

file

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Petition of the Ohio)
Schools for the Commission to Require a Merger) Case No. 00-762GA-UNC
Filing and to Exercise Jurisdiction Over and)
Investigate the Consequences to Ohio)
Ratepayers of the Proposed Merger of)
Columbia Energy Group and NiSource, Inc.)

PETITION OF THE OHIO SCHOOLS FOR THE COMMISSION TO
REQUIRE A MERGER FILING AND TO EXERCISE JURISDICTION OVER
AND INVESTIGATE THE CONSEQUENCES TO OHIO RATEPAYERS
OF THE PROPOSED MERGER OF COLUMBIA ENERGY GROUP
AND NISOURCE, INC.

Now come the Ohio Schools Council, Bay Area Council of Governments and Lake Erie Regional Council of Governments (the "Ohio Schools") and, for the reasons stated below, hereby request the Commission to require a merger filing and to otherwise assert jurisdiction over and investigate the consequences to Ohio ratepayers of the proposed merger of Columbia Energy Group ("CEG") and NiSource, Inc. ("NiSource"):

1. The Bay Area Council of Governments, Lake Erie Regional Council of Governments and Ohio Schools Council are regional councils of government established under Chapter 167 of the Ohio Revised Code and are comprised of approximately 115 public school districts in northern Ohio. Each council is a political subdivision of the State of Ohio. The Ohio Schools have established and operated innovative natural gas and electricity purchasing programs to purchase and deliver natural gas and electricity, finance pre-purchase of long-term electricity and natural gas through the issuance of \$210 million of bonds and, through participating in rate and other cases, pursue potential

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Technician Anna M. Nijm Date Processed May 3 2000

energy savings. Through the Ohio Schools' efforts, school districts in northern Ohio have realized substantial energy cost savings, conserving scarce public funds available for education in the State of Ohio. The Ohio Schools take gas transportation service from Columbia Gas of Ohio, Inc. ("Columbia-Ohio") for approximately 1.5 BCF of natural gas they consume on Columbia-Ohio's system. The Ohio Schools have participated as an intervenor and as a participant in Columbia-Ohio's collaborative in all rate proceedings of Columbia since 1991.

2. Columbia Energy Group, a Delaware corporation, is the holding company and owns and controls Columbia-Ohio. Columbia-Ohio is a natural gas company and an Ohio public utility company pursuant to R.C. §§ 4905.02 and 4905.03(A)(6). Columbia-Ohio is by far the largest gas distribution company owned by CEG. Columbia-Ohio supplies gas to approximately 1,309,200 retail customers in 53 counties in Ohio having a population of approximately 6,700,000.

3. NiSource, Inc. is an Indiana corporation. NiSource's largest subsidiary, Northern Indiana Public Service Company ("NISPCO"), a combination gas and electric utility, distributes natural gas to approximately 681,100 customers in northern Indiana serving a population of approximately 2,200,000. Accordingly, NIPSCO's gas business is about one-half (1/2) the size of Columbia-Ohio's operations and serves a population of about one-third (1/3) that of Columbia-Ohio.

4. NiSource's pursuit of CEG, and particularly, its prize jewel natural gas distribution assets, the largest of which is Columbia-Ohio, began with a hostile tender offer commenced on June 25, 1999. It culminated with a Merger Agreement between the

companies dated February 27, 2000, which was amended and restated as of March 31, 2000 (the "Merger Agreement").

5. Pursuant to the Merger Agreement, upon consummation of the merger, the Board of Directors of the successor NiSource corporation will consist of three (3) persons who serve as directors of NiSource immediately preceding the merger. Mr. Gary L. Neale, the Chairman, President and Chief Executive Officer of NiSource, will serve after the merger as the Chairman of the Board, President and Chief Executive Officer of the successor NiSource. Accordingly, the ownership and control of Columbia will be transferred in its entirety to the successor NiSource after the merger.

6. Pursuant to Sections 5.1(d)(i) and 5.2(e)(i) of the Merger Agreement, each of CEG and NiSource represented that no reports, filings, registrations, approvals or notices were required to be made with any governmental entity other than, among others, with, to or of the Public Utilities Commission of Ohio. (See Attachment 1). Despite the parties' contemplation in the Merger Agreement that a merger filing would be required with this Commission, no such filing has been made by NiSource or CEG. In fact, NiSource's April 14, 2000 application filing with the United States Securities and Exchange Commission ("SEC filing") states that certain aspects of the transaction are, or may be, subject to approval by the Virginia, Pennsylvania, Kentucky, Maryland and New Hampshire Commissions. In the SEC filing, NiSource states that "no other state . . . commission approvals of the transaction, are necessary with respect to the public utility companies..."

7. In its SEC filing, NiSource states that "the Applicants believes the Transaction will produce significant benefits to the public, investors and consumers. . . .

Applicants believe that, following the transaction, the combined companies will be better positioned to take advantage of operating economies and efficiencies through, among other measures, joint management and optimization of their respective portfolios of gas supply, transportation, and storage assets. . . ."

