

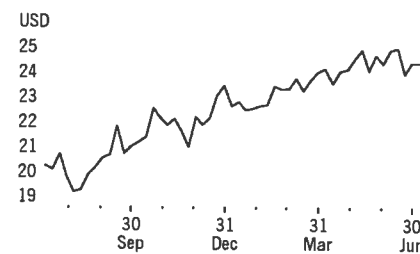
NiSource Inc (NI)

Utica JV Announced; Room for Further Growth; Maintain Neutral

■ Company Update

Neutral	2
Price (09 Jul 12)	US\$24.31
Target price	US\$24.00
Expected share price return	-1.3%
Expected dividend yield	3.9%
Expected total return	2.7%
Market Cap	US\$6,906M

Price Performance
 (RIC: NI.N, BB: NI US)



■ **Transaction** — This morning NiSource announced the details of their much-awaited JV within the Utica. It will be in the form a joint venture with Hilcorp Energy Company, a privately owned E&P company. The deal involves a midstream and E&P component. The first part of the deal is a 50/50 JV for \$300 mm, in which NI will build out the pipeline and G&P infrastructure in the Utica Shale/Western Marcellus (Columbiana County). The upstream portion of the deal involves NI monetizing its mineral rights in Ohio (~15k acres) giving the company the option to expand its infrastructure presence and expand its royalty stream in the future as development in the Utica grows. Hilcorp is expected to contribute the majority of acreage to the JV and will be responsible for developing the region.

■ **Upstream** — NI plans to monetize their mineral rights position in the Utica by combining their acreage with Hilcorp, and participate in the JV as a non-operating owner. We estimate NI has ~100k acres in the Utica, of which they are placing 15k into the JV. The value of NI's acreage wasn't disclosed. We estimate it could be in the \$5,000-\$10,000/acre range based on recent transactions in the area.

■ **Midstream** — The midstream joint venture will be called Pennant Midstream, LLC. The first phase of the investment, planned for later this year, is for \$300 mm. It will require the build out of a 50 mile, 20-inch gathering pipeline in the Utica, along with an NGL processing plant with an initial capacity of 200 mmcf/d. NiSource will be the sole operator on the gathering system (400 mcf/d), with plans for expansion in the future. The upstream JV between the companies will serve as the anchor contract on the project, and be fully operation by 3Q13. We estimate the transaction is valued at 7X EBITDA, and could add an ~\$15-20 mm to NI's bottom line in 2013 (\$0.05-0.07 per share).

■ **Recommendation** — We maintain our Neutral rating & reiterate our \$24 target price. NI will hold an investor day in early September where more color on the transaction is to be covered & further opportunities within their Ohio footprint will be discussed.

EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	0.61A	0.18E	0.16E	0.44E	1.38E	1.44E
Previous	0.61E	0.18E	0.16E	0.44E	1.38E	na
2013E	0.69E	0.19E	0.16E	0.46E	1.51E	1.53E
Previous	0.69E	0.19E	0.16E	0.46E	1.51E	na
2014E	0.71E	0.22E	0.21E	0.48E	1.62E	1.62E
Previous	0.71E	0.22E	0.21E	0.48E	1.62E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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NI.N: Fiscal year end 31-Dec						Price: US\$24.31; TP: US\$24.00; Market Cap: US\$6,906m; Recomm: Neutral					
Profit & Loss (US\$m)						Valuation ratios					
	2010	2011	2012E	2013E	2014E		2010	2011	2012E	2013E	2014E
Sales revenue	5,816	5,967	6,107	6,337	6,529	PE (x)	20.4	18.9	17.7	16.1	15.0
Cost of sales	-2,976	-3,045	-2,962	-3,062	-3,142	PB (x)	1.4	1.4	1.3	1.4	1.4
Gross profit	2,840	2,922	3,145	3,275	3,387	EV/EBITDA (x)	10.9	11.3	10.2	9.4	8.8
Gross Margin (%)	48.8	49.0	51.5	51.7	51.9	FCF yield (%)	0.4	-1.9	-6.4	-4.3	-3.2
EBITDA	1,491	1,486	1,689	1,840	1,972	Dividend yield (%)	3.8	3.8	3.8	3.8	3.8
EBITDA Margin (%)	25.6	24.9	27.6	29.0	30.2	Payout ratio (%)	77	71	67	61	57
Depreciation	-543	-485	-583	-631	-678	ROE (%)	6.9	7.5	8.0	8.6	9.2
Amortisation	-54	-54	-54	-54	-54	Cashflow (US\$m)	2010	2011	2012E	2013E	2014E
EBIT	895	948	1,052	1,155	1,240	EBITDA	1,491	1,486	1,689	1,840	1,972
EBIT Margin (%)	15.4	15.9	17.2	18.2	19.0	Working capital	-414	-264	-137	-37	-41
Net interest	-392	-377	-409	-409	-409	Other	-249	-231	-632	-670	-714
Associates	15	15	12	32	38	Operating cashflow	828	991	920	1,133	1,216
Non-op/Except	4	-7	0	-10	-35	Capex	-804	-1,125	-1,397	-1,471	-1,471
Pre-tax profit	522	578	656	769	834	Net acq/disposals	1	0	0	0	0
Tax	-188	-207	-236	-284	-309	Other	-140	-24	0	0	0
Extraord./Min.Int./Pref.div.	3	-2	0	0	0	Investing cashflow	-943	-1,149	-1,397	-1,471	-1,471
Reported net profit	337	370	420	485	526	Dividends paid	-256	-258	-281	-296	-299
Net Margin (%)	5.8	6.2	6.9	7.7	8.1	Financing cashflow	211	281	140	-216	-219
Core NPAT	334	371	420	485	526	Net change in cash	38	73	-338	-553	-474
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	24	-134	-478	-338	-254
Reported EPS (\$)	1.21	1.28	1.38	1.51	1.62						
Core EPS (\$)	1.19	1.29	1.38	1.51	1.62						
DPS (\$)	0.92	0.92	0.92	0.92	0.92						
CFPS (\$)	2.96	3.44	3.01	3.53	3.74						
FCFPS (\$)	0.09	-0.47	-1.57	-1.05	-0.78						
BVPS (\$)	17.58	17.32	18.19	17.83	17.64						
Wtd avg ord shares (m)	278	286	303	321	325						
Wtd avg diluted shares (m)	280	288	305	321	325						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	-7.6	2.6	2.4	3.8	3.0						
EBIT (%)	6.5	5.9	11.0	9.8	7.3						
Core NPAT (%)	20.6	11.3	13.0	15.7	8.3						
Core EPS (%)	19.0	8.1	6.6	9.8	7.0						
Balance Sheet (US\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	212	172	161	161	161						
Accounts receivables	1,178	856	952	1,060	666						
Inventory	428	566	624	216	431						
Net fixed & other tangibles	13,156	14,129	14,890	15,091	15,289						
Goodwill & intangibles	3,986	3,975	3,975	3,975	3,975						
Financial & other assets	979	1,010	1,047	888	913						
Total assets	19,939	20,708	21,649	21,391	21,435						
Accounts payable	582	434	459	328	315						
Short-term debt	1,417	1,687	1,687	1,687	1,687						
Long-term debt	5,936	6,267	6,594	6,488	6,453						
Provisions & other liab	7,081	7,323	7,353	7,159	7,240						
Total liabilities	15,016	15,711	16,093	15,662	15,695						
Shareholders' equity	4,923	4,997	5,557	5,728	5,741						
Minority interests	0	0	0	0	0						
Total equity	4,923	4,997	5,557	5,728	5,741						
Net debt	7,141	7,782	8,120	8,015	7,979						
Net debt to equity (%)	145.0	155.7	146.1	139.9	139.0						

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NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of \$1.50 per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our \$24 target. Our NAV yields a value of \$25. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at \$24. Our P/E and EV/EBITDA multiples (2013 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x and 14.5x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8.0x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of \$24 and \$23.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

Appendix A-1

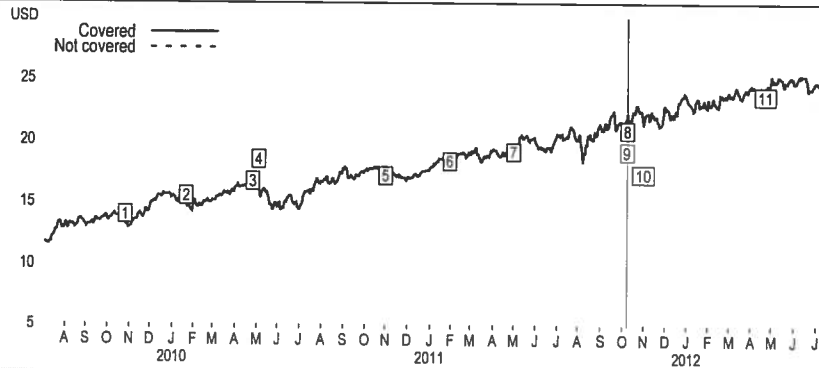
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NiSource Inc (NI) Ratings and Target Price History Fundamental Research

Analyst: Faisal Khan, CFA



Date	Rating	Target Price	Closing Price
1 27-Oct-09	1H	*15.00	13.47
2 21-Jan-10	*2M	*16.00	14.87
3 27-Apr-10	2M	*16.50	16.27
4 5-May-10	2M	*17.00	16.20

Date	Rating	Target Price	Closing Price
5 1-Nov-10	2M	*18.00	17.17
6 31-Jan-11	2M	*20.00	18.62
7 2-May-11	2M	*21.00	19.52
8 8-Oct-11	Stock rating system changed		

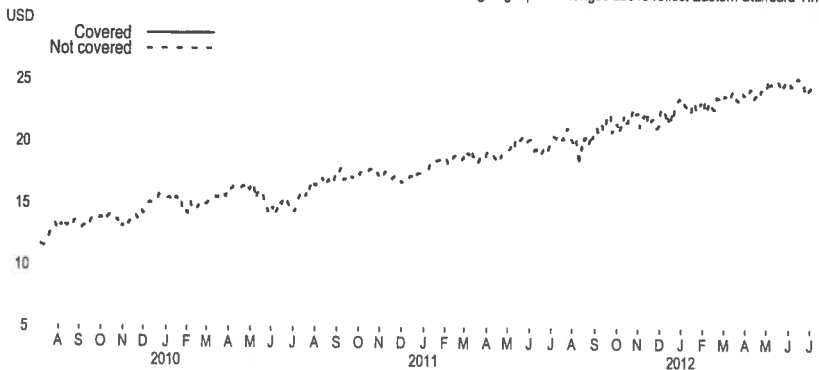
Date	Rating	Target Price	Closing Price
9 8-Oct-11	*2	21.00	21.55
10 1-Nov-11	2	*22.00	21.32
11 23-Apr-12	2	*24.00	24.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI) Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Faisal Khan, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 30 Jun 2012

Citi Research Global Fundamental Coverage % of companies in each rating category that are investment banking clients	12 Month Rating			Relative Rating		
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	53%	37%	10%	10%	80%	10%
	44%	43%	40%	48%	43%	45%

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Equities

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NiSource Inc (NI)

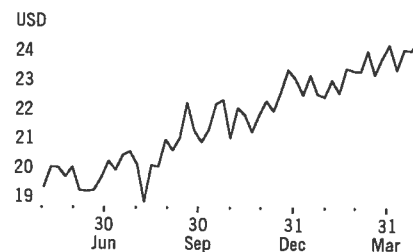
EPS Ahead of Expectations; Utica Build-Out Gains More Visibility

- **EPS (Ahead)** – NI reported adjusted EPS of \$0.67 per share (including weather impact), better than our estimate of \$0.61 per share, but lower than consensus of \$0.71 per share. Better performance at the pipelines and gas utilities drove the beat. Management reiterated 2012 EPS guidance of \$1.40 to \$1.50.
- **Pipelines (Ahead)** – 1Q EBIT was stronger than expected (\$139 mm vs. \$129 mm) on lower expenses and higher equity earnings (Millennium). Throughput volumes were down 3% Y-o-Y. Management continues to provide incremental clarity on the size and scope of the capex potential in the Utica. The company announced they were in advanced talks with a JV partner in the region that will monetize acreage, including downstream projects. Financial details are expected in the next few weeks.
- **Gas Utilities (Ahead)** – EBIT of \$212 mm was ahead of our revised expectations of \$205 mm (23% lower HDDs compared to normal & 25% lower HDDs Y/Y). The beat was due to lower expenses compared to our estimate. Total volumes, including the weather impact, were down 11%, but excluding weather were up nearly 4%. Col. Gas of MA filed a base rate case at the start of Q2 for ~\$30 mm related to modernization and infrastructure replacement. Industrial volumes were up Y/Y.
- **Electric (Below)** – Adjusted EBIT was \$46 mm, lower than our estimate of \$58 mm. This was due primarily to higher than expected costs at the utility. Total GW hours were ~3% lower than last year.
- **Recommendation** – We maintain our \$24 target price and Neutral rating pending additional analysis on NI's additional pipeline expansion projects. NI stock traded higher today on increased visibility of additional projects in the Marcellus/Utica and commentary on the potential use of the master limited partnership structure as a source of future capital.

Company Update

Neutral	2
Price (01 May 12)	US\$25.33
Target price	US\$24.00
Expected share price return	-5.3%
Expected dividend yield	3.6%
Expected total return	-1.6%
Market Cap	US\$7,188M

Price Performance (RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	0.61E	0.18E	0.16E	0.44E	1.38E	1.44E
Previous	0.61E	0.18E	0.16E	0.44E	1.38E	na
2013E	0.69E	0.19E	0.16E	0.46E	1.51E	1.52E
Previous	0.69E	0.19E	0.16E	0.46E	1.51E	na
2014E	0.71E	0.22E	0.21E	0.48E	1.62E	1.61E
Previous	0.71E	0.22E	0.21E	0.48E	1.62E	na

Source: Company Reports and dataCentral, CIR. FC Cons: First Call Consensus.

