. As stated in the financing application, the funds are necessary to reimburse Columbia's treasury for the 2008 through 2010 capital expenditures program totaling $41,613,000, which includes an aggressive infrastructure replacement program. Without the issuance of long-term debt, the aggressive capital spending will be funded with short-term debt. Columbia has a short-term debt authorization level of $50,000,000, and without the long-term issuance, Columbia is at risk of exceeding this authorized level during peak periods over the next several years. Columbia anticipated the issuance of $14,000,000 in long-term debt during November 2008, pending Kentucky PSC approval. The expected long-term debt issuance would enable the reduction of $14,000,000 in short-term debt. Therefore, the proposed financing is necessary to fund the long-term uses and to eliminate the risk of Columbia exceeding its short-term debt limits.

It is also the goal of Columbia to ensure that its rate base is properly funded by its total capitalization. The balancing of total capitalization to total rate base can be further substantiated by statements made by Witness Robert J. Henkes in Case No. 2007-00008. In this case, Witness Henkes testified that it was not appropriate to set rates based upon a rate base that was not equal to the company's total capitalization. He stated, "It is my position that when the rate base used for ratemaking purposes is higher than the capitalization used to determine the overall rate of return, this indicates that portions of the rate base have been funded by non-investor supplied capital sources." He therefore "recommended that the rate base and capitalization levels be appropriately matched and that this matching be accomplished by adding additional short-term debt to the recommended capitalization...for purposes of determining the Company's appropriate overall rate of return." Therefore, Columbia is taking efforts to properly fund its rate base by requesting authorization for additional financing.

With these two goals in mind, Columbia feels it is critical to initiate the proposed financing in a timely manner.

Public Service Commission-Data Request Set 3
Question No. 2
Columbia Gas of Kentucky Respondent: Wendy Bowlin

BEFORE THE PUBLIC SERVICE COMMISSION OF KENTUCKY
PSC CASE NO. 2008-00403
INFORMATION REQUESTED BY THE PUBLIC SERVICE COMMISSION
ORDER DATED DECEMBER 4, 2008

Question No. 2:

Will the financing terms obtained by Columbia allow for refinancing the debt if the credit markets improve?

Response:

The terms and provisions of NiSource Finance Corp's long-term promissory notes specifically state that the borrower may prepay the principal amount in whole or in part, without premium or penalty, at any time after the first anniversary of the issuance date. Although prepayment is permissible, it has not been Columbia's, nor NiSource Finance's practice to prepay promissory notes prior to their maturity date and reissue at new market rates. This is because the issuance of intercompany promissory notes is meant to mirror the external financing practices of NiSource Finance, and to mirror the issuance of external debt securities by NiSource Finance. As such, because NiSource Finance does not typically prepay its external debt securities prior to maturity, parallel treatment for the issuance of intercompany notes would dictate the same practice.

Columbia would strongly prefer to manage its interest costs by carefully selecting the term maturity of its upcoming intercompany notes. For instance, despite the recent turmoil in the credit and capital markets, short-to-intermediate term promissory notes can currently be issued at historically favorable levels. This is because Treasury rates, a component of our interest rate setting methodology, are currently near historically low levels. Using Columbia's methodology for setting intercompany promissory note interest rates, as of December 4, 2008, would yield the following rates:

3-year note	4.92%
5-year note	5.71%
7-year note	6.38%
10-year note	7.45%
15-year note	7.95%

Columbia believes that these rates, while subject to change prior to actual issuance, remain within a reasonably favorable range by historical standards. Based upon the above, Columbia will make every effort to issue the securities in the most cost effective manner possible under current market conditions.