8. Contrary to their assertions, there are no demonstrable or measurable merger benefits or rate reductions accruing to Columbia-Ohio jurisdictional ratepayers as a result of this merger. In published reports, Mr. Gary Neale, NiSource's CEO, projected annual post-merger savings of \$100 to \$150 million by cutting combined corporate, administrative and purchasing costs. (See Attachment 2). Unlike other mergers involving other Ohio utilities, not one dollar of these annual hundred plus million dollar savings estimated by NiSource is being passed through to the Ohio ratepayers who financed the very valuable "prize-jewel" Columbia-Ohio distribution assets. All of the merger benefits as currently proposed will accrue to the CEG's current shareholders and the successor NiSource's shareholders. Principal beneficiaries of the merger also appear to include investment banking and other firms who are being paid approximately \$50,000,000 in fees for the transaction. In addition, top CEG executives who are being paid millions of dollars in golden parachute payments are big winners. On July 23, 1999, Mr. Neale himself criticized CEG's enriched "golden parachutes" for CEG Chairman Oliver Richard, and two other senior executives, Peter Schwolsky and Catherine Good Abbot, as well as new parachutes for 27 other CEG managers. At the time Mr. Neale stated that "these enrichments ... will cost Columbia [Energy] shareholders tens of millions of dollars." (See Attachment 3).

9. As pointed out repeatedly by CEG in opposing the hostile tender offer by NiSource, NiSource's Indiana public utility, NIPSCO, has had a problematic service record. NIPSCO has the highest electric rates of all of Indiana's 42 electric utilities, according to an Indiana Regulatory Commission survey (See Attachment 4). NIPSCO's electric customers pay substantially higher rates than the Indiana statewide average. In addition, it appears that NIPSCO has been the subject of a large number of service complaints. According to a September 12, 1999 South Bend Tribune article, Ryan Soultz, Indiana Regulatory Commission Public Information Director, is quoted as stating that NIPSCO "does have a fairly large number of complaints versus other utilities of similar size." (See Attachment 5). Given the concerns stated by the Indiana Utility Regulatory Commission official, the Ohio Schools submit that the interests of Columbia-Ohio's jurisdictional ratepayers may be adversely affected by NiSource's control of Columbia and that NiSource may not possess the technical capabilities necessary to continue to serve the public convenience and necessity.

10. Additionally, it is clear that the merger has already affected the credit ratings of CEG. Following announcement of the merger, CEG's credit rating was downgraded by Fitch IBCA and Standard & Poors Corp. Fitch IBCA said its downgrade "primarily reflects the substantial new debt required to fund the transaction and the credit implications of the post-merger company structure, which is expected to be 70% debt and 30% equity." Importantly, Fitch stated that "In addition, regardless of financial and operating performance at each of the units, both Columbia and NIPSCO will face additional ongoing risks as operating subsidiaries of a more highly leveraged and financially weakened parent holding company." (See Attachment 2). To finance the

merger, NiSource has accepted a commitment letter in which it will enter into a revolving credit financing with a consortium of financial institutions in the amount of \$6 billion. NiSource expects that cash payments to CEG shareholders in the merger will range from approximately \$4 billion to \$6 billion. Together with NiSource's assumption of about \$2.4 billion of CEG's existing debt, NiSource will be extremely highly leveraged after the merger. Standard & Poors stated that although NiSource intends to gradually lower its debt levels through sales of strategic assets and other measures, Standard & Poors "no longer has confidence that the ratings of Columbia Energy will benefit from this transaction." (See Attachment 2). This debt level undoubtedly will increase NiSource's cost of borrowing and likely result in a downgrade of NiSource's credit rating. Such increases in debt leverage and borrowing costs may lead to disposition of assets - potentially other critical assets necessary to serve the Ohio Schools and other Columbia-Ohio customers - or other measures to raise badly needed cash, which may adversely affect Columbia-Ohio's jurisdictional ratepayers in the future.

11. The Ohio Schools are concerned about other potential consequences of the merger upon them and the State of Ohio. For example, there has been no public written commitments by NiSource filed at this Commission guaranteeing that there will be no reduction in the number of Columbia-Ohio employees, or closure of Columbia-Ohio facilities throughout the state, including Columbia-Ohio's Columbus headquarters. The loss of income and other tax revenues to Ohio Schools from any such downsizing or closure adversely affects the Ohio Schools financially, and the State of Ohio. Absent firm commitments on the part of NiSource, Columbia-Ohio's employees may be laid off, or transferred out-of-state by NiSource. NiSource is an out-of-state utility that has made

no written commitments to the Ohio Schools or this Commission as to its intentions about financial support to the communities Columbia-Ohio serves in Ohio, and to the schools in this State.