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NiSource Inc (NI)
1 May 2012

NI.N: Fiscal year end 31-Dec						Price: US\$25.33; TP: US\$24.00; Market Cap: US\$7,188m; Recomm: Neutral					
Profit & Loss (US\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	5,816	5,967	6,107	6,337	6,529	PE (x)	21.2	19.6	18.4	16.8	15.7
Cost of sales	-2,976	-3,045	-2,962	-3,062	-3,142	PB (x)	1.4	1.5	1.4	1.4	1.4
Gross profit	2,840	2,922	3,145	3,275	3,387	EV/EBITDA (x)	11.1	11.5	10.4	9.6	8.9
Gross Margin (%)	48.8	49.0	51.5	51.7	51.9	FCF yield (%)	0.3	-1.8	-6.2	-4.1	-3.1
EBITDA	1,491	1,486	1,689	1,840	1,972	Dividend yield (%)	3.6	3.6	3.6	3.6	3.6
EBITDA Margin (%)	25.6	24.9	27.6	29.0	30.2	Payout ratio (%)	77	71	67	61	57
Depreciation	-543	-485	-583	-631	-678	ROE (%)	6.9	7.5	8.0	8.6	9.2
Amortisation	-54	-54	-54	-54	-54	Cashflow (US\$m)	2010	2011	2012E	2013E	2014E
EBIT	895	948	1,052	1,155	1,240	EBITDA	1,491	1,486	1,689	1,840	1,972
EBIT Margin (%)	15.4	15.9	17.2	18.2	19.0	Working capital	-414	-264	-137	-37	-41
Net interest	-392	-377	-409	-409	-409	Other	-249	-231	-632	-670	-714
Associates	15	15	12	32	38	Operating cashflow	828	991	920	1,133	1,216
Non-op/Except	4	-7	0	-10	-35	Capex	-804	-1,125	-1,397	-1,471	-1,471
Pre-tax profit	522	578	656	769	834	Net acq/disposals	1	0	0	0	0
Tax	-188	-207	-236	-284	-309	Other	-140	-24	0	0	0
Extraord./Min.Int./Pref.div.	3	-2	0	0	0	Investing cashflow	-943	-1,149	-1,397	-1,471	-1,471
Reported net profit	337	370	420	485	526	Dividends paid	-256	-258	-281	-296	-299
Net Margin (%)	5.8	6.2	6.9	7.7	8.1	Financing cashflow	211	281	140	-216	-219
Core NPAT	334	371	420	485	526	Net change in cash	38	73	-338	-553	-474
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	24	-134	-478	-338	-254
Reported EPS (\$)	1.21	1.28	1.38	1.51	1.62						
Core EPS (\$)	1.19	1.29	1.38	1.51	1.62						
DPS (\$)	0.92	0.92	0.92	0.92	0.92						
CFPS (\$)	2.96	3.44	3.01	3.53	3.74						
FCFPS (\$)	0.09	-0.47	-1.57	-1.05	-0.78						
BVPS (\$)	17.58	17.32	18.19	17.83	17.64						
Wtd avg ord shares (m)	278	286	303	321	325						
Wtd avg diluted shares (m)	280	288	305	321	325						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	-7.6	2.6	2.4	3.8	3.0						
EBIT (%)	6.5	5.9	11.0	9.8	7.3						
Core NPAT (%)	20.6	11.3	13.0	15.7	8.3						
Core EPS (%)	19.0	8.1	6.6	9.8	7.0						
Balance Sheet (US\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	212	172	161	161	161						
Accounts receivables	1,178	856	952	1,060	666						
Inventory	428	566	624	216	431						
Net fixed & other tangibles	13,156	14,129	14,890	15,091	15,289						
Goodwill & intangibles	3,986	3,975	3,975	3,975	3,975						
Financial & other assets	979	1,010	1,047	888	913						
Total assets	19,939	20,708	21,649	21,391	21,435						
Accounts payable	582	434	459	328	315						
Short-term debt	1,417	1,687	1,687	1,687	1,687						
Long-term debt	5,936	6,267	6,594	6,488	6,453						
Provisions & other liab	7,081	7,323	7,353	7,159	7,240						
Total liabilities	15,016	15,711	16,093	15,662	15,695						
Shareholders' equity	4,923	4,997	5,557	5,728	5,741						
Minority interests	0	0	0	0	0						
Total equity	4,923	4,997	5,557	5,728	5,741						
Net debt	7,141	7,782	8,120	8,015	7,979						
Net debt to equity (%)	145.0	155.7	146.1	139.9	139.0						

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Earnings Comparison Table for Q1/2012

Figure 1. Actual vs. Estimates

Operating Income	Actual	Estimate	Variance	EPS Impact	Reason for Material Variance
Gas Distribution	212.0	205.2	3%	\$0.01	Warm weather, Lower Expenses
Gas Transmission & Storage	139.0	128.9	8%	\$0.02	Higher Equity earnings & Lower Expenses
Electric	46.2	57.7	-20%	(\$0.02)	Weather, Higher Costs
Corporate/Other	2.6	(9.8)	-127%	\$0.03	N/A
EBIT	399.8	382.1	5%	\$0.04	

Other	Actual	Estimate	Variance	EPS Impact	Reason for Variance
Interest Expense	(102.3)	(102.2)	0%	\$0.00	N/A
Effective Tax Rate	36%	36.0%	-1%	\$0.00	N/A
Share Count	293.1	291.6	1%	(\$0.00)	N/A

Gas Sales (Bcf)	Actual	Q1/11 Actuals	Variance (Total)	Variance (%)	Reason for Variance
Residential	102.9	134.5	(32)	-23%	
Commercial	61.2	77.6	(16)	-21%	
Industrial	131.3	118.9	12	10%	
Wholesale	13.5	17.5	(4)	-23%	
Other	0.1	0.3	(0)	-67%	
Total	309.0	348.8	(40)	-11%	

Electric Sales (Gwh)	Actual	Estimate	Variance (Total)	Variance (%)	Reason for Variance
Residential	781.2	860.1	(79)	-9%	
Commercial	907.8	929.5	(22)	-2%	
Industrial	2,385.0	2,454.6	(70)	-3%	
Wholesale	19.1	67.1	(48)	-72%	
Other	32.5	44.5	(12)	-27%	

Source: Citi Investment Research and Analysis

Figure 2. NiSource Project Pipeline

NGT&S Growth Projects

Project	Description	CapEx	In-Service*
Completed (2012)			
1	Line WB Expansion Marcellus: Additional Compression – between Loudoun, VA & Leach, KY (+175K Dth/Day)	\$14M	2Q 2012
2	Smithfield Project Marcellus: Pipeline and Compressor Modifications – near Smithfield, WV & Waynesburg, PA (+150K Dth/Day)	\$14M	2Q 2012
3	Ramersburg Expansion Marcellus: Line Expansion – North Central PA (+19K Dth/Day)	\$6M	2Q 2012
In Execution			
4	Big Pine Gathering System Marcellus: ~70 Miles of Pipeline with Multiple Intra-state Interconnections – Western PA (+425 MMcf/Day)	\$150M	Year-end 2012
5	Millennium Expansion Marcellus: Mainline Compression – Stagecoach to Romapo (+120K Dth/Day)	\$47M (PI) – \$122M	4Q 2012
6	VEPCO Power Plant Transportation Gas Generation: Pipeline to Service Virginia Electric Power's New 1,300 MW Plant (+250K Dth/Day)	\$35M	Mid 2014
7	West Side Expansion Marcellus: Transport Marcellus Gas South to Gulf Coast Markets (+500K Dth/Day)	\$220M	4Q 2014
In Development/Negotiations			
8	Utica Minerals JV Utica: Potential JV to Optimize Minerals Position and Midstream Investments – Including Gathering, Processing and Residue Line	TBD	TBD
9	East Side Expansion Marcellus: Connect Marcellus Gas to Growing Mid-Atlantic Markets (+500K Dth/Day)	TBD	TBD
In Evaluation			
10	"Fairway" Gathering & Processing Utica: 90 Miles of Gathering and 200 Mcf/Day of Processing – Eastern OH	TBD	TBD

* Projected

Source: Citi Investment Research and Analysis, Company reports



NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of \$1.40 per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our \$24 target. Our NAV yields a value of \$25. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at \$24. Our P/E and EV/EBITDA multiples (2013 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 14.5x and 14.5x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 7.5x and 8.0x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of \$24 and \$23.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

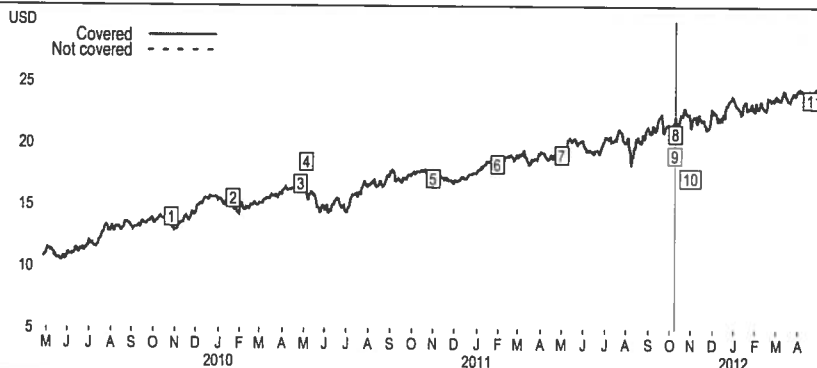
Appendix A-1

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NiSource Inc (NI)
 Ratings and Target Price History
 Fundamental Research
 Analyst: Faisal Khan, CFA



Date	Rating	Target Price	Closing Price
1 27-Oct-09	1H	*15.00	13.47
2 21-Jan-10	*2M	*16.00	14.87
3 27-Apr-10	2M	*16.50	16.27
4 5-May-10	2M	*17.00	16.20

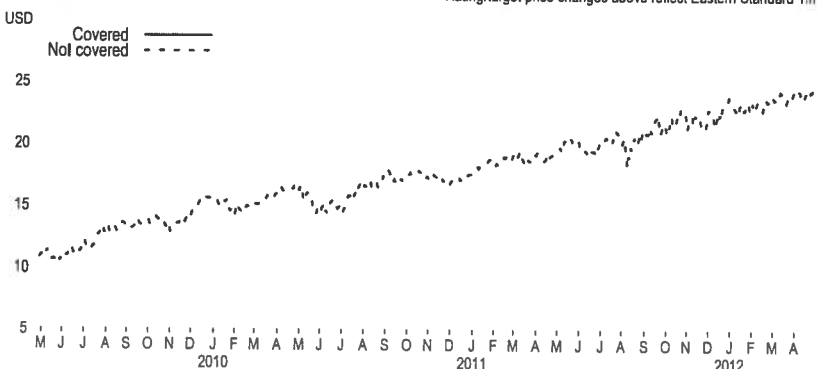
Date	Rating	Target Price	Closing Price
5 1-Nov-10	2M	*18.00	17.17
6 31-Jan-11	2M	*20.00	18.62
7 2-May-11	2M	*21.00	19.52
8 8-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
9 8-Oct-11	*2	21.00	21.55
10 1-Nov-11	2	*22.00	21.32
11 23-Apr-12	2	*24.00	24.30

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)
 Ratings and Target Price History
 Best Ideas Research
 Relative Call (3 Month)
 Analyst: Faisal Khan, CFA



* Indicates change

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NiSource Inc (NI)
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Data current as of 31 Mar 2012

	12 Month Rating			Relative Rating		
	Buy	Hold	Sell	Buy	Hold	Sell
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NiSource Inc (NI)
1 May 2012

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NiSource Inc (NI)
1 May 2012

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NiSource Inc (NI)

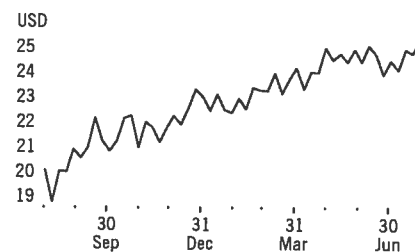
EPS Beat; All Segments Demonstrating Growth

- **EPS (Ahead)** – NI reported adjusted EPS of \$0.24 (including weather), above our estimate of \$0.20 and consensus of \$0.17. Operating results were strong across all segments, as infrastructure spending and the up-lift from rate cases continue to roll-out across the segments.
- **Pipelines (Below)** – 2Q EBIT was lower than we expected (\$92 mm vs. \$104 mm) on higher O&M. Revenues grinded higher on new growth projects. Equity earnings (Millennium) were up nearly 4X over last year on strong demand. NI is in advance stages of negotiation with its customers to potentially roll out a \$4BN pipeline replacement and modernization program over the next 10 years. We estimate rate base could grow 7% per annum at CGT. Over the long-run, the program could improve reliability and lower operating costs, which would represent an offset to an increase in rates.
- **Gas Utility (Ahead)** – EBIT was \$55 mm, ahead of our \$52 mm estimate on lower expenses. Results were buoyed by new rates related to infrastructure replacement programs (Col. Gas of OH) and a rate case (Col. Gas of PA). Distribution volumes were up ~5% over last year as a result of stronger industrial volumes.
- **Electric (Ahead)** – EBIT was \$60 mm vs. our estimate of \$48 mm. Cooling degree days were 64% above normal and expenses were lower driving the beat. Excluding weather, net revenues were up over last year, on the implementation of new rates and lower revenue credits to industrial customers.
- **Recommendation** – We maintain our Neutral rating and \$26 target price. We estimate NI could spend over \$1BN+ per annum in growth capital within all its operating segments through to least 2016. If this growth continued beyond 2016, our valuation could prove to be conservative. NI will hold an analyst meeting in New York on September 12th to outline its capital spending plans.

■ Company Update

Neutral	2
Price (30 Jul 12)	US\$25.63
Target price	US\$26.00
Expected share price return	1.4%
Expected dividend yield	3.7%
Expected total return	5.2%
Market Cap	US\$7,281M

Price Performance (RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	0.66A	0.20E	0.15E	0.41E	1.41E	1.45E
Previous	0.66A	0.20E	0.15E	0.41E	1.41E	na
2013E	0.71E	0.22E	0.18E	0.46E	1.56E	1.54E
Previous	0.71E	0.22E	0.18E	0.46E	1.56E	na
2014E	0.72E	0.25E	0.22E	0.52E	1.71E	1.64E
Previous	0.72E	0.25E	0.22E	0.52E	1.71E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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N.I.N: Fiscal year end 31-Dec						Price: US\$25.63; TP: US\$26.00; Market Cap: US\$7,281m; Recomm: Neutral					
Profit & Loss (US\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	5,816	5,967	5,771	6,432	6,678	PE (x)	21.5	19.9	18.2	16.4	15.0
Cost of sales	-2,976	-3,045	-2,809	-3,068	-3,155	PB (x)	1.5	1.5	1.4	1.5	1.5
Gross profit	2,840	2,922	2,962	3,364	3,523	EV/EBITDA (x)	11.1	11.5	10.2	9.1	8.2
Gross Margin (%)	48.8	49.0	51.3	52.3	52.8	FCF yield (%)	0.3	-1.8	-5.2	-6.4	-7.1
EBITDA (Adj)	1,491	1,486	1,720	1,949	2,142	Dividend yield (%)	3.6	3.6	3.6	3.7	3.7
EBITDA Margin (Adj) (%)	25.6	24.9	29.8	30.3	32.1	Payout ratio (%)	77	71	65	60	55
Depreciation	-543	-485	-594	-672	-737	ROE (%)	6.9	7.5	8.2	9.0	9.8
Amortisation	-54	-54	-54	-54	-54	Cashflow (US\$m)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	895	948	1,073	1,223	1,351	EBITDA	1,491	1,486	1,720	1,949	2,142
EBIT Margin (Adj) (%)	15.4	15.9	18.6	19.0	20.2	Working capital	-414	-264	-247	-67	-76
Net interest	-392	-377	-420	-427	-427	Other	-249	-231	-508	-718	-792
Associates	15	15	16	14	15	Operating cashflow	828	991	965	1,163	1,274
Non-op/Except	4	-7	0	-14	-52	Capex	-804	-1,125	-1,371	-1,691	-1,871
Pre-tax profit	522	578	669	795	887	Net acq/disposals	1	0	2	0	0
Tax	-188	-207	-237	-291	-328	Other	-140	-24	-4	0	0
Extraord./Min.Int./Pref.div.	3	-2	0	0	0	Investing cashflow	-943	-1,149	-1,373	-1,691	-1,871
Reported net profit	337	370	432	504	559	Dividends paid	-256	-258	-280	-304	-310
Net Margin (%)	5.8	6.2	7.5	7.8	8.4	Financing cashflow	211	281	39	-224	-230
Core NPAT	334	371	432	504	559	Net change in cash	38	73	-369	-752	-827
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	24	-134	-405	-528	-597
Reported EPS (\$)	1.21	1.28	1.41	1.56	1.71						
Core EPS (\$)	1.19	1.29	1.41	1.56	1.71						
DPS (\$)	0.92	0.92	0.92	0.94	0.95						
CFPS (\$)	2.96	3.44	3.15	3.60	3.90						
FCFPS (\$)	0.09	-0.47	-1.32	-1.64	-1.83						
BVPS (\$)	17.58	17.32	17.97	17.62	17.45						
Wtd avg ord shares (m)	278	286	305	323	327						
Wtd avg diluted shares (m)	280	288	307	323	327						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	-7.6	2.6	-3.3	11.5	3.8						
EBIT (Adj) (%)	6.5	5.9	13.2	14.0	10.5						
Core NPAT (%)	20.6	11.3	16.4	16.6	10.8						
Core EPS (%)	19.0	8.1	9.4	10.8	9.4						
Balance Sheet (US\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	212	172	150	150	150						
Accounts receivables	1,178	856	953	942	681						
Inventory	428	566	657	433	472						
Net fixed & other tangibles	13,156	14,129	14,719	14,941	15,175						
Goodwill & intangibles	3,986	3,975	3,972	3,972	3,972						
Financial & other assets	979	1,010	1,068	1,161	939						
Total assets	19,939	20,708	21,519	21,599	21,389						
Accounts payable	582	434	459	475	314						
Short-term debt	1,417	1,687	2,015	2,015	2,015						
Long-term debt	5,936	6,267	6,192	6,200	6,137						
Provisions & other liab	7,081	7,323	7,336	7,220	7,221						
Total liabilities	15,016	15,711	16,003	15,911	15,686						
Shareholders' equity	4,923	4,997	5,517	5,688	5,703						
Minority interests	0	0	0	0	0						
Total equity	4,923	4,997	5,517	5,688	5,703						
Net debt	7,141	7,782	8,058	8,065	8,002						
Net debt to equity (%)	145.0	155.7	146.1	141.8	140.3						

