

Columbia Gas[®]
of Kentucky

A NiSource Company

P.O. Box 14241
2001 Mercer Road
Lexington, KY 40512-4241

September 10, 2012

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

Re: Case No. 2012 -

RECEIVED

SEP 10 2012

**PUBLIC SERVICE
COMMISSION**

Dear Mr. Derouen:

Please find attached the application of Columbia Gas of Kentucky, Inc. ("Columbia") seeking authorization of the Issuance and Sale of Promissory Notes and Authorized but Unissued Common Stock. An original and ten (10) copies are enclosed.

Sincerely,



Judy M. Cooper
Director, Regulatory Policy

Enclosures

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

SEP 10 2012

PUBLIC SERVICE
COMMISSION

In the Matter of:)
)
The Application of Columbia Gas of) Case No. 2012-_____
Kentucky, Inc. for an Order Authorizing the)
Issuance and Sale of Promissory Notes and)
Authorized but Unissued Common Stock)

APPLICATION OF COLUMBIA GAS OF KENTUCKY, INC.

The petition of Columbia Gas of Kentucky, Inc. ("Columbia") respectfully states:

(a) That applicant is engaged in the business of furnishing natural gas service to the public in certain counties in the Commonwealth of Kentucky, pursuant to authority granted by the Public Service Commission ("Commission").

(b) That Columbia's full name and post office address are:

Columbia Gas of Kentucky, Inc.
2001 Mercer Road
P.O. Box 14241
Lexington, KY 40512-4241

(c) That Columbia's Articles of Incorporation have previously been filed with the Commission in Case No. 2000-129 and are incorporated herein by reference.

(d) That Columbia is a wholly-owned subsidiary of Columbia Energy Group ("CEG"), which is a wholly-owned subsidiary of NiSource Inc. ("NiSource"). NiSource is a registered holding company under the Public Utility Holding Company Act of 1935, whose principal office is located at 801 East 86th Avenue, Merrillville, IN 46410.

(e) That pursuant to KRS § 278.300, Columbia files this application with the Commission and requests authorization to issue and sell Long-term Promissory Notes (“Notes”) to NiSource Finance Corp., which is also a wholly-owned subsidiary of NiSource, and/or to secure additional equity financing from Columbia Energy Group, also a wholly-owned subsidiary of NiSource, through the issuance and sale of the currently authorized and unissued Common Stock (“Stock”), \$25 par value per share. Columbia requests authority to issue new Notes and/or Stock not to exceed a total of \$45,000,000, from the date of the Commission’s order herein through December 31, 2014, as more fully described below.

(f) As of June 30, 2012, Columbia had authorized 1,100,000 shares of common stock, par value \$25 per share, amounting to \$27,500,000. Of this amount, 952,248 shares were issued and outstanding. There was no preferred stock authorized, issued or outstanding. Columbia was not party to trust deeds or mortgages and there were no mortgage notes outstanding. There were no bonds authorized, issued or outstanding.

(g) During the twelve-month period ended June 30, 2012, the short term borrowing authorization was \$50,000,000 of which \$0 was outstanding at June 30, 2012. The interest expense on short-term debt during the twelve-month period ended June 30, 2012 totaled \$0.

(h) In order to finance its capital program, and for other corporate purposes, Columbia will require, in addition to internally generated funds, up to \$45,000,000 of new money. Columbia therefore requests Commission authority to secure from the issuance to NiSource Finance Corp. of Notes, and/or the sale of Stock to Columbia Energy Group, the total of which shall not exceed \$45,000,000 as more fully described below.

(i) The proceeds to be realized from the proposed sale of new Notes and/or sale of Stock is, in part, to reimburse Columbia’s treasury for Columbia’s 2012 through 2014 construc-

tion program totaling \$64,162,000. Columbia estimates that its capital expenditure for 2012 will be \$15,764,000, for 2013 will be \$21,336,000 and for 2014 will be \$27,062,000. These expenditures will be required for the purposes of the acquisition of property and for the construction, completion, extension and improvement of company facilities. Columbia intends to use the proceeds from its proposed sale of promissory notes and/or Stock to acquire property in the form of materials used in the ordinary course of providing public utility service – e.g., the purchase and installation of mains, service lines, meter, regulators, facilities and other corporate purposes. Columbia does not anticipate using the proceeds from the sale of the proposed promissory notes to finance any major acquisitions.