12. As a result of the merger between CEG and NiSource, a transfer of 100% of the ownership and control of Columbia-Ohio will occur. The Commission consistently has asserted its jurisdiction over these transactions, even when the merger takes place at the holding company level, to ensure that the affected regulated entity will continue to have the financial and technical capability to serve the public convenience and necessity. As to mergers involving natural gas utilities, the Commission has explained its rationale as follows:

The Commission's general supervisory powers under Sections 4905.05 and 4905.06, Revised Code, authorize the Commission to assert supervisory jurisdiction over companies owning public utilities when the Commission determines such action is necessary to protect the interest of consumers of the public utility. The interests of consumers of a public utility are at stake whenever, among other factors, control of the public utility or its holding company is transferred, or the normal and necessary operations of the public utility, such as its ability to access capital markets at reasonable costs, are or may be adversely affected due the activities undertaken by or circumstances affecting the public utility's holding company."

In the Matter of the Application of National Gas & Oil Company Concerning Issuance of Securities, Case No. 91-1394-GA-AIS (August 22, 1991), at 3. Emphasis added. See, also, In the Matter of The East Ohio Gas Company, Case No. 96-991-GA-UNC (December 19, 1996); In the Matter of the Application of The East Ohio Gas Company and The River Gas Company for Authority to Merge, Case No. 94-791-GA-UNC (June 23, 1994); In the Matter of Northeast Ohio Natural Gas Company, Ohio Interstate Transmission Company, and MB Operating Company, Case No. 94-791-GA-UNC; In the

Matter of Suburban Fuel Gas, Inc. and Consumers Natural Gas Company, Case No. 88-427-GA-ATR.¹

13. Columbia likely will rely on the Consolidated Natural Gas Company/Dominion Resources, Inc. merger in which the Commission did not elect to conduct a formal investigation or hold a public hearing of the proposed merger which affected East Ohio Gas Company. Rather, absent a request such as the Ohio Schools are making, the Commission's Staff conducted an informal investigation of the merger and negotiated commitments "to protect Ohio's ratepayers." See Docket No. 93-6000-GA-FAD (Letter, September 2, 1999). In light of the compelling reasons presented by the Ohio Schools' petition, the Commission must initiate a formal proceeding and open this process to all interested persons to compile a full record of how the proposed merger will affect Columbia-Ohio's technical and financial capabilities and the public interest.

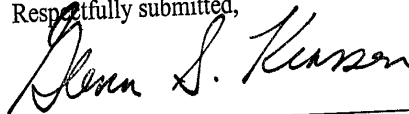
CONCLUSION

WHEREFORE, for the reasons stated herein, the Ohio Schools respectfully request the Commission to:

¹ As to merger involving electric utilities see, e.g., *In the Matter of the Application of The Cleveland Electric Illuminating Company and The Toledo Edison Company for Authority to Merge The Toledo Edison Company into The Cleveland Electric Illuminating Company*, Case No. 94-1150-EL-UNC (December 1, 1994). As to mergers involving telecommunications utilities see, e.g., *In the Matter of the Joint Application of Cellular Communications, Inc. and PacTel Corporation for Approval, If Required, of the Purchase and Sale of Capital Stock and of the Formation of a Joint Venture, New Par, to Operate Their Cellular Companies in Ohio*, Case No. 91-467-RC-UNC (May 16 1991), and the line of cases cited therein. Indeed, the Commission even has exercised its supervisory powers when a Commission-jurisdictional water utility was to be transferred to a non-jurisdictional county board of commissioners. See *In the Matter of the Application of Shawnee Hills Utility Company to be Removed from the Roll of Public Utilities Subject to the Jurisdiction of the Public Utilities Commission of Ohio*, Case No. 909-1088-WW-UNC (August 16, 1990), at 2 ("In cases such as this, where a regulated utility is transformed into a nonregulated one, the Commission has also found it appropriate to exercise its authority pursuant to Sections 4905.05 and 4905.06, Revised Code, to insure that the proposed transfer results in continuous and adequate service to the utility's existing customers.")

1. Exercise jurisdiction under the Commission's general supervisory powers set forth in R. C. §§ 4905.05 and 4905.06 and its authority on its own initiative under R.C. § 4905.26 with respect to the practices affecting Ohio jurisdictional public utilities to require CEG and Columbia-Ohio to file an application to request Commission approval of the merger in order that the Commission may adequately investigate the consequences to Ohio ratepayers of the proposed CEG/NiSource merger;
2. Order public hearings on the consequences of the proposed merger on Columbia-Ohio's jurisdictional ratepayers; and
3. Grant such other relief as the Commission may deem necessary or appropriate.