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Q2/12 Quarterly Results Comparison

Figure 1. Actual vs. Estimates

				EPS		
Operating Income	Actual	Estimate	Variance	Impact		Reason for Material Variance
Gas Distribution	54.6	52.3	4%	\$0.00		Lower expenses, rate cases, industrial volumes
Gas Transmission & Storage	91.6	104.3	-12%	(\$0.03)		Higher costs, Strong Millennium results
Electric	59.8	48.1	24%	\$0.03		Weather, Rate cases
Corporate/Other	(3.9)	(9.8)	-60%	\$0.01		N/A
EBIT	202.1	195.1				
				EPS		
Other	Actual	Estimate	Variance	Impact		Reason for Variance
Interest Expense	(103.2)	(102.8)	0%	\$0.00		Refinancing
Effective Tax Rate	35%	38.0%	-4%	\$0.01		N/A
Share Count	295.8	293.6	1%	(\$0.00)		N/A
				Q2/11		
Gas Sales (Bcf)	Actual	Actuals	Variance (Total)	Variance (%)		Reason for Variance
Residential	28.3	33.6	(5)	-16%		
Commercial	25.2	26.7	(2)	-6%		
Industrial	114.1	100.8	13	13%		Strong Industrial demand
Wholesale	17.2	20.4	(3)	-16%		
Other	0.1	0.2	(0)	-50%		
Total Sales	184.9	181.7	3.2	-2%		
				Q2/11		
Gas Transmission (MMDth)	Actual	Actuals	Variance (Total)	Variance (%)		Reason for Variance
Columbia Transmission	210.4	204.9	6	3%		
Columbia Gulf	236.4	283.1	(27)	-10%		
Crossroads Gas Pipeline	4.1	5.6	(2)	-27%		
Total Sales	450.9	473.6	(23)	-5%		Cyclical drop-off in volumes at Col Gulf
				Q2/11		
Electric Sales (Gwh)	Actual	Estimate	Variance (Total)	Variance (%)		Reason for Variance
Residential	861.2	788.3	73	9%		
Commercial	976.4	951.3	25	3%		
Industrial	2,332.0	2337.3	(5)	0%		
Wholesale	56.0	200.2	(144)	-72%		
Other	25.9	200.2	(174)	-87%		
Total Sales	4,251.5	4,477.4	(226)	-5%		Warmer than normal weather

Source: Citi Research, Company data

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of \$1.50 per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include substantial industrial load growth at the utility or the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale.

Valuation

We average multiple valuation methodologies to derive our \$26 target. Our NAV yields a value of \$27. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at \$25. Our P/E and EV/EBITDA multiples (2013 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 16x and 16x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 8x and 8x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of \$27 and \$26.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

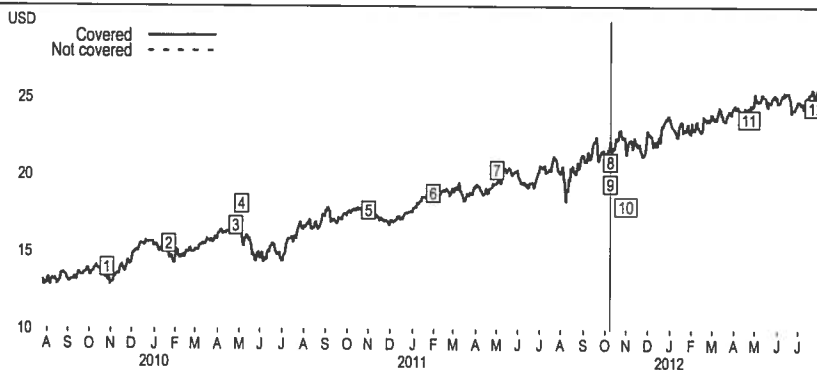
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NiSource Inc (NI)
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Fundamental Research
Analyst: Faisal Khan, CFA



Date	Rating	Target Price	Closing Price
1 27-Oct-09	1H	*15.00	13.47
2 21-Jan-10	*2M	*16.00	14.87
3 27-Apr-10	2M	*16.50	16.27
4 5-May-10	2M	*17.00	16.20

Date	Rating	Target Price	Closing Price
5 1-Nov-10	2M	*18.00	17.17
6 31-Jan-11	2M	*20.00	18.62
7 2-May-11	2M	*21.00	19.52
8 8-Oct-11	Stock rating system changed		

Date	Rating	Target Price	Closing Price
9 8-Oct-11	*2	21.00	21.55
10 1-Nov-11	2	*22.00	21.32
11 23-Apr-12	2	*24.00	24.30
12 25-Jul-12	2	*26.00	25.12

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisal Khan, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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	44%	43%	40%	48%	43%	45%

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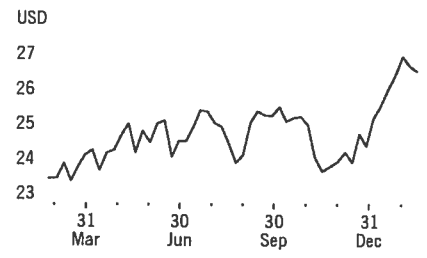
EPS Inline; Balanced Growth Continues; Utica Drilling Continues

■ Company Update

- **EPS** – NI reported adjusted 4Q EPS of \$0.42, (\$0.44 GAAP), above our estimate of \$0.40 and a penny short of consensus. Better than expected results at the pipelines caused the beat. Operating income at the LDC and Electric utilities were lower than we estimated, primarily on higher operating costs. The 2013 Outlook for EPS and dividend growth remains unchanged at \$1.55 and 4% (mid-point). Growth is being driven by regulatory initiatives at the LDCs and new projects at the Gas Transmission and Storage unit.
- **Gas Transmission & Storage** – NI reported EBIT of \$129 mm, better than our estimate of \$90 mm on higher revenues associated with a tracking mechanism. Preliminary results on test wells drilled in the Utica appear to be encouraging, although the liquids content appears to be natural gas liquids rather than condensate. NI expects the JV to drill between 10 and 20 wells in 2013. Most of the growth in this business unit for 2013 is expected to come from \$300mm in gathering/processing projects and the Columbia Gas modernization program.
- **Electric Utility** – NI reported EBIT of \$52 mm, below our estimate of \$58 mm on higher D&A and labor costs associated with the Sugar Creek plant. Capital tied to environmental spending continues to be a source of near-term earnings growth. NI is in the early stages of enhancing its Electric Transmission system, which could amount to \$750 mm in capital spending later this decade.
- **Gas Utilities** – NI reported EBIT of \$134 mm, below our estimate of \$145 mm on higher D&A and operating costs. NI reached a settlement in its PA rate case. We expect rates to be in effect by July/13. NI had originally requested a \$77mm rate increase.
- **Recommendation** – NI continues to deliver results inline with the roadmap provided at the Sept/12 Analyst Day. The development of the Utica acreage remains a free option on the stock. We maintain our Neutral rating and \$27 target price.

Neutral	2
Price (19 Feb 13)	US\$27.26
Target price	US\$27.00
Expected share price return	-1.0%
Expected dividend yield	3.5%
Expected total return	2.6%
Market Cap	US\$8,444M

Price Performance
 (RIC: NI.N, BB: NI US)



EPS	Q1	Q2	Q3	Q4	FY	FC Cons
2011A	0.72A	0.14A	0.12A	0.31A	1.29A	1.35A
2012E	0.66A	0.24A	0.06A	0.40E	1.35E	1.42E
Previous	0.66A	0.24A	0.06A	0.40E	1.35E	na
2013E	0.76E	0.29E	0.10E	0.44E	1.58E	1.56E
Previous	0.76E	0.29E	0.10E	0.44E	1.58E	na
2014E	0.81E	0.33E	0.12E	0.45E	1.71E	1.67E
Previous	0.81E	0.33E	0.12E	0.45E	1.71E	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus.

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NI.N: Fiscal year end 31-Dec						Price: US\$27.26; TP: US\$27.00; Market Cap: US\$8,444m; Recomm: Neutral					
Profit & Loss (US\$m)	2010	2011	2012E	2013E	2014E	Valuation ratios	2010	2011	2012E	2013E	2014E
Sales revenue	5,816	5,967	5,455	6,412	6,608	PE (x)	22.8	21.1	20.2	17.2	16.0
Cost of sales	-2,976	-3,045	-2,411	-3,041	-3,100	PB (x)	1.6	1.6	1.5	1.5	1.5
Gross profit	2,840	2,922	3,044	3,371	3,508	EV/EBITDA (x)	11.9	12.3	11.8	10.1	9.3
Gross Margin (%)	48.8	49.0	55.8	52.6	53.1	FCF yield (%)	0.3	-1.7	-4.0	-6.9	-6.3
EBITDA (Adj)	1,491	1,486	1,596	1,868	2,016	Dividend yield (%)	3.4	3.4	3.5	3.6	3.7
EBITDA Margin (Adj) (%)	25.6	24.9	29.3	29.1	30.5	Payout ratio (%)	77	71	70	62	60
Depreciation	-543	-485	-537	-657	-702	ROE (%)	6.9	7.5	8.8	8.6	9.3
Amortisation	-54	-54	-54	-54	-54	Cashflow (US\$m)	2010	2011	2012E	2013E	2014E
EBIT (Adj)	895	948	1,006	1,157	1,260	EBITDA	1,491	1,486	1,596	1,868	2,016
EBIT Margin (Adj) (%)	15.4	15.9	18.4	18.0	19.1	Working capital	-414	-264	-130	-53	-45
Net interest	-392	-377	-417	-412	-412	Other	-249	-231	-386	-678	-733
Associates	15	15	28	14	16	Operating cashflow	828	991	1,080	1,137	1,238
Non-op/Except	4	-7	5	-11	-41	Capex	-804	-1,125	-1,404	-1,705	-1,769
Pre-tax profit	522	578	621	748	823	Net acq/disposals	1	0	2	0	0
Tax	-188	-207	-220	-269	-296	Other	-140	-24	73	0	0
Extraord./Min.Int./Pref.div.	3	-2	59	0	0	Investing cashflow	-943	-1,149	-1,328	-1,705	-1,769
Reported net profit	337	370	461	479	527	Dividends paid	-256	-258	-268	-297	-314
Net Margin (%)	5.8	6.2	8.5	7.5	8.0	Financing cashflow	211	281	-42	-245	12
Core NPAT	334	371	402	479	527	Net change in cash	38	73	-292	-813	-519
Per share data	2010	2011	2012E	2013E	2014E	Free cashflow to s/holders	24	-134	-324	-569	-531
Reported EPS (\$)	1.21	1.28	1.55	1.58	1.71						
Core EPS (\$)	1.19	1.29	1.35	1.58	1.71						
DPS (\$)	0.92	0.92	0.95	0.98	1.02						
CFPS (\$)	2.96	3.44	3.63	3.76	4.01						
FCFPS (\$)	0.09	-0.47	-1.09	-1.88	-1.72						
BVPS (\$)	17.58	17.32	18.39	18.66	18.38						
Wtd avg ord shares (m)	278	286	296	303	309						
Wtd avg diluted shares (m)	280	288	297	303	309						
Growth rates	2010	2011	2012E	2013E	2014E						
Sales revenue (%)	-7.6	2.6	-8.6	17.6	3.1						
EBIT (Adj) (%)	6.5	5.9	6.1	15.0	8.9						
Core NPAT (%)	20.6	11.3	8.2	19.2	10.0						
Core EPS (%)	19.0	8.1	4.7	17.2	7.8						
Balance Sheet (US\$m)	2010	2011	2012E	2013E	2014E						
Cash & cash equiv.	212	172	65	65	65						
Accounts receivables	1,178	856	958	944	669						
Inventory	428	566	632	405	481						
Net fixed & other tangibles	13,156	14,129	14,830	15,056	15,305						
Goodwill & intangibles	3,986	3,975	3,967	3,967	3,967						
Financial & other assets	979	1,010	1,106	1,197	1,123						
Total assets	19,939	20,708	21,558	21,634	21,610						
Accounts payable	582	434	459	478	481						
Short-term debt	1,417	1,687	1,049	1,049	1,049						
Long-term debt	5,936	6,267	7,162	7,163	6,954						
Provisions & other liab	7,081	7,323	7,409	7,296	7,453						
Total liabilities	15,016	15,711	16,079	15,986	15,936						
Shareholders' equity	4,923	4,997	5,479	5,647	5,674						
Minority interests	0	0	0	0	0						
Total equity	4,923	4,997	5,479	5,647	5,674						
Net debt	7,141	7,782	8,145	8,147	7,938						
Net debt to equity (%)	145.0	155.7	148.7	144.3	139.9						

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For definitions of the items in this table, please click [here](#).

