

refunding or replacing other outstanding long-term securities, where NiSource's capitalization is not increased as a result, and (b) any shares of Preferred Stock issued under the NiSource Shareholder Agreement ("Rights Plan")¹³ shall not be counted against this limitation.

NiSource also requests authority to issue and sell, directly or indirectly, through one or more Financing Subsidiaries, Short-term Debt in an aggregate principal amount at any time outstanding not to exceed \$2.5 billion. All securities issued by NiSource under this authorization, including, without limitation, securities issued for the purpose of refunding or retiring outstanding securities, will comply with the Financing Parameters described above.

C. Financing by Columbia

To provide capital to its subsidiaries, as well as to retire and/or prepay its outstanding long-term indebtedness, Columbia requests authorization to issue (1) additional shares of its common stock directly to NiSource and (2) unsecured notes evidencing long-

term borrowings from NiSource Finance or another Financing Subsidiary of NiSource and/or unaffiliated third party lenders in an aggregate amount not to exceed \$3 billion (excluding securities issued for purposes of refunding or replacing other outstanding securities of Columbia where Columbia's capitalization is not increased as a result).¹⁴ The interest rate and maturity of any series of Long-term Debt issued by Columbia to NiSource Finance or another Financing Subsidiary of NiSource will parallel the effective cost of funds of Long-term Debt recently issued by NiSource Finance or any other Financing Subsidiary of NiSource. Applicants state further that, in the event no Long-term Debt was issued during the previous calendar quarter, then the interest rate and maturity of any series of Long-term Debt issued by Columbia to NiSource Finance, or another Financing Subsidiary of NiSource, will be either the estimated new long-term rate that would be in effect if NiSource Finance, or another Financing Subsidiary of NiSource, were to issue Long-term Debt, as projected by a major investment bank, or the prevailing market rate for a newly issued BBB-rated utility bond. Long-term Debt of any series of Columbia issued to an unaffiliated third party lender will comply with the Financing Parameters.

D. Utility Subsidiary Financing

Columbia Maryland requests authorization to issue and sell, and Columbia requests authorization to acquire, additional shares of Columbia Maryland's common stock and Long-term Debt, during the Authorization Period. The aggregate amount of common stock and/or Long-term Debt to be issued by Columbia Maryland, during the Authorization Period, will not exceed \$40 million. Columbia Maryland will use the proceeds of common stock and Long-term Debt to finance, in part, capital expenditures and other general and corporate purposes.¹⁵

¹⁴ Columbia will continue to provide equity and long-term debt capital to its Utility and Nonutility Subsidiaries in the form of purchases of additional equity securities, cash capital contributions and open account advances under rule 45(b), and intercompany loans, which, except in the case of Columbia Maryland, are exempt under rule 52.

¹⁵ Because Columbia Maryland is a Delaware corporation, it is not able to rely upon rule 52(a) for an exemption from sections 6(a) and 7 of the Act. Other than Columbia Maryland, the issue and sale of securities by the utility Subsidiaries will be exempt, under rule 52(a), from the preapproval requirements of sections 6(a) and 7 of the Act, as most such securities must be approved by the public service commission in the state in which

Long-term notes issued by Columbia Maryland to Columbia may have maturities of up to 30 years and may be either secured or unsecured. The Utility Subsidiaries do not intend to issue any Short-term Debt externally. Instead, the Utility Subsidiaries will satisfy their short-term borrowing needs through borrowings under the Money Pool, described below.

E. Nonutility Subsidiary Financing

NiSource, through the Nonutility Subsidiaries, expects to continue to be active in the development and expansion of energy-related, or otherwise functionally-related, nonutility businesses. To finance investments in such competitive businesses, the Nonutility Subsidiaries will need the ability to engage in financing transactions that are commonly accepted for such types of investments.

NiSource, or a Nonutility Subsidiary, as the case may be, request authority to make loans to less than wholly owned subsidiaries at interest rates and maturities designed to provide a return to the lending company of not less than its effective cost of capital, in the limited circumstances where the Nonutility Subsidiary making the borrowing is not wholly owned, directly or indirectly, by NiSource.¹⁶ In the

each Utility Subsidiary is incorporated and operating.

Specifically, the Indiana Utility Regulatory Commission must approve all financings by Northern Indiana, Kokomo and NIFL, other than short-term indebtedness having a maturity of 12 months or less; the Massachusetts Department of Telecommunications and energy must approve all financings by Bay State other than short-term indebtedness having a maturity of one year or less; the New Hampshire Public Utilities Commission ("NHPUC") must approve most financings by Northern Utilities other than short-term indebtedness having a maturity of one year or less up to a maximum amount equal to 10% of net plant; the Public Utilities Commission of Ohio must approve all financings by Columbia Ohio other than short-term indebtedness with a maturity of less than one year, the Public Service Commission of Kentucky must approve all financings by Columbia Kentucky other than notes with a maturity of less than two years; the Pennsylvania Public Utilities Commission must approve all financings by Columbia Pennsylvania other than short-term indebtedness with a maturity of one year or less or having no fixed maturity but payable on demand; and the Virginia State Corporation Commission must approve all financings by Columbia Virginia other than short-term indebtedness with a maturity of less than one year if the amount is less than 12% of total capitalization of Columbia Virginia.

¹⁶ Applicants believe that, in almost all cases, financings by the Nonutility Subsidiaries will be exempt from Commission authorization pursuant to rule 52(b). To be exempt under rule 52(b), any loans by NiSource to a Nonutility Subsidiary, or by any Nonutility Subsidiary, including a Financing Subsidiary, to another Nonutility Subsidiary, must have interest rates and maturities that are designed

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¹³ Under this plan, 4,000,000 shares of Preferred Stock (designated as Series A Junior Participating Preferred Shares ("Series A Shares")) and reserved for issuance. Each share includes one preferred purchase right ("Right"), which entitles its holder to purchase one-hundredth (1/100) of a Series A Share at a price of \$60 per one-hundredth of a share, subject to adjustment. The Rights become exercisable if a person or group acquires 25% or more of the voting power of NiSource or announces a tender or exchange offer following which such person or group would hold 25% or more of NiSource's voting power. If such an acquisition is consummated, or if NiSource is acquired by the person or group in a merger or other business combination, then each Right will be exercisable for that number of shares of common stock or the acquiring company's common shares having a market value of two times the exercise price of the Right. The Rights will also become exercisable on or after the date on which the 25% threshold is triggered, if NiSource is acquired in a merger or other business combination in which NiSource is not the survivor or in which NiSource is the survivor but its common stock is changed into or exchanged for securities of another entity, cash or other property, or 50% or more of the assets or earning power of NiSource and its subsidiaries is sold. At such time, each Right will become exercisable for that number of common shares of the acquiring company having a market value of two times the exercise price of the Right, but the Rights will not be exercisable in this instance if the person who acquired sufficient shares to reach the 25% threshold did so at a price and on terms determined by the board of directors to be fair to NiSource's shareholders and in the best interests of NiSource, provided that the price per common share offered in the merger or other business combination is not less than the price paid in the offer and the form of the consideration offered in the merger or other business combination is the same as that paid in the offer. NiSource may redeem the Rights at a price of \$0.1 per Right prior to the occurrence of an event that causes the Rights to be exercisable for common stock. The Rights will expire on March 12, 2010.