Respectfully submitted,




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Governments, Lake Erie Regional Council
of Governments and the Ohio Schools
Council

CERTIFICATE OF SERVICE

I hereby certify that the foregoing Petition of Ohio Schools for the Commission to Require a Merger Filing and to Exercise Jurisdiction Over and Investigate the Consequences to Ohio Ratepayers of the Proposed Merger of Columbia Energy Group and NiSource, Inc. was hand-delivered to John W. Bentine, Chester Willcox and Saxbe LLP, Suite 900, 17 South High Street, Columbus, Ohio 43215, attorney for NiSource, Inc. and Andrew J. Sonderman, Columbia Gas of Ohio, Inc., 200 Civic Center Drive, Columbus, Ohio 43216-0117, attorney for Columbia Energy Group and Columbia Gas of Ohio, Inc. this 2nd day of May, 2000.



Glenn S. Krassen

executed and delivered by the Company, and, assuming due authorization, execution and delivery of this Agreement by Parent, is

ATTACHMENT 1

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a valid and legally binding agreement of the Company enforceable against the Company in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles (the "BANKRUPTCY AND EQUITY EXCEPTION").

(ii) As of the date hereof the Board of Directors of the Company (A) has approved and declared advisable this Agreement and adopted the plan of merger relating to the Company set forth herein and has resolved to recommend that the shareholders of the Company approve this Agreement and (B) has received the opinion of its financial advisors, Morgan Stanley Dean Witter & Co., Inc. ("MORGAN STANLEY") and Salomon Smith Barney Inc., to the effect that the consideration to be received by the holders of the Shares in the Company Merger pursuant to this Agreement is fair from a financial point of view to such holders.

(d) GOVERNMENTAL FILINGS; NO VIOLATIONS.

(i) Other than any reports, filings, registrations, approvals and/or notices (A) required to be made pursuant to Section 2.3, (B) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR ACT"), the Securities Act of 1933, as amended (the "SECURITIES ACT"), and the Securities Exchange Act of 1934 (the "EXCHANGE ACT"), (C) with, to or of the Federal Energy Regulatory Commission (the "FERC"), (D) with, to or of the Kentucky Public Service Commission, the Maryland Public Service Commission, the Public Utilities Commission of Ohio, the Pennsylvania Public Utility Commission, the Virginia State Corporation Commission and the West Virginia Public Service Commission; (E) with, to or of the Securities and Exchange Commission (the "SEC") under the 1935 Act; (F) to comply with applicable Environmental Laws (as defined in Section 5.1(k)); (G) with, to or of The Bermuda Registrar of Companies; (H) with, to or of the Vermont Commissioner of Banking, Insurance, Securities and Health Care Administration; and (I) to comply with the rules and regulations of the New York Stock Exchange, Inc. (the "NYSE"), no notices, reports, registrations or other filings are required to be made by the Company with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by the Company from, any governmental or regulatory authority, agency, commission, body or other governmental entity (each a "GOVERNMENTAL ENTITY"), in connection with the execution and delivery of this Agreement by the Company and the consummation by the Company of the Company Merger and the other transactions contemplated hereby, except for those that the failure to make or obtain are not, individually or in the aggregate, reasonably likely to have a Company Material Adverse Effect or prevent, materially delay or materially impair the ability of the Company to consummate the transactions contemplated by this Agreement.

(ii) The execution, delivery and performance of this Agreement by the Company do not, and the consummation by the Company

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(ii) Prior to the Effective Time, Parent will have taken all necessary action to permit Holdco to issue the number of Holdco Shares and Holdco Units or to permit Parent to issue the number of Parent Units, as the case may be, required to be issued pursuant to Articles II and III. The Holdco Shares and Holdco Units or the Parent Units, as the case may be, when issued, will be validly issued, fully paid and nonassessable, and no shareholder of Parent will have any preemptive right of subscription or purchase in respect thereof. The Holdco Shares and Holdco Units or the Parent Units, as the case may be, when issued, will be registered under the Securities Act and Exchange Act and registered or exempt from registration under any applicable state securities or "blue sky" laws.

(iii) As of the date hereof the Board of Directors of Parent (A) has approved and declared advisable this Agreement and adopted the plan of merger relating to Parent set forth herein and has resolved to recommend that the shareholders of Parent approve this Agreement and (B) has received the opinion of its financial advisor Credit Suisse First Boston to the effect that the Merger Consideration or the Alternate Structure Merger Consideration, as the case may be, is fair to Parent from a financial point of view.

(c) GOVERNMENTAL FILINGS; NO VIOLATIONS.

(i) Other than any reports, filings, registrations, approvals and/or notices (A) required to be made pursuant to Section 2.3, (B) required to be made under the HSR Act, the Securities Act and the Exchange Act, (C) with, to or of the SEC under the 1935 Act, (D) with, to or of the FERC, (E) required to be made with the NYSE and (F) with, to or of the Kentucky Public Service Commission, the Maryland Public Service Commission, the Public Utilities Commission of Ohio, the Pennsylvania Public Utility Commission, the Virginia State Corporation Commission, the West Virginia Public Service Commission and the Maine Public Utilities Commission, no notices, reports, registrations or other filings are required to be made by Parent with, nor are any consents, registrations, approvals, permits or authorizations required to be obtained by Parent from, any Governmental Entity, in connection with the execution and delivery of this Agreement by Parent and the consummation by Parent of the Mergers and the other transactions contemplated hereby, except for those that

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the failure to make or obtain would not be reasonably likely to have, either individually or in the aggregate, a Parent Material Adverse Effect or prevent, materially delay or materially impair the ability of Parent to consummate the transactions contemplated by this Agreement.