Earnings Comparison Table

Figure 1. Actual vs. Estimates

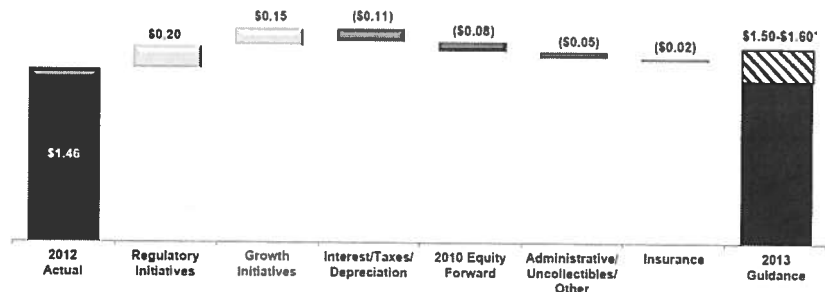
				EPS		Reason for Material Variance
Operating Income	Actual	Estimate	Variance	Impact		
Gas Distribution	133.6	145.1	-8%	(\$0.02)	Lower Margins, Higher Depreciation & O&M Costs	
Gas Transmission & Storage	128.8	87.8	47%	\$0.09	Higher Other Rev., Short-Haul Transports, Lower Depreciation & Labor	
Electric	51.6	58.4	-12%	(\$0.01)	Higher Operating Costs	
Corporate/Other	(1.1)	(0.0)	2100%	(\$0.00)	N/A	
EBIT	312.9	291.3		\$0.05		
				EPS		Reason for Variance
Other	Actual	Estimate	Variance	Impact		
Interest Expense	(103.9)	(102.9)	1%	\$0.00	N/A	
Effective Tax Rate	34%	36.0%	-6%	\$0.02	N/A	
Share Count	309.9	301.0	3%	(\$0.02)	Forward Equity Sale	
				Q4/11		Reason for Variance
Gas Sales (Bcf)	Actual	Actuals	(Total)	Variance (%)		
Residential	79.9	72.6	7	10%	5% Warmer than Normal Weather, 11% Colder than Last Year	
Commercial	50.1	46.7	3	7%	N/A	
Industrial	113.6	109.5	4	4%	Stronger Y/Y Demand	
Wholesale	14.8	10.2	5	45%	N/A	
Other	0.1	0.1	0	0%	N/A	
Total Sales	258.5	239.1	19.4	-8%		
				Q4/11		Reason for Variance
Gas Transmission (MMDth)	Actual	Actuals	(Total)	Variance (%)		
Columbia Transmission	328.8	301.4	27	9%	New Projects	
Columbia Gulf	213.2	270.6	(57)	-21%	Warmer Weather, Impact of Increasing Production from Marcellus	
Crossroads Gas Pipeline	4.1	4.0	0	2%	N/A	
Total Sales	546.1	576.0	(30)	-5%		
				Q4/12		Reason for Variance
Electric Sales (Gwh)	Actual	Estimate	(Total)	Variance (%)		
Residential	763.2	769.4	(6)	-1%	In line	
Commercial	907.8	936.0	(28)	-3%	Lower Demand	
Industrial	2,286.1	2,258.7	27	1%	In line	
Wholesale	17.8	144.4	(127)	-88%	MISO Wet Supplied	
Other	34.0	144.4	(110)	-78%	N/A	
Total Sales	4,008.9	4,252.9	(244)	-6%		

Source: Citi Research, Company data

Figure 2. 2013 Earnings Bridge

2012 to 2013 Earnings Per Share (Non-GAAP)

2013 EPS Guidance Range \$1.50 - \$1.60*



* Projected Net Operating Earnings from Continuing Operations (non-GAAP)

Source: Citi Research, Company documents

NiSource Inc

Company description

NiSource Inc (NI) is, primarily, a regulated utility with an integrated network of gas distribution, transportation, and storage assets in the Northeast, Mid-Atlantic, and Midwest. NiSource also operates an electric utility in Northern Indiana.

The company operates four business units, including Gas Distribution, which delivers natural gas in several states; Gas Transmission and Storage Operations, which provide interstate natural gas transmission and storage services from the Gulf of Mexico to the Northeast; Electric Operations, which consist of NiSource's regulated electric utility, Northern Indiana Public Service Company (NIPSCO); and Other Operations, which include energy-related services and a co-generation facility.

Investment strategy

We rate the shares of NiSource (NI) Neutral (2). NI provides long-term earnings power of \$1.60+ per share, including growth from expected rate increases at NiSource's utilities. Our estimates do not include i) substantial industrial load growth at the utility or ii) the potential for a build out of NI's pipeline and storage assets, which have a favorable footprint in the Marcellus Shale, and iii) better than expected production results across NI's mineral right holdings. Monetization of Utica mineral rights remains unclear, so we rate the shares Neutral, but initial data is constructive.

Valuation

We average multiple valuation methodologies to derive our \$27 target. Our NAV yields a value of \$27. We value regulated assets at a multiple of rate base. These values are partially offset by the company's net debt. Our DDM, which incorporates our rate base growth assumptions, values the company at \$29. Our P/E and EV/EBITDA multiples (2014 estimates) are based on our proprietary analyses, which utilize current equity risk premiums, current betas and projected risk-free yields. For our P/E analysis, we use multiples of 15.5x and 15.5x for the company's utility and pipeline assets. For our EV/EBITDA analysis, we use multiples of 8x and 8x for the company's utility and pipeline assets. Our P/E and EV/EBITDA analyses yield values of \$27 and \$27.

Risks

The key risks to our investment thesis are (1) Rate Cases – We estimate the company will receive rate relief at several of its utilities. Under- or over-estimation of relief could materially impact our estimates (2) Weather – Changes in weather impact the stability of earnings (3) Capital Investment Recovery — NI spends a substantial amount of capital to maintain and expand its distribution system. NI depends on rate increases from public utility commission to earn a fair return on this expansion. In addition, tariffs on the pipeline system are regulated by the FERC (4) Pipeline Capacity Contracts — The risk of re-contracting pipeline capacity at lower rates, upon contract expiration, could have a material impact on earnings (5) Uplift from an MLP – Currently, we do not include any uplift from NiSource pursuing an MLP strategy. However, significant upside may exist if the Company is able to successfully implement this strategy.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it may prevent the stock from achieving our target price or could cause the stock price to materially under/outperform our target.

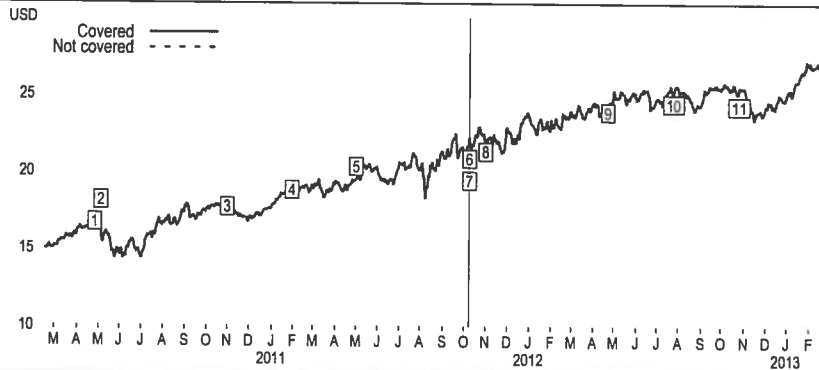
Appendix A-1

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NiSource Inc (NI)
Ratings and Target Price History
Fundamental Research
Analyst: Faisal Khan, CFA



Date	Rating	Target Price	Closing Price
1 27-Apr-10	2M	*16.50	16.27
2 5-May-10	2M	*17.00	16.20
3 1-Nov-10	2M	*18.00	17.17
4 31-Jan-11	2M	*20.00	18.62

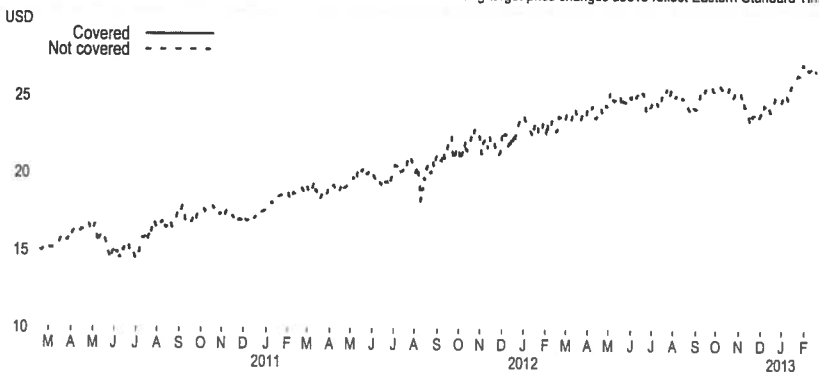
Date	Rating	Target Price	Closing Price
5 2-May-11	2M	*21.00	19.52
6 8-Oct-11	Stock rating system changed		
7 8-Oct-11	*2	21.00	21.55
8 1-Nov-11	2	*22.00	21.32

Date	Rating	Target Price	Closing Price
9 23-Apr-12	2	*24.00	24.30
10 25-Jul-12	2	*26.00	25.12
11 25-Oct-12	2	*27.00	25.54

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

NiSource Inc (NI)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)
Analyst: Faisal Khan, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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Data current as of 31 Dec 2012

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	53%	49%	45%	60%	49%	55%

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Investment ratings are determined by the ranges described above at the time of initiation of coverage, a change in investment and/or risk rating, or a change in target price (subject to limited management discretion). At other times, the expected total returns may fall outside of these ranges because of market price movements and/or other short-term volatility or trading patterns. Such interim deviations from specified ranges will be permitted but will become subject to review by Research Management. Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the stock's expected performance and risk.

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NiSource Inc (NI)

ASSUMING COVERAGE

Rating **NEUTRAL***
 Price (01 May 12, US\$) 25.33
 Target price (US\$) (from 24.00) 26.00¹
 52-week price range 25.33 - 18.27
 Market cap. (US\$ m) 7,196.06
 Enterprise value (US\$ m) 15,054.08

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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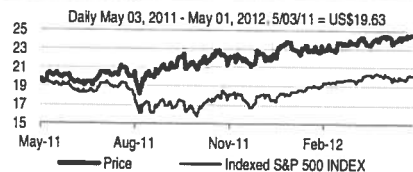
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1Q12 Slightly Above Estimates; Assuming Coverage and Raising TP to \$26; Maintain Neutral

- **1Q12 Results Slightly Ahead of Estimates:** NI reported 1Q12 diluted EPS of \$0.73/share, above our estimated \$0.71/share. Gas Transmission and Storage performance was above our estimates. This upside was offset by Gas Distribution and Electric segments being below our expectations.
- **Utica Shale Update:** Management reaffirmed its prior estimate that its Utica prospective acreage amounted to between 100,000 – 200,000 acres of mineral rights. Approximately, 30-40% of it may lie in the eastern wet portion of the Utica play. Management again stressed that it is more focused on leveraging its acreage into downstream infrastructure opportunities. To note, our model does not attribute any value for the Utica potential yet.
- **2012 Guidance Reiterated:** Management reiterated its 2012 EPS guidance range of \$1.40 to \$1.50/share. We forecast NI to generate earnings in the upper end of this range. NI is well on track towards its budgeted \$1.4B capital expenditure plan for 2012. To note, the growth opportunities are embedded in the gas transmission and storage (around the Marcellus and Utica shale plays) and gas distribution infrastructure.
- **Maintain Neutral and Increase TP to \$26:** We maintain our Neutral rating and increase our TP to \$26. Our new TP equates to a P/E multiple of 17x our NTM Basic EPS est. of \$1.48.

Share price performance



Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.72	0.16	0.12	0.31
2012E	0.73	0.17	0.14	0.39
2013E	0.72	0.20	0.17	0.45

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (US\$)	1.31	1.42	1.54	1.65
Prev. EPS (US\$)	—	1.41	1.48	1.60
P/E (x)	19.3	17.9	16.5	15.4
P/E rel. (%)	134.0	135.5	140.5	145.9
Revenue (US\$ m)	5,794.9	5,660.0	6,055.7	6,298.1
EBITDA (US\$ m)	1,499.5	1,676.6	1,810.5	1,920.4
OCFPS (US\$)	3.02	3.93	3.56	4.48
P/OCF (x)	7.9	6.5	7.1	5.7
EV/EBITDA (current)	10.0	9.0	8.3	7.8
Net debt (US\$ m)	7,942	7,858	8,023	7,899
ROIC (%)	4.86	5.19	5.53	5.86
Number of shares (m)	284.09			
BV/share (Next Qtr., US\$)	18.2			
Net debt (Next Qtr., US\$ m)	8,048.4			
Net debt/tot cap (Next Qtr., %)	158.9			
IC (current, US\$ m)				12,939.60
EV/IC (x)				1.2
Dividend (Next Qtr., US\$)				0.23
Dividend yield (%)				0.91

Source: Company data, Credit Suisse estimates.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,500 miles of pipe and 640 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 450,000 customers.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage. NI also has a \$4.35 billion, 20-plus year infrastructure replacement program at its gas utilities that should drive stable growth over the next several years. Importantly, we believe NI has the liquidity in place to maintain an annual capex program of approximately \$1 billion.

Additional Color

- **Modeling 4% Dividend Growth:** We believe NI is likely to resume dividend growth in 2012. We are modeling a \$0.01/shr increase (4%) growth when NI declares its distribution for 3Q12. Our model forecasts with a \$0.01/shr increase, NI will have 64% payout ratio. We are forecasting ~4% annual dividend growth rate going forward.
- **Forward Equity Sales Update:** NI intends to access its forward equity draw by September 2012. To recap, NI entered into a forward equity agreement in September 2010 that will result in the issuance of 25mm shares by September 2012. We expect the equity issuance will provide about \$400mm in proceeds to NI that would help finance its growth plans in 2012.
- **MLP Still an Option but not Imminent:** Management still views an MLP as a viable option to help finance growth of its midstream business. However, the tone on NI's earnings call did not sound like any progress had been made since the last call either positively or negatively. We believe that investors have bid up NI shares in anticipation of an MLP spinoff and should an MLP not materialize, NI shares could be under pressure.
- **Liquidity:** NI had a net available liquidity of \$631mm at the end of 1Q12.

Valuation

Our target price of \$26 is based on a projected NTM price to earnings multiple of ~16 times. NI appears fairly valued based on price to earnings and sum-of-the-parts analysis, in our view. The stock trades at price to earnings multiples of ~18x 2012E and ~16x 2013E, respectively. We rationalize that this may be the result of investors' expectations of favorable future multiples when an MLP is eventually created. And once again, should the MLP get shelved...look out below.