(j) **Issuance of New Notes.** The Notes will be unsecured and will be dated the date of their issue. The Notes will be issued with maturities of up to thirty years; will bear an interest rate that corresponds to the pricing being offered companies with financial profiles similar to NiSource Finance Corp.; and will reflect market conditions at the time of issuance. The interest rate of the Notes will be determined by the corresponding applicable Treasury yield (as reported in Federal Reserve Statistical Release, H.15 Selected Interest Rates (Daily)) effective on the date a Note is issued, plus the yield spread on corresponding maturities for companies with a credit risk profile equivalent to that of NiSource Finance Corp. (as reported by Reuters Corporate Spreads) effective on the date a Note is issued. For maturities not specifically referenced in the Statistical Release or Reuters, an interest rate will be calculated based upon a simple linear interpolation method. All of the new Notes, not to exceed \$45,000,000 will be issued on or before December 31, 2014.

(k) **Common Stock.** Columbia proposes to issue and sell to Columbia Energy 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. All such shares issued and sold to be fully paid and nonassessable.

(l) Because the Notes and Stock are to be sold privately, they will not be registered with the Securities and Exchange Commission under the Securities Act of 1933.

(m) Pursuant to KRS § 278.300, Columbia submits the following as part of this Application:

- (1) A balance sheet as of June 30, 2012, attached as Attachment A.
- (2) An income statement as of June 30, 2012, attached as Attachment B.
- (3) A statement of notes outstanding as of June 30, 2012, attached as Attachment C.
- (4) A statement of dividends paid, fiscal years 2007 – June 30, 2012 attached as Attachment D.
- (5) A summary of utility plant and accumulated provisions for depreciation, amortization and depletion as of June 30, 2012, attached as Attachment E.
- (6) A description of Columbia's property, including a statement of the net original cost of the property and the cost thereof to the applicant as Attachment F.

WHEREFORE, Columbia respectfully requests that the Commission order that:

1. Columbia be authorized to issue and sell to NiSource Finance Corp. new Notes, and additionally, issue and sell Common Stock to Columbia Energy Group, in any combination of amounts not to exceed \$45,000,000. The total additional financing from the two sources shall not exceed \$45,000,000;

2. Columbia be authorized to issue, sell, and deliver the new Notes and Stock upon the terms and bases set forth in this Application;

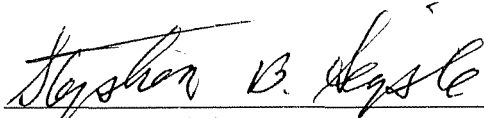
3. Columbia be authorized to use the cash proceeds arising from the issuance and sale of the subject Notes and Stock for the purposes set forth herein; and,

4. That Columbia be authorized to take such other and further actions as may be necessary and proper.

Columbia requests that the Commission approve this Application as soon as practical so as to maximize Columbia's flexibility for the issuance of Notes and equity capital for which this Application is sought.

Respectfully submitted,

COLUMBIA GAS OF KENTUCKY, INC.

By: 
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Trial Attorney

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Attorneys for
COLUMBIA GAS OF KENTUCKY, INC.

COLUMBIA GAS OF KENTUCKY, INC.
Balance Sheet, Per Books, as of June 30, 2012
Assets and Other Debits

	<u>Amount</u> \$
<u>Utility Plant</u>	
Gas Plant (101,105,106,107,114)	313,068,665
Less: Accumulated Provision for Depreciation and Amortization (108,111,115)	129,579,071
Net Utility Plant	183,489,594
 <u>Current and Accrued Assets</u>	
Cash (131,135,136)	4,171,191
Notes and Accounts Receivable (Less Accumulated Provision for Uncollectable Accounts 141-144,171-173)	6,651,452
Receivables from Associated Companies (146)	41,800,650
Materials and Supplies (151,154,163)	77,002
Gas Stored Underground - Current (164)	31,191,639
Prepayments and Other Current Assets (165,174,175)	9,821,040
Other Special Funds (128)	-
Regulatory Assets Current (182)	2,761,727
Total Current and Accrued Assets	96,474,701
 <u>Deferred Debits</u>	
Unrecovered Plant and Regulatory Study Costs (182)	13,167,736
Preliminary Survey and Investigation Charges (183)	659,262
Clearing Accounts (184)	(38,697)
Miscellaneous Deferred Debits (186,188)	1,602,872
Accumulated Deferred Income Taxes (190)	6,800,856
Unrecovered Purchased Gas Costs (191)	(19,365,742)
Total Deferred Debits	2,826,287
Investment in Subsidiary	426,369
Total Assets and Other Debits	283,216,951