(ii) The execution, delivery and performance of this Agreement by Parent do not, and the consummation by Parent of the Merger and the other transactions contemplated hereby will not, constitute or result in (A) a breach or violation of, or a default under, either the certificate of incorporation or by-laws of Parent or the comparable governing instruments of any of Parent's Subsidiaries, (B) a breach or violation of, or a default under, or the acceleration of any obligations, the loss of any right or benefit or the creation of a lien, pledge, security interest or other encumbrance on the assets of Parent or any of its Subsidiaries (with or without notice, lapse of time or both) pursuant to any Contracts binding upon Parent or any of its Subsidiaries or any Law or governmental or non-governmental permit or license to which Parent or any of its

looking at the true value of Columbia." He pointed out that Columbia Energy had alluded to other, unnamed suitors it said were willing to pay more than \$ 74/share, but those potential buyers did not materialize.

Meanwhile, Neale touted the combined company as "the leading gas competitor within the key energy corridor between the Gulf Coast and the Northeast. It will be a super-regional energy company with complementary market areas and no asset overlap. Scale and geography are critical to success in the evolving competitive energy industry, and we will have the size and scope necessary to compete and win."

Neale asserted that shareholders of the combined firm "can expect significant growth in earnings per share on a going-forward basis." He told the analysts the combined company's growth target will be 10% annually.

NiSource has built its holdings substantially over the last two years. In early 1999 it purchased TPC Corp., which controls more than 20 Bcf of storage capacity. The previous year it bought Bay State and its subsidiary, Northern Utilities Inc.

Consolidating its marketing company, NESI Energy Marketing, with the TPC assets, NiSource renamed the wholesale arm EnergyUSA-TPC. Neale said NiSource intends to continue to base its wholesale trading around its physical assets and won't be "a wholesale trader as such." But the combined company's scope will provide it with many weather and geographic arbitrage opportunities, he said, such as the ability to move gas eastward from Chicago.

NiSource owns Crossroads Pipeline Co., which runs from Schererville, Ind., to Cygnet, Ohio. Crossroads can receive gas from Natural Gas Pipeline Co. of America, Trunkline Gas Co. and Panhandle Eastern Pipe Line Co., and can deliver supply to points that include NIPSCO's system and Columbia Gas Transmission Corp. at Cygnet.

In the retail market, NiSource's EnergyUSA unit is participating in several customer-choice programs, including that of Columbia Gas of Ohio Inc. Neale repeatedly pointed to looming opportunities in distributed generation, a potential source of gas demand that he said "has not been addressed by anybody" and that he has recently touted in his role as chairman of the American Gas Assn.

Following the announcement, NiSource's stock plunged more than 16% to its lowest level in more than a year, closing at \$ 13/share. As of Tuesday, it stood at \$ 13.69/share.

Two agencies lowered their ratings on Columbia Energy following announcement of the deal. Fitch IBCA said its downgrade "primarily reflects the substantial new debt required to fund the transaction and the credit implications of the post-merger company structure," which is expected to be about 70% debt and 30% equity.

"In addition, regardless of financial and operating performance at each of the units, both Columbia and NIPSCO will face additional ongoing risk as operating subsidiaries of a more highly leveraged and financially weaker parent holding company," Fitch IBCA said.

Standard & Poor's Corp. revised its rating downward to reflect "an increase in consolidated debt leverage." While NiSource's purchase price is slightly lower than the tender offer it made in October, NiSource expects to issue \$ 216 million more in debt than under the October offer, according to S&P. And although NiSource intends to gradually lower its debt level through sales of nonstrategic assets and other measures, S&P "no longer has confidence that the ratings of Columbia Energy will benefit from the present transaction."

S&P said the purchase is consistent with NiSource's strategy of investing primarily in low-risk distribution, since for the combined company gas distribution alone would account for nearly 60% of earnings before interest and taxes. That approach "contrasts with the strategy of Columbia Energy, which is focusing increasingly on unregulated activities, such as energy marketing and investments in merchant electric generating plants, to spur growth," S&P commented.

The companies anticipate that the deal will result in annual cost savings of about \$ 100 million to \$ 150 million, mainly from duplicative administrative and procurement operations in NiSource's Indiana headquarters and Columbia Energy's Virginia offices.

However, Neale pointed out that there is "no overlap whatsoever" in the companies' gas and electricity operations. He also noted that no gas or electric customers will see rate increases as a result of the combination.

Richard could not be reached for further comment, and Columbia Energy officials declined to discuss the deal beyond a news release issued jointly by the two firms. However, in a Securities and Exchange Commission filing last summer, it became clear that top Columbia Energy executives would not suffer if their company were sold.