Our 12-month target price of \$26 is based on 17 times NTM EPS

Exhibit 1: Sum of the Parts Valuation

	NTM	D&A	NTM	Metric	Multiple			Enterprise Value / Equity Value		
	EBIT		EBITDA / NI		Low	Base	High	Low	Base	High
Electric Services	205.3	250.7	137.1	P/E	14.5x	15.0x	15.5x	1,988.5	2,057.1	2,125.7
Natural Gas Utilities	457.6	196.1	653.6	EV/EBITDA	8.5x	9.0x	9.5x	5,556.0	5,882.8	6,209.7
Transmission and Storage	446.0	139.5	585.5	EV/EBITDA	9.0x	9.5x	10.0x	5,269.5	5,562.3	5,855.0
Total Enterprise / Equity Value								12,814.0	13,502.2	14,190.3
Cash & Equivalents								188.2	188.2	188.2
Short-term Debt								1,652.0	1,652.0	1,652.0
Long-term Debt								5,834.4	5,834.4	5,834.4
Less Net Debt								7,298.2	7,298.2	7,298.2
Total Equity Value								5,515.8	6,204.0	6,892.1
Shares Outstanding								307	307	307
Per Share								\$17.96	\$20.20	\$22.44
Current Share Price (Feb 1, 2012)								\$24.65	\$24.65	\$24.65
Return								(27%)	(18%)	(9%)
Dividend per share (Est.)								\$0.94	\$0.94	\$0.94
Dividend Yield								4%	4%	4%
Total Return								(23%)	(14%)	(5%)
NTM EPS								\$1.47	\$1.47	\$1.47
Implied P/E								12.2x	13.7x	15.2x

Source: Company data, Credit Suisse estimates

Exhibit 2: Forecasted 2013E Valuation Assuming Creation of MLP

	2013E	D&A	2013E	Metric	Multiple			Enterprise Value / Equity Value		
	EBIT		EBITDA / NI		Low	Base	High	Low	Base	High
Electric Services	212.6	256.4	142.0	P/E	14.5x	15.0x	15.5x	2,059.1	2,130.1	2,201.1
Natural Gas Utilities	496.4	205.7	702.0	EV/EBITDA	8.5x	9.0x	9.5x	5,967.1	6,318.1	6,669.1
Transmission and Storage	468.5	147.3	615.8	EV/EBITDA	10.5x	11.0x	11.5x	6,465.6	6,773.5	7,081.4
Total Enterprise / Equity Value								14,491.8	15,221.7	15,951.6
Cash & Equivalents								188.2	188.2	188.2
Short-term Debt								1,652.0	1,652.0	1,652.0
Long-term Debt								5,834.4	5,834.4	5,834.4
Less Net Debt								7,298.2	7,298.2	7,298.2
Total Equity Value								7,193.6	7,923.5	8,653.4
Shares Outstanding								307	307	307
Per Share								\$23.42	\$25.80	\$28.17
Current Share Price (Feb 1, 2012)								\$24.65	\$24.65	\$24.65
Return								(5%)	5%	14%
Dividend per share (Est.)								\$0.00	\$0.00	\$0.00
Dividend Yield								0%	0%	0%
Total Return								(5%)	5%	14%
2013E EPS								\$1.59	\$1.59	\$1.59
Implied P/E								14.8x	16.3x	17.8x

Source: Company data, Credit Suisse estimates

Applying "normal" valuation multiples to NI's three segments results in a 12 month target price of \$20 – well below where NI currently trades

In a scenario where an MLP is created, we forecast 2013E target valuation of \$26/share i.e. ~16x 2013E EPS

Exhibits 1 and 2 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets has already been priced into the shares in our opinion. We believe that NI shares have limited upside potential at this point but downside risk could be significant should NI abandon its plans to form an MLP to house its midstream assets.

Financials

Exhibit 5: NI Quarterly Variance Table

Earnings Variance							
	1Q12	1Q12 CS	Diff.	Diff. (%)	1Q11		Comments
	Actual	Estimate			Actual	YoY%	
Segment EBIT							
Gas Distribution	247	267	(21)	-8%	237	4%	Weather related reduced sales
NIPSCO Electric	49	56	(7)	-13%	42	16%	
Gas Transmission & Storage	139	104	34	33%	119	17%	Growth projects placed in service; Columbia Gulf rate case
Other	2	(1)	3	NA	5	NA	
Total EBIT (recurring)	436	426	10	2%	402	8%	
Interest Expense	103	99	5	5%	90	15%	
Other Expenses	(1)	0	(1)	NA	(3)	NA	
Taxes	119	118	1	1%	109	9%	
Recurring Net Income	215	209	5	3%	207	4%	
Diluted Wtd Avg shares outstanding	293	292	2	1%	285	3%	
Recurring EPS - Basic	\$0.76				\$0.74	3%	
Recurring EPS - Diluted	\$0.73	\$0.72	\$0.01	2%	\$0.72	1%	
Dividend per share	\$0.23	\$0.23	\$0.00	0%	\$0.23	0%	

Source: Company data, Credit Suisse estimates

Exhibit 6: Changes to Model

	Old estimates									New Estimates							
	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E		2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E
Segment EBIT																	
Gas Distribution	47	5	142	461	508	529	551	576		51	3	140	441	496	518	539	564
NIPSCO Electric	43	79	47	225	233	250	266	283		38	75	42	204	213	230	246	264
Gas Transmission & Storage	91	90	111	396	424	475	505	538		94	93	115	440	468	513	544	578
Other	(5)	(3)	(2)	(11)	(9)	(10)	(10)	(11)		(5)	(1)	(2)	(6)	3	1	1	1
Total EBIT (recurring)	176	171	298	1,071	1,156	1,244	1,311	1,385		179	170	295	1,079	1,180	1,262	1,331	1,407
Interest Expense	101	100	99	399	420	442	446	453		101	99	99	402	417	439	443	450
Other Expenses	0	0	0	0	0	0	0	0		0	0	0	(1)	0	0	0	0
Taxes	27	26	72	242	265	289	312	336		27	25	71	242	273	296	320	344
Recurring Net Income	48	46	127	430	471	514	554	597		51	45	126	436	490	527	568	612
Diluted Wtd Avg shares outstanding	292	317	317	304	319	320	322	324		294	318	319	306	320	322	324	326
Recurring EPS - Basic	\$0.17	\$0.15	\$0.41	\$1.46	\$1.52	\$1.65	\$1.77	\$1.90		\$0.18	\$0.15	\$0.41	\$1.47	\$1.58	\$1.69	\$1.81	\$1.94
Recurring EPS - Diluted	\$0.16	\$0.14	\$0.40	\$1.41	\$1.48	\$1.60	\$1.72	\$1.84		\$0.17	\$0.14	\$0.39	\$1.42	\$1.53	\$1.64	\$1.75	\$1.88
Dividend per share	\$0.23	\$0.24	\$0.24	\$0.94	\$0.98	\$1.02	\$1.06	\$1.10		\$0.23	\$0.24	\$0.24	\$0.94	\$0.98	\$1.02	\$1.06	\$1.10

Source: Company data, Credit Suisse estimates



Exhibit 7: NI Abbreviated Financial Statements 2007 – 2016E

NI Source Inc. (NYSE: NI) Credit Suisse - Master Limited Partnerships and Natural Gas
 Abbreviated Financial Statements

Year ending December 31
 (\$ millions, except per share data)

Abbreviated Income Statement	2007	2008	2009	2010	2011	1Q12	2Q12E	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E
Segment EBITDA														
Gas Distribution	584.7	556.0	577.4	582.1	612.6	293.2	99.0	51.9	189.4	633.4	702.0	735.4	768.9	806.1
NIPSCO Electric	480.7	429.8	368.0	429.0	414.5	109.4	99.6	137.3	105.3	451.6	469.0	492.6	515.5	539.1
Gas Transmission & Storage	488.9	494.3	530.3	507.8	490.4	171.6	127.8	127.3	149.9	576.6	615.8	669.7	710.5	754.3
Other	2.8	5.0	(7.1)	(5.7)	(18.0)	7.4	0.4	4.0	3.1	14.9	23.7	22.7	23.0	23.0
Total EBITDA (recurring)	1,557.1	1,485.1	1,488.6	1,513.2	1,499.5	581.6	326.8	320.4	447.7	1,676.6	1,810.5	1,920.4	2,017.9	2,122.5
Segment EBIT														
Gas Distribution	350.2	327.3	329.3	342.8	438.7	246.5	51.3	3.3	139.8	440.9	496.4	517.8	539.2	564.4
NIPSCO Electric	288.8	220.2	162.4	217.9	195.1	48.5	38.0	74.9	42.2	203.6	212.6	229.9	246.5	263.8
Gas Transmission & Storage	371.8	376.7	408.8	377.2	360.4	138.6	94.0	92.8	114.6	440.0	468.5	512.7	543.8	577.9
Other	(12.9)	(6.3)	(21.3)	(21.3)	(32.9)	1.9	(4.6)	(1.1)	(2.0)	(5.7)	3.0	1.4	1.2	0.6
Total EBIT (recurring)	997.9	917.9	879.2	916.6	961.3	435.5	178.7	169.9	294.7	1,078.8	1,180.4	1,281.7	1,330.6	1,406.8
Interest Expense	400.7	375.3	399.2	392.2	376.8	103.3	100.6	99.4	98.5	401.8	417.4	438.8	443.0	450.1
Other Expenses	6.5	(0.9)	1.6	(3.8)	7.3	(1.0)	0.0	0.0	0.0	(1.0)	0.0	0.0	0.0	0.0
Earnings Before Taxes	590.7	543.5	478.4	528.2	577.2	333.2	78.1	70.5	196.2	678.0	763.0	822.9	887.7	956.7
Taxes	214.9	194.6	184.3	189.0	199.4	118.7	27.3	25.4	70.6	242.0	272.9	296.3	319.6	344.4
Recurring Net Income	375.8	348.9	294.1	339.2	377.8	214.5	50.8	45.1	125.5	435.9	490.1	526.7	568.1	612.3
Recurring EPS														
Basic	\$1.37	\$1.27	\$1.07	\$1.22	\$1.35	\$0.76	\$0.18	\$0.15	\$0.41	\$1.47	\$1.58	\$1.69	\$1.81	\$1.94
YoY %Change		-7.2%	-16.1%	14.2%	10.3%					9.4%	7.3%	6.8%	7.2%	7.1%
Weighted Average Shares Outstanding														
Basic	273.8	274.0	275.1	277.8	280.4	282.9	283.4	308.1	308.6	295.8	309.8	311.8	313.7	315.7
Diluted	274.8	275.4	275.9	280.1	288.5	293.1	293.6	318.3	318.8	306.0	320.0	322.0	323.9	325.9
Dividend/Share	\$0.92	\$0.92	\$0.92	\$0.92	\$0.92	\$0.23	\$0.23	\$0.24	\$0.24	\$0.94	\$0.98	\$1.02	\$1.06	\$1.10
Payout Ratio	67.1%	72.3%	86.1%	75.4%	68.2%					63.8%	62.0%	60.4%	58.5%	56.7%
Abbreviated Balance Sheet														
Cash and Equivalents	50.0	20.6	16.4	9.2	11.5	38.5	0.1	(7.2)	25.9	25.9	108.9	175.6	234.6	275.0
Restricted Cash	59.4	286.6	174.7	202.9	160.6	149.7	149.7	149.7	149.7	149.7	149.7	149.7	149.7	149.7
Accounts Receivables	977.6	1,143.2	808.6	1,079.3	854.8	730.3	664.2	597.6	891.5	891.5	938.2	844.5	775.6	807.5
Inventories	458.2	511.8	384.8	298.2	427.6	181.1	177.9	391.2	285.1	285.1	299.3	180.1	154.7	161.4
Other Current Assets	950.0	1,448.3	839.1	859.3	793.9	870.7	838.1	893.1	838.7	838.7	838.7	838.7	838.7	838.7
Current Assets	2,495.2	3,410.5	2,223.6	2,448.9	2,248.4	1,970.3	1,830.1	2,024.5	2,190.8	2,190.8	2,334.7	2,188.7	2,153.4	2,232.4
Net PP&E	9,693.0	10,276.0	10,654.0	11,002.3	11,667.6	11,765.2	11,966.1	12,164.6	12,360.5	12,360.5	12,730.4	13,071.8	13,384.6	13,668.8
Other Assets	5,856.9	6,345.7	6,394.1	6,487.6	6,792.3	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4	6,710.4
Total Assets	18,045.1	20,032.2	19,271.7	19,938.8	20,708.3	20,445.9	20,506.6	20,899.4	21,261.7	21,261.7	21,775.6	21,970.8	22,248.3	22,611.6
Accounts Payable	743.3	693.9	502.3	581.8	434.8	380.7	335.5	334.2	605.2	605.2	636.1	662.4	741.1	771.6
Current Portion of LT Debt	33.9	469.3	719.7	34.2	327.3	750.8	750.8	750.8	750.8	750.8	750.8	750.8	750.8	750.8
Other Short Term Borrowings	1,061.0	1,163.5	103.0	1,382.5	1,359.4	1,264.2	1,464.2	1,364.2	1,114.2	1,114.2	1,364.2	1,814.2	2,464.2	3,264.2
Other Current Liabilities	1,584.6	2,256.7	1,824.6	1,650.9	1,524.9	1,322.7	1,243.9	1,366.5	1,471.4	1,471.4	1,517.8	1,531.6	1,614.8	1,632.5
Current Liabilities	3,422.8	4,583.4	3,149.6	3,649.4	3,646.4	3,718.4	3,794.4	3,815.7	3,941.5	3,941.5	4,268.9	4,759.0	5,570.9	6,419.2
Long Term Debt	5,594.4	5,943.9	5,969.1	5,936.1	6,267.1	5,834.4	5,833.5	5,833.5	6,018.5	6,018.5	6,018.5	5,515.0	4,745.0	3,995.0
Other Liabilities	3,941.2	4,776.1	5,298.9	5,430.1	5,797.5	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6	5,812.6
Total Liabilities	12,958.4	15,303.4	14,417.6	15,015.6	15,711.0	15,365.4	15,440.5	15,461.8	15,772.6	15,772.6	16,100.0	16,086.6	16,128.5	16,228.8
Shareholders Equity	5,086.7	4,728.8	4,854.1	4,923.2	4,997.3	5,080.5	5,066.1	5,437.6	5,489.1	5,489.1	5,675.6	5,884.2	6,119.8	6,384.8
Total Liabilities and Equity	18,045.1	20,032.2	19,271.7	19,938.8	20,708.3	20,445.9	20,506.6	20,899.4	21,261.7	21,261.7	21,775.6	21,970.8	22,248.3	22,611.6
Total Capital Expenditures	763.9	1,306.6	798.6	911.6	1,131.0	349.0	349.0	349.0	349.0	1,396.0	1,000.0	1,000.0	1,000.0	1,000.0
Financial Metrics														
Total Debt / Total Cap	56.8%	61.6%	58.3%	59.9%	61.4%	60.7%	61.4%	59.4%	59.0%	59.0%	58.9%	57.9%	56.5%	55.6%
Net Debt / Total Cap	56.6%	61.5%	58.3%	59.9%	61.4%	60.6%	61.4%	59.4%	58.9%	58.9%	58.6%	57.3%	55.8%	54.8%
Net Debt / Equity	130.5%	159.8%	139.6%	149.2%	158.9%	153.7%	158.9%	146.3%	143.1%	143.1%	141.4%	134.3%	126.2%	121.1%
Book Value Per Share	\$18.51	\$17.17	\$17.59	\$17.58	\$17.73	\$17.33	\$17.26	\$17.08	\$17.22	\$17.94	\$17.73	\$18.28	\$18.89	\$19.59
Net Debt / TTM EBITDA	4.3x	5.1x	4.6x	4.9x	5.3x	5.1x	5.1x	4.9x	4.7x	4.7x	4.4x	4.1x	3.8x	3.6x

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 01 May 12)
 NiSource Inc (NI, \$25.33, NEUTRAL, TP \$26.00)

Disclosure Appendix

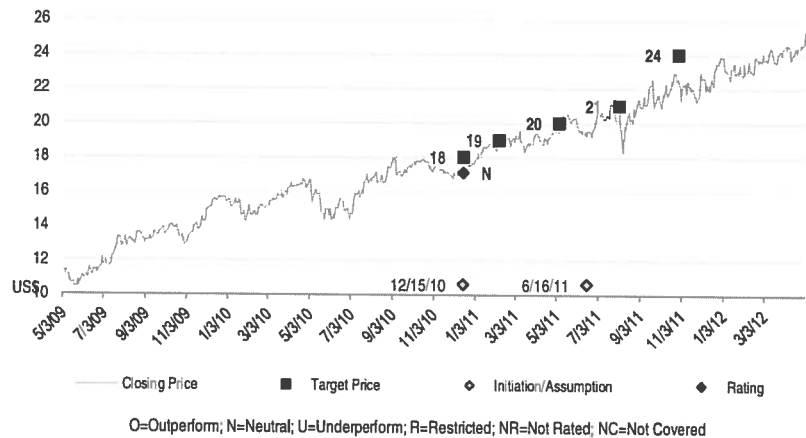
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3-Year Price, Target Price and Rating Change History Chart for NI

NI	Closing Price	Target Price	Initiation/
Date	(US\$)	(US\$)	Rating Assumption
12/15/10	17.09	18	N X
2/6/11	18.66	19	
5/6/11	19.44	20	
6/16/11			X
8/2/11	20.12	21	
10/28/11	22.52	24	



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*Relevant benchmark by region: As of 29th May 2009, Australia, New Zealand, U.S. and Canadian ratings are based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe**, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. Some U.S. and Canadian ratings may fall outside the absolute total return ranges defined above, depending on market conditions and industry factors. For Latin American, Japanese, and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; for European stocks, ratings are based on a stock's total return relative to the analyst's coverage universe**. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively.