COLUMBIA GAS OF KENTUCKY, INC.
Balance Sheet, Per Books, as of June 30, 2012
Liabilities and Other Credits

	<u>Amount</u> \$
<u>Proprietary Capital</u>	
Common Stock (201)	23,806,200
Other Paid-in Capital (211)	5,582,722
Earned Surplus (216)	<u>63,537,228</u>
Total Proprietary Capital	<u>92,926,150</u>
<u>Long-Term Debt</u>	
Advances from Associated Companies (223,233)	82,055,000
Other Long-Term Debt (224,231)	-
Total Long-Term Debt	<u>82,055,000</u>
<u>Current and Accrued Liabilities</u>	
Accounts Payable (232)	3,435,181
Accounts Payable to Associated Companies (234)	3,338,860
Customer Deposits (235)	2,429,782
Taxes Accrued (236)	3,698,826
Interest Accrued (237)	65,115
Tax Collections Payable (241)	483,564
Miscellaneous Current and Accrued Liabilities (242,244)	25,216,460
Capital Lease Obligations (243)	(54)
Accumulated Deferred Income Taxes, Current (282,283)	(173,647)
Regulatory Liabilities, Current (254)	<u>4,648,076</u>
Total Current and Accrued Liabilities	<u>43,142,163</u>
<u>Deferred Credits</u>	
Customer Advances for Construction (252)	1,475,541
Other Deferred Credits (253)	2,128,629
Regulatory Liabilities, Long Term (254)	2,123,286
Accumulated Deferred Investment Tax Credits (255)	473,158
Capital Lease Obligations (227)	85
Injuries and Damages Reserve (228)	8,803,201
Long-Term I/C Payable (234)	45,827
Long-Term Taxes Payable (236)	165,291
Long-Term Interest Payable (237)	6,932
Price Risk Liability - Noncurrent (244)	1,143,752
<u>Accumulated Deferred Income Taxes, Non Current (282,283)</u>	<u>48,727,936</u>
	<u>65,093,638</u>
 Total Liabilities and Other Credits	 <u><u>283,216,951</u></u>

COLUMBIA GAS OF KENTUCKY, INC.
Statement of Income, Per Books, 12 Months Ended June 30, 2012

	<u>Amount</u> \$
<u>Utility Operating Income</u>	
Operating Revenue	107,124,796
<u>Operating Expenses</u>	
Operations Expenses	78,197,101
Maintenance Expense	2,664,215
Depreciation and Amortization Expense	6,410,103
Taxes Other Than Income Taxes	2,934,358
Income Taxes - Federal	341,672
Income Taxes - State	(10,193)
Income Taxes Deferred	4,469,424
Income Taxes Deferred - Credit	799,520
Investment Tax Credit Adjustment - Net	(80,157)
Total Utility Operating Expenses	95,726,043
Net Utility Operating Income	11,398,753
<u>Other Income and Deductions</u>	
<u>Other Income</u>	
Investment in Subsidiary	45,112
Interest Income	792,845
Miscellaneous Non-Operating Income	1,997,190
Total Other Income	2,835,147
<u>Other Income Deductions</u>	
Miscellaneous Income Deductions	(364,656)
Net Other Income and Deductions	2,470,491
<u>Interest Charges</u>	
Interest on Debt to Associated Companies	4,672,199
Other Interest Expense	165,061
Allowance for Funds Used During Construction - Debt	(34,668)
Total Interest Charges	4,802,592
Net Income	9,066,652

COLUMBIA GAS OF KENTUCKY, INC.
Statement of Notes Outstanding as of June 30, 2012