The filing described "parachute" payments for three top officials amounting to three years' salary in a lump sum if they leave because control of the company changes hands. One category of parachute payments would apply to Richard; Peter Schwolsky, senior vice president and chief legal officer; and Catherine Good Abbott, CEO of Columbia Gas Transmission Corp. and Columbia Gulf Transmission Co.

If those executives terminate their employment with Columbia Energy because control of the company changes, they would be entitled to three years' salary, incentive compensation, all unexpired and unexercised stock options, outplacement services and three years of health and fringe benefits.
URL: <http://www.mhenergy.com/demos/gas/index.html>

LANGUAGE: ENGLISH

COMPANY: COLUMBIA ENERGY GROUP (97%); NISOURCE INC (96%); BAY STATE GAS CO (57%); NORTHERN INDIANA PUBLIC SERVICE CO (57%);

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Inside F.E.R.C.'s Gas Market Report

ATTACHMENT 3

July 23, 1999

SECTION: MERGERS/ACQUISITIONS; Pg. 8

LENGTH: 990 words

HEADLINE: NISOURCE'S NEALE ACCUSES COLUMBIA OF LYING, ENRICHING TOP EXECUTIVES

BODY:

In the latest chapter of the ongoing hostile takeover saga between NiSource Inc. and Columbia Energy Group, NiSource chief Gary Neale this week accused Columbia Energy Group's top executive of making "false and misleading" statements and of "enriching" himself and other senior officials.

Neale -- NiSource's chairman, president and chief executive officer -- said in a letter that Oliver Richard III, Columbia Energy's chairman, president and chief executive, and Michael O'Donnell, its chief financial officer, "repeatedly mischaracterized the financing for NiSource's offer" last week during Columbia Energy's second-quarter earnings conference call for investors.

In a separate allegation, Neale stated that Richard had failed to inform Columbia Energy shareholders that the company's board had substantially increased the "golden parachutes" for Richard and two other senior executives, as well as approved new parachutes for 27 other managers.

"These enrichments, which will cost Columbia [Energy] shareholders tens of millions of dollars, were approved by your board the day before the conference call," Neale asserted. "Surely Columbia [Energy] shareholders deserve to know that on top of the resources that you are devoting to restricting our meeting, you are willing to enrich yourselves at the expense of your shareholders and your customers in the event of a change of control."

The "parachute" payments would give three top Columbia Energy officials three years' salary in a lump sum if they leave because control of the company changes, according to a Securities and Exchange Commission filing. Columbia Energy's board last week approved the changes in employee agreements "after consideration of the potentially destabilizing effects of the pendency of the NiSource tender offer on the morale and retention of company employees," the filing stated.

One category of parachute payments would apply to Richard; Peter Schwolsky, senior vice president and chief legal officer; and Catherine Good Abbott, CEO of Columbia Gas Transmission Corp. and Columbia Gulf Transmission Co. If those executives terminate their employment with Columbia Energy because control of the company changes, they will be entitled to three years' salary, incentive compensation, all unexpired and unexercised stock options, outplacement services and three years of health and fringe benefits.

"Key executive agreements" apply to another eight executives and "key management agreements" to 19 additional officials. Those executives are not

News Release

August 9, 1999

**ANNUAL ELECTRIC BILL SURVEY RELEASED
AVERAGE BILL STILL LOWER THAN IT WAS IN 1996**

The Indiana Utility Regulatory Commission (IURC) has completed its annual comparison of residential electric rates for the 42 electric utilities under its jurisdiction.

Based on the survey, the IURC has determined that the average monthly residential electric bill of the surveyed utilities has increased by \$0.74 for 1,000 kWh since last year. The average residential bill for 1,000 kWh per month of the 42 utilities surveyed on July 1, 1999, is \$65.51. The average residential bill in 1998 based on that same usage was \$64.77. In 1997, the average bill was \$64.82, and in 1996, it was \$67.03.

Indiana's six investor-owned electric utilities are ranked according to billing, from highest to lowest in the following order: NIPSCO, 1st; West Harrison Gas & Electric, 6th; SIGECO, 11th; Cinergy/PSI, 16th; IPL, 18th; and AEP, 40th.

The ranking for the residential electric bills is current as of July 1, 1999, based on the rates and charges currently on file with the IURC for each of the surveyed utilities. Changes in the ranking may occur based upon rate adjustments approved after July 1, 1999.

AEP's rates are lower this year than last year due, in part, to a settlement agreement approved by the IURC that brought the investigation of the D.C. Cook Nuclear Power Plant outage to a close. As part of the settlement, AEP's 544,000 Indiana customers will benefit from a \$55 million credit during the months of July, August, and September 1999. The credit will reduce the bill of an average residential customer by approximately \$14 a month during this three-month period.