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Market Weight: Industry expected to perform in-line with the relevant broad market benchmark over the next 12 months.

Underweight: Industry expected to underperform the relevant broad market benchmark over the next 12 months.

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Restricted	2%	

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Price Target: (12 months) for (NI)

Method: We derive our 12-month price target of \$26 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17x our next twelve months EPS estimate of \$1.48, which is at the upper end of NI's historic trading range. We believe this to be appropriate as NI has resolved several key regulatory issues and is well positioned for growth. Our price target is also consistent with our sum of the parts valuation assuming NI goes ahead with its MLP spinoff.

Risks: Main risks to our 12-month price target of \$26 for NiSource are that if NI decides to scrap its plans to establish an MLP that investors would flee the stock. Also, pipeline re-contracting risk and economic risk as NI's electric utility is levered to the economy.

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NiSource Inc. (NI)

INCREASE TARGET PRICE

Rating **NEUTRAL***
 Price (30 Apr 13, US\$) 30.73
 Target price (US\$) (from 29.00) 31.00¹
 52-week price range 31.17 - 23.40
 Market cap. (US\$ m) 9,581.46
 Enterprise value (US\$ m) 18,142.99

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.

¹Target price is for 12 months.

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Holding 2013 EPS Outlook; Staying Neutral, but Valuation at 10-year High

- **Keeping at Neutral, but Valuation Risks Growing:** Our TP increases by \$2, to \$31, based on a projected price to earnings multiple of ~17x-19x 2015E EPS. Together with NTM dividend of \$0.98 translates to total return of (0%)-10% for a mid-point of 5%, which is ~ 500 bp below our median total return expectations for mid-stream MLPs. The offset is that while we have a relatively negative bias, we acknowledge continuing very strong demand for low risk, yield oriented investments such as that offered by NI and which has a broader investor base than MLPs.
- **Holding Estimates for 2013 and Beyond:** While 1Q:13 results were \$0.05/share below our estimate, we are holding our numbers for 2013-2015 to reflect NI's re-affirmed guidance for 5-7% EPS growth and comments that 2013 is on track to reach its \$1.50-\$1.60/share guidance.
- **Risks:** NI's low risk business model of regulated assets operating in a relatively benign regulatory environment, highly visible investment opportunities in each of NI's segments together with a 3.5% dividend has appeal to defensive, yield-oriented investors. However, we would expect that flare-ups in the macro political, economic, or financial environment could result in a pull-back in the valuation of the shares given that NI is trading at over 5 turns above its forward P/E average and its peers are trading at approximately 6 turns above the forward P/E average.

Share price performance



On 04/30/13 the S&P 500 INDEX closed at 1597.57

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.73	0.23	-0.10	0.44
2013E	0.69	0.22	0.18	0.46
2014E	0.72	0.24	0.20	0.48

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	1.43	1.55	1.65	1.75
Prev. EPS (US\$)	—	—	1.64	—
P/E (x)	21.6	19.8	18.6	17.6
P/E rel. (%)	142.8	140.7	147.6	153.6
Revenue (US\$ m)	5,070.0	5,414.1	5,883.4	6,264.3
EBITDA (US\$ m)	1,633.3	1,744.5	1,900.7	2,061.7
OCFPS (US\$)	4.26	4.33	4.45	4.72
P/OCF (x)	5.8	7.1	6.9	6.5
EV/EBITDA (current)	10.7	10.0	9.2	8.5
Net debt (US\$ m)	8,067	8,562	9,206	9,470
ROIC (%)	5.13	5.23	5.38	5.50
Number of shares (m)	311.79			13,621.20
BV/share (Next Qtr., US\$)	18.6			1.3
Net debt (Next Qtr., US\$ m)	8,116.6			Dividend (current, US\$)
Net debt/tot cap (Next Qtr., %)	142.3			Dividend yield (%)
				0.98
				0.78

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS IMPORTANT DISCLOSURES, ANALYST CERTIFICATIONS, INFORMATION ON TRADE ALERTS, ANALYST MODEL PORTFOLIOS AND THE STATUS OF NON-U.S. ANALYSTS. US Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage.

NI also has an inventory of project opportunities of ~\$10B in its regulated Gas Distribution segment, \$6-\$8 billion in its regulated electric segment and \$8-\$10B in its Gas Transmission and Storage Segment. Importantly, we believe NI has the liquidity (\$1B), balance sheet, and opportunity set in place to maintain an annual cap ex program of approximately \$1.5 billion-\$1.8B.

Outlook: Holding Our Forecast

- **Q1 was light to our numbers, but we are holding our forecast:** NI missed our 1Q numbers, but we attribute this more to missed on timing on earnings growth to the gas transmission and distribution segments than anything fundamental as management stated that its results were in line with its expectations. Consequently, we are shifting the \$0.05 differential mostly to the back half. We are also trimming our 2QE EPS by \$0.03/share while raising 3QE by \$0.04/share and raising 4QE EPS by \$0.04/share. Overall, this keeps our 2013E EPS at \$1.55/share. We are maintaining our 5-7% EPS growth outlook through 2016.
- **Modeling 4% Dividend Growth:** Our forecasted 4% growth rate is consistent with management growth guidance of 3-5% dividend/share and 60-70% payout.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~\$0.9B at the end of 1Q13.
- **Cap Ex Forecast of \$25-\$30b over the long term:** NI has a total inventory of 25-\$30b (equivalent to \$1.5-\$1.8B/year) in infrastructure focused investment opportunities over the next 15-20 years.
- **MLP Option Not Discussed:** We believe management still views an MLP as a viable option to help finance growth of its midstream business but we now do not expect NI to pursue this strategy for at least the next few years. Once again, the issue was not raised on the conference call. With valuations rising at NI, we view the MLP option as lower likelihood as NI has a wider investor universe than MLPs and with valuations rich, we see less potential valuation uplift should NI decide to put its Columbia operations into an MLP structure.

Exhibit 1: Holding 2013E EPS Overall – Cutting 2QE, Raising 3QE, Raising 4QE, Raising 2014E EPS by \$0.01, to \$1.65/share, Holding 2015E EPS at \$1.75/share

Earnings Variance		Old estimates							New estimates											
		1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	1Q13A	2Q13E	3Q13E	4Q13E	2013E	1Q14E	2Q14E	3Q14E	4Q14E	2014E	2015E	
Segment EBITDA																				
Gas Distribution		310	118	77	195	700	761	824	282	103	77	190	652	296	111	89	206	703	760	
NIPSCO Electric		118	130	151	122	521	554	586	128	119	152	127	526	123	127	161	135	545	578	
Gas Transmission & Storage		174	129	117	163	583	647	715	159	128	121	169	576	203	146	137	184	671	742	
Other		6	4	(10)	(6)	(6)	(6)	(6)	3	4	(10)	(6)	(9)	(6)	4	(10)	(6)	(18)	(18)	
Total EBITDA (recurring)		608	381	335	474	1,798	1,956	2,119	571	354	340	480	1,745	616	388	377	519	1,901	2,062	
Segment EBIT																				
Gas Distribution		259	67	24	141	490	532	577	233	53	26	138	451	243	57	34	150	483	522	
NIPSCO Electric		54	65	86	55	260	281	303	65	55	87	61	268	56	60	93	67	276	297	
Gas Transmission & Storage		139	91	78	124	432	477	524	133	101	92	139	466	173	114	104	149	540	592	
Other		4	1	(12)	(9)	(16)	(17)	(18)	(4)	1	(12)	(9)	(24)	(9)	1	(13)	(9)	(29)	(30)	
Total EBIT (recurring)		455	225	176	311	1,167	1,274	1,386	428	210	193	330	1,161	463	232	218	357	1,270	1,380	
Interest Expense		103	103	108	112	426	476	524	99	102	105	109	415	112	114	118	122	467	518	
Other Expenses		0	0	0	0	0	0	0	(4)	0	0	0	(4)	0	0	0	0	0	0	
Taxes		123	43	24	70	259	283	310	118	38	31	78	266	125	42	35	83	285	311	
Recurring Net Income		229	79	44	130	482	515	552	215	70	57	142	485	227	76	64	151	518	552	
Diluted Wtd Avg shares outstanding		310	311	311	312	311	313	315	311	312	312	313	312	313	314	314	315	314	316	
Recurring EPS - Diluted		\$0.74	\$0.25	\$0.14	\$0.42	\$1.55	\$1.64	\$1.75	\$0.69	\$0.22	\$0.18	\$0.46	\$1.55	\$0.72	\$0.24	\$0.20	\$0.48	\$1.65	\$1.75	
Dividend per share		\$0.24	\$0.24	\$0.25	\$0.25	\$0.98	\$1.02	\$1.06	\$0.24	\$0.24	\$0.25	\$0.25	\$0.98	\$0.25	\$0.25	\$0.26	\$0.26	\$1.02	\$1.06	
Financing & Credit Metrics																				
Total Debt / Total Cap		58.5%	59.5%	60.5%	60.6%	60.6%	61.2%	59.6%	58.5%	59.0%	60.0%	60.0%	60.0%	59.9%	60.7%	61.5%	60.7%	60.7%	59.2%	
Net Debt / Total Cap		58.4%	59.4%	60.4%	60.5%	60.5%	61.1%	59.5%	58.2%	58.7%	59.7%	59.7%	59.7%	59.7%	60.4%	61.3%	60.4%	60.4%	58.9%	
Net Debt / Equity		140.5%	146.4%	152.7%	153.0%	153.0%	156.9%	147.1%	139.2%	142.3%	148.4%	148.1%	148.1%	147.9%	152.8%	158.2%	152.7%	152.7%	143.6%	
Book Value Per Share		\$18.43	\$18.46	\$18.36	\$18.54	\$18.58	\$19.25	\$20.93	\$18.29	\$18.30	\$18.26	\$18.50	\$18.54	\$18.98	\$18.98	\$18.94	\$19.17	\$19.21	\$20.89	
Net Debt / TTM EBITDA		5.0x	5.1x	4.9x	4.9x	4.9x	4.8x	4.6x	5.0x	5.1x	4.9x	4.9x	4.9x	4.9x	5.0x	5.1x	4.8x	4.8x	4.6x	

Source: Company data, Credit Suisse estimates

Exhibit 2: 1Q:13 Results Below Our Estimates Mostly on Timing Issues

Quarterly Variance						
Earnings Variance						
	1Q13 Actual	1Q13 CS Estimate	Diff.	Diff. (%)	1Q12 Actual	Comments
Segment EBITDA						
Gas Distribution	282	310	(28)	-9%	52	margin < forecast, O&M > forecast
NIPSCO Electric	128	118	10	9%	96	lower electric generation costs
Gas Transmission & Storage	159	174	(15)	-9%	121	Rates below assumptions
Other	3	6	(4)	-60%	(14)	
Total EBITDA (recurring)	571	608	(37)	-6%	255	
Segment EBIT						
Gas Distribution	233	259	(26)	-10%	141	
NIPSCO Electric	65	54	11	21%	43	
Gas Transmission & Storage	133	139	(5)	-4%	89	
Other	(4)	4	(7)	-197%	(20)	
Total EBIT (recurring)	428	455	(27)	-6%	253	
Interest Expense	99	103	(5)	-5%	97	
Other Expenses	(4)	0	(4)	NM	13	
Taxes	118	123	(5)	-4%	52	
Recurring Net Income	215	229	(14)	-6%	91	
Diluted Wtd Avg shares outstanding	310	310	(0)	0%	291	
Recurring EPS - Diluted	\$0.69	\$0.74	\$0.00	0%	\$0.31	
Dividend per share	\$0.24	\$0.24	\$0.00	0%	\$0.23	
Financing & Credit Metrics						
Total Debt / Total Cap	58.8%	58.5%	0.3%	0.4%	60.7%	
Net Debt / Total Cap	58.7%	58.4%	0.3%	0.4%	60.6%	
Net Debt / Equity	142.0%	140.5%	1.5%	1.1%	153.7%	
Book Value Per Share	\$18.35	\$18.43	(\$0.09)	(\$0.00)	\$17.33	
Net Debt / TTM EBITDA	5.1x	5.0x	0.2x	0.0x	5.1x	

Source: Company data, Credit Suisse estimates

Valuation

- We are raising our valuation range by \$2, to \$30-\$33 and a \$31 TP, based on a projected price to earnings multiple of ~17-19x 2015E EPS. The stock trades at price to earnings multiples of ~19.4x NTM and ~17.6x 2015E, respectively.
- Applying "normal" valuation multiples to NI's three segments results in a valuation of \$28 – below where NI currently trades and a 17.6x NI's 2015E EPS of \$1.75/share.

Exhibit 3: Sum of the Parts Valuation

NTM - Next Twelve Months Valuation

	NTM EBIT	D&A	NTM EBITDA / NI	Metric	Multiple			Enterprise Value / Equity Value		
					Low	Base	High	Low	Base	High
Electric Services	259.8	260.6	173.5	P/E	16.0x	18.0x	20.0x	2,776.6	3,123.6	3,470.7
Natural Gas Utilities	467.3	205.8	673.1	EV/EBITDA	9.0x	10.0x	11.0x	6,057.9	6,731.0	7,404.1
Transmission and Storage	505.5	115.3	620.8	EV/EBITDA	10.0x	11.0x	12.0x	6,207.6	6,828.4	7,449.1
Total Enterprise / Equity Value								15,042.1	16,683.0	18,324.0
Cash & Equivalents								83.1	83.1	83.1
Short-term Debt								1,284.1	1,284.1	1,284.1
Long-term Debt								6,819.1	6,819.1	6,819.1
Less Net Debt								8,020.1	8,020.1	8,020.1
Total Equity Value								7,022.0	8,662.9	10,303.9
Shares Outstanding								310	310	310
Per Share								\$22.63	\$27.92	\$33.21
Current Share Price (Feb 19, 2013)								\$30.73	\$30.73	\$30.73
Return								(23%)	(6%)	11%
Dividend per share (Est.)								\$0.98	\$0.98	\$0.98
Dividend Yield								3%	3%	3%
Total Return								(20%)	(3%)	14%
2015E EPS								\$1.75	\$1.75	\$1.75
Implied P/E								12.9x	16.0x	19.0x
									\$28.00	
									\$28.00	
										16.0x

Source: Company data, Credit Suisse estimates

- In a scenario where an MLP is created, we forecast an estimated NTM valuation of \$34/share i.e. ~19.5x 2015E EPS, but we caution that we are applying stretched valuation metrics to get there.