<u>Line No.</u>	<u>Year Issued</u> (1)	<u>Principal Amount Per Books</u> (2) \$	<u>Date of Maturity</u> (3)	<u>Rate of Interest</u> (4)	<u>In Whose Favor</u> (5)	<u>Interest Paid During Fiscal Year Ended June 30, 2012</u> (6) \$
						-
1	01-05-06	14,720,000	01-07-13	5.280%	Nisource Finance Corporation	779,344
2	01-05-06	10,750,000	01-05-16	5.410%	Nisource Finance Corporation	583,168
3	01-05-06	4,210,000	01-05-17	5.450%	Nisource Finance Corporation	230,073
4	01-05-06	12,375,000	01-05-26	5.920%	Nisource Finance Corporation	734,606
5	11-01-06	16,000,000	11-01-21	6.015%	Nisource Finance Corporation	965,035
6	12-23-08	14,000,000	12-23-13	5.530%	Nisource Finance Corporation	776,075
7	12-16-10	10,000,000	12-16-30	6.020%	Nisource Finance Corporation	603,897
8						
9	Total	<u>58,055,000</u>				<u>4,672,199</u>

COLUMBIA GAS OF KENTUCKY, INC.
Statement of Dividends Paid, Fiscal Years 2007 to 2012

Line No.	Year (1)	Dividend Paid (2) \$	Capital Stock (3) \$	Payout Rate (4)
1	2007	-	23,806,200	0.000%
2	2008	17,000,000	23,806,200	71.410%
3	2009	15,000,000	23,806,200	63.009%
4	2010	10,000,000	23,806,200	42.006%
5	2011	10,000,000	23,806,200	42.006%
6	2012*	3,000,000	23,806,200	12.602%

* Reflects dividends paid through June 30, 2012

COLUMBIA GAS OF KENTUCKY, INC.
Summary of Utility Plant and Accumulated Provisions
for Depreciation, Amortization and Depletion
as of June 30, 2012

	<u>Amount</u> \$
<u>Utility Plant</u>	
In Service	
Plant in Service (Classified)	302,055,789
Property Under Capital Lease	50
Completed Construction not Classified	6,919,264
Total in Service	<u>308,975,103</u>
Held for Future Use	-
Construction Work in Progress	4,093,562
Acquisition Adjustments	-
Total Utility Plant	<u>313,068,665</u>
Accumulated Provision for Depreciation, Amortization and Depletion	129,579,071
Net Utility Plant	<u><u>183,489,594</u></u>

Detail of Accumulated Provisions for Depreciation, Amortization and Depletion

In Service	
Depreciation	126,431,646
Amortization of Other Utility Plant	3,147,411
Total in Service	<u>129,579,057</u>
Amortization of Plant Acquisition Adjustment	<u>14</u>
Total Accumulated Provisions	<u><u>129,579,071</u></u>

COLUMBIA GAS OF KENTUCKY

A DESCRIPTION OF APPLICANT'S PROPERTY, INCLUDING A
STATEMENT OF THE NET ORIGINAL COST OF THE PROPERTY AND THE
COST THEREOF TO APPLICANT

June 30, 2012

The applicant owns and operates natural gas distribution facilities providing service to approximately 133,000 customers as of June 30, 2012. The distribution main pipelines consist of 2,557 miles of pipeline. A breakdown of distribution main miles by material type, as of December 31, 2011 is as follows:

Miles of Plastic Main	1,240
Miles of Protected Steel Main	830
Miles of Cast/Wrought Iron Main	21
Miles of Unprotected/BS Main	454
Miles of Other Main	<u>12</u>
Total Miles Distribution Main	2,557

Additionally, Columbia operates 58 miles of transmission main.

The applicant's natural gas distribution system also includes 397 district regulator stations and 67 town border stations.

Additionally, the applicant's property, plant and equipment includes five buildings that serve as office buildings, service centers, warehouses and garages.

The net original cost of the property and cost thereof to the applicant as of June 30, 2012, was:

	<u>Utility Plant</u>
Original Cost	
Intangible Plant	\$ 2,673,244
Production Plant	7,678
Distribution Plant	301,178,479
General Plant	5,115,618
Construction Work in Progress	<u>4,093,646</u>
Total Plant at Original Cost	\$313,068,665
Less Reserve for Depreciation	<u>129,579,071</u>
Net Original Cost	\$183,489,594