Last year's bill survey included 53 utilities. The list today includes 42 electric utilities due to the withdrawal from IURC jurisdiction of Bluffton Municipal, Flora Municipal, Scottsburg Municipal, Troy Municipal, Decatur County REMC, Jay County REMC, Kanakee Valley REMC, Orange County REMC, South Central Indiana REMC, Southeastern Indiana REMC, and Steuben County REMC.

Attached are the actual rankings for the utilities at various usage levels as well as an alphabetical listing by utility type: municipal, REMC/CO-OP or investor-owned. Also attached are current and ten-year comparison charts.

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RESIDENTIAL ELECTRIC BILLS FOR USAGE ON 7/1/99
IURC ENGINEERING DIVISION

NO.	NAME	500 kWh	1000 kWh	1500 kWh	2000 kWh
1	Northern Indiana Public Service Co.	51.13	95.22	139.30	183.38
2	Marshall County REMC	47.70	83.60	115.30	147.00
3	Wabash County REMC	45.09	80.19	104.08	127.97
4	Johnson County REMC	43.79	77.66	105.83	134.00
5	Newton County REMC	44.91	76.65	104.76	132.87
6	West Harrison Gas & Electric Co.	40.00	76.00	111.99	147.99
7	Kingsford Heights Municipal	38.92	74.09	109.27	144.45
8	Jackson County REMC	44.49	73.98	103.47	132.96
9	Boonville Municipal	38.09	73.47	108.86	144.24
10	Fulton County REMC	42.09	73.11	100.30	127.48
11	Southern Indiana Gas & Electric Co.	40.06	72.39	104.72	137.05
12	Northeastern REMC	41.50	71.05	100.61	130.16
13	Harrison County REMC	41.32	70.01	96.07	115.94
14	Paulding-Putnam REMC	40.08	69.41	98.74	122.08
15	PSI Energy	43.74	69.36	91.04	112.70
16	Utilities District of Western Indiana	41.74	68.79	95.84	122.89
17	Bargersville Municipal	38.24	67.92	91.86	115.79
18	Indianapolis Power & Light Co.	44.37	66.23	88.10	109.96
19	Garrett Municipal	36.28	64.65	90.74	116.27
20	Covington Municipal	35.10	64.65	92.01	119.26
21	Paoli Municipal	34.82	64.10	90.39	116.67
22	Straughlin Municipal	32.52	63.24	93.97	124.69
23	Columbia City Municipal	34.97	62.44	89.92	117.39
24	Mishawaka Municipal	35.81	61.64	87.46	113.28
25	Crawfordsville Municipal	34.22	61.47	88.71	115.96
26	Anderson Municipal	34.61	60.79	85.08	109.37
27	Lebanon Municipal	33.51	60.26	83.20	106.14
28	Logansport Municipal	34.23	59.90	83.24	105.61
29	Edinburgh Municipal	31.04	59.77	88.50	117.23
30	Knightstown Municipal	31.66	59.05	82.48	105.91
31	Washington Municipal	33.50	58.56	83.62	105.59
32	Greenfield Municipal	31.04	58.55	80.06	101.57
33	Frankfort Municipal	34.14	58.00	81.86	101.43
34	Tipton Municipal	31.73	57.98	82.12	106.27
35	Richmond Municipal	34.96	57.87	80.79	101.97

36	Frankton Municipal	31.89	56.69	81.49	103.34
37	South Whitley Municipal	29.34	56.26	79.18	102.10
38	Lawrenceburg Municipal	31.35	55.99	76.14	96.28
39	Peru Municipal	30.90	55.77	79.17	102.57
40	American Electric Power Co. (I&M)	32.95	54.48	76.01	97.54
41	Auburn Municipal	27.24	49.48	71.72	93.95
42	Centerville Municipal	26.16	48.72	71.28	93.84
AVERAGE		\$36.93	\$65.46	\$92.13	\$118.17

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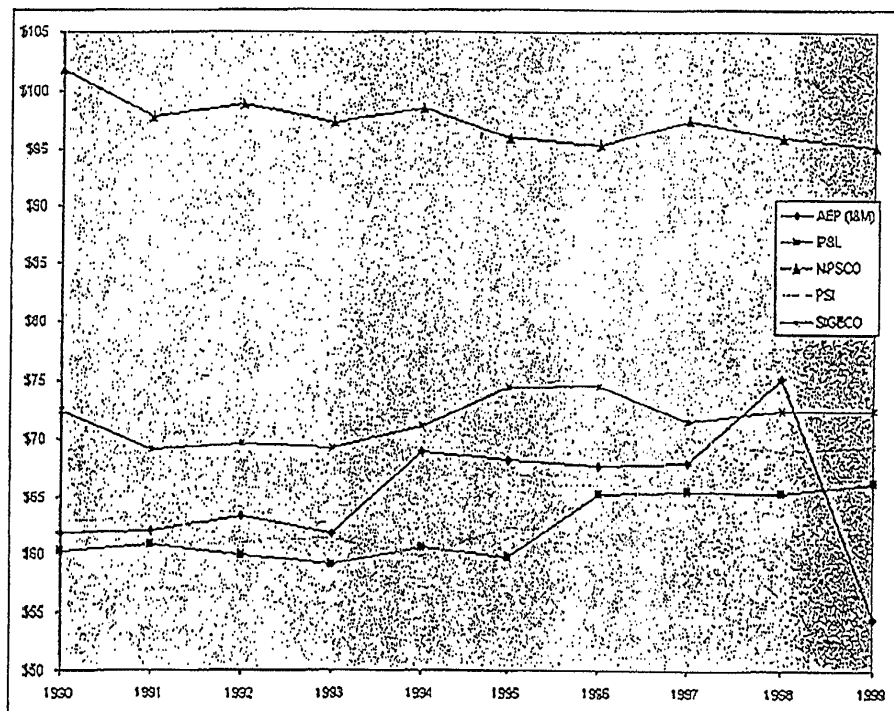
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Ten Year