Exhibit 4: Forecasted Valuation Assuming Creation of MLP

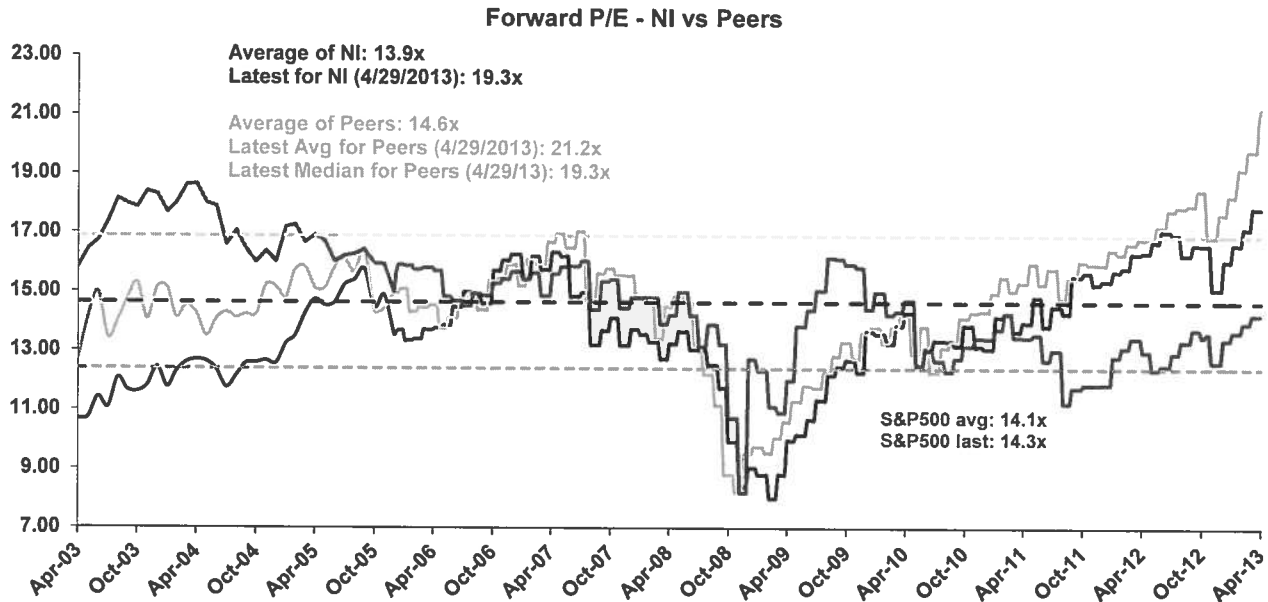
NTM - MLP Valuation Multiple for Transmission and Storage

	NTM		Metric	Multiple			Enterprise Value / Equity Value			
	EBIT	D&A		EBITDA / NI	Low	Base	High	Low	Base	High
Electric Services	259.8	260.6	179.1	P/E	16.0x	18.0x	20.0x	2,866.2	3,224.4	3,582.7
Natural Gas Utilities	467.3	205.8	673.1	EV/EBITDA	9.0x	10.0x	11.0x	6,057.9	6,731.0	7,404.1
Transmission and Storage	505.5	115.3	620.8	EV/EBITDA	12.5x	13.5x	15.5x	7,759.5	8,380.3	9,621.8
Total Enterprise / Equity Value								16,683.6	18,335.7	20,608.6
Cash & Equivalents								83.1	83.1	83.1
Short-term Debt								1,284.1	1,284.1	1,284.1
Long-term Debt								6,819.1	6,819.1	6,819.1
Less Net Debt								8,020.1	8,020.1	8,020.1
Total Equity Value								8,663.5	10,315.6	12,588.5
Shares Outstanding								310	310	310
Per Share								\$27.97	\$33.54	\$40.57
Current Share Price (Feb 19, 2012)								\$30.73	\$30.73	\$30.73
Return								(6%)	12%	35%
Dividend per share (Est.)								\$0.98	\$0.98	\$0.98
Dividend Yield								3%	3%	3%
Total Return								(3%)	16%	38%
2015E EPS								\$1.75	\$1.75	\$1.75
Implied P/E								16.0x	19.2x	23.2x
									\$34.00	
									\$34.00	
										19.5x

Source: Company data, Credit Suisse estimates

- Exhibits 3 and 4 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets may already be priced into the shares (or at least a portion of the potential). We wrote just 2 months ago that we believed NI shares had limited further upside at least from a multiple expansion standpoint. We have been proven wrong as NI shares have rallied by 13% since reporting 4Q12 results. Still some investors may find the 3% yield and 3-5% dividend growth or 7% total return opportunity, assuming that NI's continue to trade at today's lofty levels appealing. Compared to MLPs which comprise the bulk of our coverage, we believe that there are better opportunities there. Offsetting the downside:
 - the execution of numerous infrastructure replacement programs in each of its gas distribution utilities,
 - execution of environmental cost recovery mechanisms for its environmental enhancements to its electric utility generation fleet along with a distribution modernizations program that it is working to establish from a recovery standpoint via legislation SB560,
 - a 5-year settlement agreement with the FERC to begin a systematic \$300mm/year infrastructure replacement program on its Columbia Gas Transmission system,
 - execution and development of NI's assets which are proximate to shale plays that offer some of the strongest returns to producers in the US.

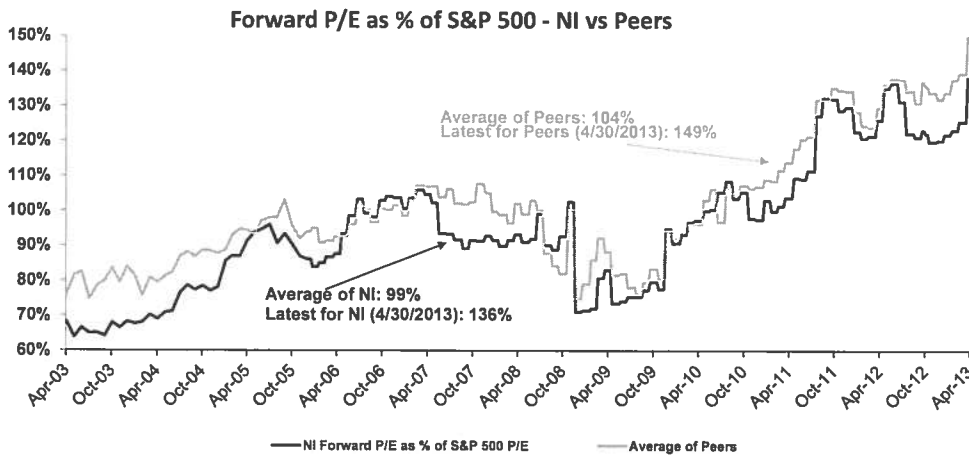
Exhibit 5: Valuations are Extended on a forward P/E basis: NI Trading Over 2 Standard Deviations Above Its Average Multiple and Its Peers Are Trading Over 3 Standard Deviations Above their Average P/E Multiple



Source: Factset, Credit Suisse estimates. Peers: CNP, D, PCG, OKE, SRE, STR, WMB

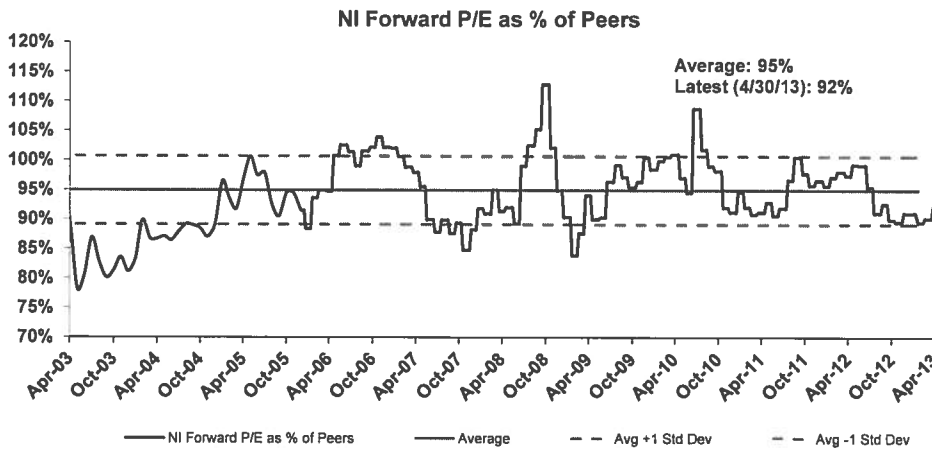
Both NI and its peers are trading at the high end of the forward P/E ranges for the last 10 years. NI has averaged 13.9x forward P/E and its peers have averaged 14.6x forward P/E. As of Apr 30, NI trades at 19.6x forward EPS while peers trade at 21.4x or 92% of the peer group and a 1.8x discount to peers. NI trades on average at 99% of the S&P 500 and currently at 135% of the S&P 500 while its peers trade at 149% of the S&P 500. The premium for NI and peers to the broader market is on account of the stability of the cash flows relative to the broader market, particularly in light of supportive Federal Reserve policy that is expected to continue until at least 2015. Consequently, we are seeing investors looking past the NTM to 2015 expected earnings for names such as NI.

Exhibit 6: NI P/E as Pct of S&P 500 Are 3 Std Deviations Above Average and Peer Group P/E as Pct of S&P 500 Over 2 Std Dev Above Average



Source: FactSet, Credit Suisse estimates

Exhibit 7: NI trades at an average of 95% Forward P/E relative to peers, 92% currently



Source: FactSet, Credit Suisse estimates

Risks

We view the business model for NI as lower risk than MLPs that comprise the bulk of our coverage universe. Most of its growth capital projects are for replacement of existing infrastructure and which has the added security of having enabling legislation and or enabling regulatory settlements in a number of its service areas to help assure cost recovery in rates. It reached a customer modernization settlement with the FERC for an initial 5 years and \$1.5B in investment for its Columbia Pipeline group. Legislation in support of electric infrastructure modernization in Indiana has been enacted. New legislation in Virginia and Maryland is also supportive of infrastructure investment for natural gas distribution systems and NI also reached a settlement with the Pennsylvania PUC regarding a rate increase and the use of a forward test year for its natural gas distribution system there.

Of the \$1.8B in cap ex for 2013, \$490mm is for age and condition and the remaining portion is for growth and tracker investments which effectively have support from NI's from the state regulatory authorities in which it operates.

Commodity price risk is very low and under the current regulatory regime is recovered in utility rates.

The main risk in our view is valuation – as explained above NI and for that matter its peers have reached extended valuation levels when considered from a historical P/E perspective. However, given very low income from bonds, income oriented investors have been increasingly taken to low risk utility business models as a yield alternative. Consequently NI's shares are up 27% YTD with no meaningful change in earnings outlook. The shares yield 3% and the company is guiding to 3-5% dividend growth giving 7% annual return potential all else being equal. The Federal Reserve has indicated intention to provide monetary policy support through 2015 in the form of continuing aggressive purchases of US government issues. Thus, a key risk as far as valuation is concerned is mean reversion and/or a change in Federal Reserve policy brought on by political or other external events that are not in the current forecast.

Companies Mentioned (Price as of 30-Apr-2013)

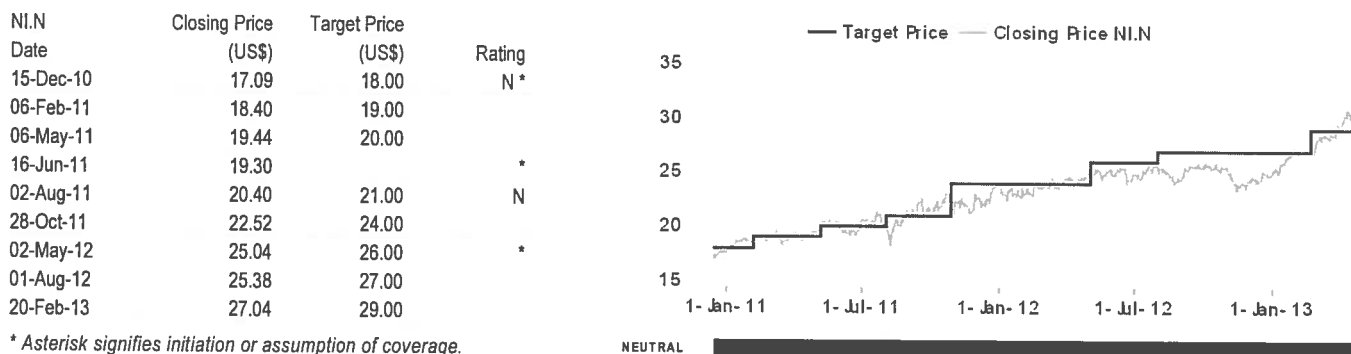
NiSource Inc. (NI.N, \$30.73, NEUTRAL, TP \$31.0)

Disclosure Appendix

Important Global Disclosures

John Edwards, CFA, Scott Fogleman, Brett Reilly, CFA and Bhavesh Lodaya each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Price and Rating History for NiSource Inc. (NI.N)



* Asterisk signifies initiation or assumption of coverage.

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Restricted	3%	

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: We derive our 12-month price target of \$31 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17-19x 2015E EPS estimate of \$1.75, which is at the upper end of NI's historic trading range but below its historic average relative to peers.

Risk: Main risks to our 12-month price target of \$31 for NiSource would be mean reversion on multiples. Both NI and peers are trading well above historical multiples both compared to themselves and the S&P 500. Consequently, should issues surface on the macro political, financial, economic, or other fronts, there is risk of pull back from current multiples. valuation.

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NiSource Inc (NI)

INCREASE TARGET PRICE

Beat and Raise

Rating **NEUTRAL***
 Price (31 Jul 12, US\$) 25.59
 Target price (US\$) (from 26.00) 27.00¹
 52-week price range 25.64 - 18.27
 Market cap. (US\$ m) 7,290.74
 Enterprise value (US\$ m) 14,940.82

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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- 2Q12 Results Beat:** NI reported 2Q12 diluted EPS of \$0.23/share, above our estimated \$0.17/share. The Electric segment was well above our estimates with Gas distribution also beating while Gas Transmission & Storage was in-line. NI also announced a \$0.01/share, (4.3%) dividend increase, to \$0.24.
- Utica Shale Update:** Management provided an update on its Utica and Marcellus opportunities with a focus on the recently announced JVs with privately-held, Hilcorp Energy. NI is forming a \$300mm JV (Pennant Midstream) that will develop 400mmcf/d gathering and 200mmcf/d gas processing with volumes coming from Hilcorp acreage dedications and another separate JV in which NI contributes 14,000 of its 100,000 – 200,000 acres of mineral rights. Note, our model does not assign any value for the Utica potential yet.
- Raising Estimates Above Guidance:** Management reiterated its 2012 EPS guidance range of \$1.40 - \$1.50/share. We now forecast NI to generate earnings above guidance (\$1.54/share) given the large beat to estimates. NI reiterated its \$1.4B capital expenditure plan for 2012 and raised its cap ex outlook primarily on growing visibility to modernization in its gas distribution and pipeline segments and growth opportunities embedded in gas transmission and storage (around the Marcellus and Utica shale plays).
- Maintain Neutral and Increase TP to \$27:** We maintain our Neutral rating and increase our TP to \$27. Our new TP equates to a P/E multiple of 17x our NTM Basic EPS est. of \$1.57.