10 Year Comparison of Investor Owned Utility Residential Electric Bills at 1,000 kWh

	5 Years		10 Years	
AEP (I&M)	(\$14.41)	-20.9%	(\$7.44)	-12.0%
IP&L	\$5.52	9.1%	\$5.92	9.8%
NIPSCO	(\$3.32)	-3.4%	(\$6.54)	-6.4%
PSI	\$9.46	15.8%	\$6.56	10.4%
SIGECO	\$1.38	1.9%	(\$0.01)	0.0%

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
AEP (I&M)	\$61.92	\$62.12	\$63.32	\$61.84	\$68.89	\$68.11	\$67.63	\$67.90	\$75.05	\$54.48
IP&L	60.31	60.86	60.04	59.22	60.71	59.79	65.24	65.39	65.37	66.23
NIPSCO	101.76	97.72	98.82	97.31	98.54	95.94	95.32	97.36	95.98	\$95.22
PSI	62.80	63.46	61.09	61.41	59.90	62.35	61.80	69.96	68.83	\$69.36
SIGECO	72.40	69.05	69.61	69.20	71.01	74.38	74.56	71.44	72.41	72.39



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Takeover try spurs utility battle

By JASON W. GINGERICH
Tribune Staff Writer

A hostile takeover attempt of Columbia Energy Group by NiSource, parent company of NIPSCO, has the two utilities involved in a public-relations battle.

Columbia Energy Group ran full-page ads in newspapers across Northern Indiana on Thursday accusing NiSource of charging high rates, providing poor service and opposing utility competition.

Last week, Reuters news agency reported NiSource has placed newspaper ads and sponsored an Oktoberfest celebration and a music festival in towns where Columbia has operations.

NiSource, headquartered in Merrillville, Ind., serves gas and electric customers in much of Northern Indiana through its Northern Indiana Public Service Co. subsidiary. The company made a tender offer of \$68 a share in June.

The Herndon, Va.,-based Columbia rejected the offer as inadequate.

For NiSource, the stakes are high. With deregulation and increasing competition on the horizon, energy companies are under pressure to merge, according to spokeswoman Maria Hibbs. Her comments suggest that if this merger falls through, NiSource might be on the other end of a merger.

"In order for these companies to compete, they need to be of sufficient size, scale and profitability," she said.

"We would prefer to grow and take the initiative ourselves because we believe that's good for the community."

Despite the hostile bid, NiSource needs the cooperation of Columbia's board to complete the acquisition; as of Aug. 9, 60 percent of Columbia's shares had been tendered, according to NiSource.

In order to force changes to the operations of the company, NiSource would need to replace a majority of Columbia's board, which would take some time because the board operates on staggered terms. In addition, the merger would need to meet approval at the federal and state levels.

To press its case, NiSource has filed three lawsuits against Columbia, alleging that Columbia has made false statements about the tender offer, that Columbia doesn't have enough board members and that a share buyback program initiated since the tender offer interferes with NiSource's efforts.

NiSource's stock closed at 23 7/16 Thursday, up 3/16. Columbia's stock closed down 3/16 at 58 1/16.

Ryan Soultz, Indiana Utility Regulatory Commission public information director, said NIPSCO "does have a fairly large number of complaints versus other utilities of similar size."

NiSource spokeswoman Hibbs, however, deflected criticism of NIPSCO's service record, saying that NIPSCO serves only gas customers in South Bend. But NIPSCO does provide electric service to customers in outlying area.

Hibbs also noted that NIPSCO's electric rates are higher because of environmental control equipment the company must use on its generating plants. She said the company's electric rates are lower than other companies in the Chicago market.

On the competition issue, Hibbs noted that NIPSCO pioneered competition for natural gas service in the state. Out of the company's more than 1 million gas customers, 15,500 have selected a different gas supplier.

Columbia boasts of having 500,000 customers on its Choice program. Hibbs gave her reason for Columbia customers' higher participation.

"Their rates are high."

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