Share price performance



On 07/31/12 the S&P 500 INDEX closed at 1379.32

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.72	0.16	0.11	0.31
2012E	0.73	0.23	0.15	0.40
2013E	0.71	0.26	0.19	0.47

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (US\$)	1.31	1.48	1.63	1.75
Prev. EPS (US\$)	—	1.42	1.54	1.65
P/E (x)	19.5	17.3	15.7	14.6
P/E rel. (%)	136.8	129.9	132.1	135.9
Revenue (US\$ m)	5,794.9	5,064.0	5,047.2	5,268.7
EBITDA (US\$ m)	1,499.5	1,724.4	1,888.1	2,012.9
OCFPS (US\$)	3.02	4.55	3.64	4.58
P/OCF (x)	7.9	5.6	7.0	5.6
EV/EBITDA (current)	10.1	8.8	8.0	7.5
Net debt (US\$ m)	7,942	7,650	7,802	7,906
ROIC (%)	4.86	5.49	5.71	5.81
Number of shares (m)	284.91			12,939.60
BV/share (Next Qtr., US\$)	18.3			1.2
Net debt (Next Qtr., US\$ m)	7,848.6			0.24
Net debt/tot cap (Next Qtr., %)	153.7			0.94
		IC (current, US\$ m)		
		EV/IC (x)		
		Dividend (Next Qtr., US\$)		
		Dividend yield (%)		

Source: Company data, Credit Suisse estimates.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,500 miles of pipe and 640 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 450,000 customers.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage. NI also has a \$4.35 billion, 10-15 year infrastructure replacement program at its gas utilities and a \$850mm environmental investment program at its electric utility that should drive above average earnings growth (~7%/year) over the next several years. Importantly, we believe NI has the liquidity (\$1.4B), balance sheet, and opportunity set in place to maintain an annual cap ex program of approximately \$1.5 billion.

Additional Color

- **Cap Ex Opportunities Likely to Rise:** With \$4B in infrastructure modernization opportunities in its gas distribution business over the next 10-15 years, \$850mm in environmental initiatives, growing likelihood of another \$200mm transmission project, its recent \$300mm JV with Hilcorp which could grow to \$1B, and an asset footprint right on top of one of the richest shale plays in North America, we believe NI's cap ex run rate going forward is likely to be in the \$1.5B range, up from our previous assumption of \$1.0B.
- **Earnings Growth Could Accelerate:** Given the growing visibility of the slate of opportunities, we believe EPS growth is likely to move from the 5% range that management has targeted, to ~7% over the next few years.
- **Modeling 4% Dividend Growth:** We believe NI is likely to resume dividend growth in 2012. We are modeling a \$0.01/shr increase (4%) growth when NI declares its distribution for 3Q12. Our model forecasts with a \$0.01/shr increase, NI will have 64% payout ratio. We are forecasting ~4% annual dividend growth rate going forward.
- **Forward Equity Sales Update:** NI intends to access its forward equity draw by September 2012. To recap, NI entered into a forward equity agreement in September 2010 that will result in the issuance of 25mm shares by September 2012. We expect the equity issuance will provide about \$350mm in proceeds to NI that would help finance its growth plans in 2012.
- **MLP Option A Couple of Years Out:** We believe management still views an MLP as a viable option to help finance growth of its midstream business but we now do not expect NI to pursue this strategy for at least the next couple of years. In fact the issue was not raised on the conference call.
- **Liquidity:** NI had a net available liquidity of \$1.4Bmm at the end of 2Q12.

Valuation

Our target price of \$27 is based on a projected NTM price to earnings multiple of ~17 times. NI appears fairly valued based on price to earnings and sum-of-the-parts analysis, in our view. The stock trades at price to earnings multiples of ~16.6x 2012E and ~15.5x 2013E, respectively.

Our 12-month target price of \$27 is based on 17 times NTM EPS

Exhibit 1: Sum of the Parts Valuation

	NTM		NTM		Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI	Metric	Low	Base	High	Low	Base	High
Electric Services	250.1	253.9	167.1	P/E	15.0x	16.0x	17.0x	2,506.4	2,673.5	2,840.6
Natural Gas Utilities	473.9	200.4	674.3	EV/EBITDA	8.5x	9.0x	9.5x	5,731.4	6,068.5	6,405.6
Transmission and Storage	442.9	143.1	586.0	EV/EBITDA	9.0x	9.5x	10.0x	5,273.8	5,566.8	5,859.8
Total Enterprise / Equity Value								13,511.6	14,308.8	15,106.0
Cash & Equivalents								137.8	137.8	137.8
Short-term Debt								731.5	731.5	731.5
Long-term Debt								6,806.9	6,806.9	6,806.9
Less Net Debt								7,400.6	7,400.6	7,400.6
Total Equity Value								6,111.0	6,908.2	7,705.4
Shares Outstanding								320	320	320
Per Share								\$19.09	\$21.58	\$24.07
Current Share Price (Jul 31, 2012)								\$25.63	\$25.63	\$25.63
Return								(26%)	(16%)	(6%)
Dividend per share (Est.)								\$0.95	\$0.95	\$0.95
Dividend Yield								4%	4%	4%
Total Return								(22%)	(12%)	(2%)
NTM EPS								\$1.54	\$1.54	\$1.54
Implied P/E								12.4x	14.0x	15.7x
									\$22.00	
									\$22.00	
										14.3x

Applying "normal" valuation multiples to NI's three segments results in a 12 month target price of \$22 – well below where NI currently trades

Source: Company data, Credit Suisse estimates

Exhibit 2: Forecasted 2013E Valuation Assuming Creation of MLP

	2013E		2013E		Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI	Metric	Low	Base	High	Low	Base	High
Electric Services	254.2	259.6	169.8	P/E	15.0x	16.0x	17.0x	2,547.5	2,717.4	2,887.2
Natural Gas Utilities	510.7	208.9	719.6	EV/EBITDA	8.5x	9.0x	9.5x	6,116.7	6,476.5	6,836.3
Transmission and Storage	467.0	150.1	617.1	EV/EBITDA	10.5x	11.0x	11.5x	6,480.0	6,788.5	7,097.1
Total Enterprise / Equity Value								15,144.2	15,982.4	16,820.6
Cash & Equivalents								137.8	137.8	137.8
Short-term Debt								731.5	731.5	731.5
Long-term Debt								6,806.9	6,806.9	6,806.9
Less Net Debt								7,400.6	7,400.6	7,400.6
Total Equity Value								7,743.6	8,581.8	9,420.0
Shares Outstanding								320	320	320
Per Share								\$24.19	\$26.81	\$29.43
Current Share Price (Feb 1, 2012)								\$25.63	\$25.63	\$25.63
Return								(6%)	5%	15%
Dividend per share (Est.)								\$0.00	\$0.00	\$0.00
Dividend Yield								0%	0%	0%
Total Return								(6%)	5%	15%
2013E EPS								\$1.65	\$1.65	\$1.65
Implied P/E								14.6x	16.2x	17.8x
									\$27.00	
									\$27.00	
										16.3x

In a scenario where an MLP is created, we forecast 2013E target valuation of \$27/share i.e. ~16x 2013E EPS

Source: Company data, Credit Suisse estimates

Exhibits 1 and 2 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets may already be priced into the shares. We believe NI shares currently price in its growth potential and have limited further upside given how NI's MLP plans are at least 2 years into the future in our view. Offsetting that downside is the location of NI's assets which are proximate to shale plays that offer some of the strongest returns to producers in the US.



Project Updates

Exhibit 3: NI's Growing List of Growth Projects – the Pennant JV Moved from In Development to In Execution

Project	Description	CapEx*	In-Service*
Completed (2012)			
1	Line WB Expansion Marcellus: Additional compression – between Loudoun, VA & Leach, KY (+175K Dth/Day)	\$14M	2Q/2012
2	Smithfield Project Marcellus: Pipeline and compressor modifications – near Smithfield, WV & Waynesburg, PA (+150K Dth/Day)	\$14M	2Q/2012
3	Rimersburg Expansion Marcellus: Line expansion – North Central PA (+19K Dth/Day)	\$6M	2Q/2012
In Execution			
4	Big Pine Gathering System Marcellus: ~70 Miles of pipeline with multiple Interstate interconnections – Western PA (+425 MMcf/Day)	\$150M	Year-end 2012
5	Millennium Expansion Marcellus: Mainline compression – Stagecoach to Ramapo (+~120K Dth/Day)	\$47M (NI = ~\$22M)	4Q/2012
6	VEPCO Power Plant Transportation Gas Generation: Pipeline to service Virginia Electric Power's New 1,300 MW Plant (+250K Dth/Day)	\$35M	2Q/2014
7	West Side Expansion Marcellus: Transport Marcellus Gas south to Gulf Coast Markets (+~500K Dth/Day)	~\$200M	4Q/2014
8a	Utica Minerals Arrangement (Upstream) Utica: Developing the hydrocarbon potential on a significant combined acreage position in the Utica/Point Pleasant Region.	--	Drilling Begins 2H/2012
8b	Pennant JV (Midstream) Utica: Phase 1 = ~50 Miles of pipeline (400 MMcf/Day) and an NGL processing facility (200MMcf / Day)	\$300M (NI = \$150M)	3Q/2013
In Development/Negotiations			
9	East Side Expansion Marcellus: Connect Marcellus Gas to growing Mid-Atlantic Markets (200-300K Dth/Day)	TBD	2H/2015
10	Quick Link Project Utica: Transport processed Utica Gas to the Columbia Gas System (~500K Dth/Day)	TBD	4Q/2015
In Evaluation			
11	"Fairway" Gathering & Processing Utica: 90 Miles of gathering and 200 Mcf/Day of Processing – Eastern OH	TBD	TBD * Projected



Source: Company Presentation

The changes in Exhibit 3 from the Q1:12 conference call is:

- (1) the Pennant JV moved from the "in development" category to "in execution" giving credence to NI's accelerating growth potential;
- (2) NI also changed the VEPCO pipeline service to a 2Q:14 in-service from mid-2014 providing slightly greater granularity;
- (3) The East Side Expansion project has been given a projected in-service date.
- (4) The Quick Link project has been added.

Exhibit 4: NI's Key Projects Timeline

Key Path Forward Markers		1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13
Liquidity	Equity Issuance: \$400M (24-month Forward Agreement)			▲					
	LT Debt Issuances: \$500M & \$250M(6/2012) Maturities: \$315M(11/2012) / \$420M(3/2013)		▲		▲	▲			
	DRIP: ~\$40M/year								
Gas Distribution	Columbia Gas of MA – Rate Case (Filing / Effective)		▲		▲				
	Columbia Gas of PA – Rate Case (Filing / Effective)				▲		▲		
	Infrastructure Replacement Programs (~\$320M/year)								
Electric	NIPSCO – FGD 1 & 2 (Construction / FGD1 In-Service)								▲
	NIPSCO – FGD 3 (CPCN Filed 3-2011/ Approval-Pending / Construction)					▲			
	MISO Transmission Improvement Project (Engineering / Early Construction)	▲							
GT&S	Big Pine Gathering – Central PA (In-Service)		▲		▲				
	VEPCO Power Plant Transportation Project (FERC Approval / In-Service 2Q 2014)		▲						
	Millennium Pipeline – Mainline Expansion (In-Service)				▲				
	Line WB Expansion (In-Service)		▲						
	Utica Minerals Arrangement (Agreement / In-Execution)			▲					
	Pennant JV – Phase I Project (Agreement / In-Service)			▲				▲	
	Smithfield Project (In-Service)		▲						
	Columbia Gas Modernization (Customer Discussions / Targeting 2013 Implementation)								
	Rimersburg Expansion (In-Service)		▲						
	West Side Expansion (Binding L-T Agreements / In-Service 4Q 2014)		▲						

Source: Company Presentation

Financials

Exhibit 5: Largest Variance Was in the Electric Segment

Segment EBIT	2Q12	2Q12	Diff.	Diff. (%)	2Q11	YoY%	Comments
	Actual	Estimate			Actual		
Gas Distribution	55	51	3	6%	49	12%	Regulatory and infrastructure programs Reg initiatives, expired contracts moved to current rates Growth projects placed in service; Columbia Gulf rate case
NIPSCO Electric	60	38	22	57%	38	58%	
Gas Transmission & Storage	92	94	(2)	-3%	85	8%	
Other	(4)	(5)	1	-15%	(7)	-43%	
Total EBIT (recurring)	202	179	23	13%	164	23%	
Interest Expense	103	101	3	3%	94	9%	
Other Expenses	(3)	0	(3)	NA	(1)	367%	
Taxes	35	27	8	28%	24	48%	
Recurring Net Income	67	51	16	31%	47	42%	
Diluted Wtd Avg shares outstanding	296	294	2	1%	287	3%	
Recurring EPS - Basic	\$0.23				\$0.17	40%	
Recurring EPS - Diluted	\$0.23	\$0.17	\$0.05	30%	\$0.16	38%	
Dividend per share	\$0.24	\$0.23	\$0.01	4%	\$0.23	4%	

Source: Company data, Credit Suisse estimates



Exhibit 6: Raising Estimates

	Old estimates							New Estimates										
	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E	3Q12E	4Q12E	2012E	1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E	2016E
Segment EBIT																		
Gas Distribution	3	140	441	496	518	539	564	5	140	446	261	68	19	163	511	540	571	604
NIPSCO Electric	75	42	204	213	230	246	264	87	52	247	50	61	89	54	254	268	280	294
Gas Transmission & Storage	93	115	440	468	513	544	578	93	117	440	148	98	97	133	477	517	544	574
Other	(1)	(2)	(6)	3	1	1	1	(3)	(2)	(6)	1	11	(3)	(2)	7	5	5	5
Total EBIT (recurring)	170	295	1,079	1,180	1,262	1,331	1,407	182	307	1,127	460	239	202	347	1,249	1,330	1,400	1,476
Interest Expense	99	99	402	417	439	443	450	99	107	422	106	108	108	112	417	439	443	450
Other Expenses	0	0	(1)	0	0	0	0	0	0	(4)	0	0	0	0	0	0	0	0
Taxes	25	71	242	273	296	320	344	26	72	252	126	47	34	85	273	296	320	344
Recurring Net Income	45	126	436	490	527	568	612	56	128	456	228	84	61	151	559	595	637	682
Diluted Wtd Avg shares outstanding	318	319	306	320	322	324	326	321	321	308	322	322	322	323	322	324	326	328
Recurring EPS - Basic	\$0.15	\$0.41	\$1.47	\$1.58	\$1.69	\$1.81	\$1.94	\$0.15	\$0.41	\$1.54	\$0.74	\$0.27	\$0.19	\$0.48	\$1.69	\$1.82	\$1.91	\$2.03
Recurring EPS - Diluted	\$0.14	\$0.39	\$1.42	\$1.53	\$1.64	\$1.75	\$1.88	\$0.15	\$0.40	\$1.48	\$0.71	\$0.26	\$0.19	\$0.47	\$1.63	\$1.75	\$1.84	\$1.96
Dividend per share	\$0.24	\$0.24	\$0.94	\$0.98	\$1.02	\$1.06	\$1.10	\$0.24	\$0.24	\$0.95	\$0.24	\$0.24	\$0.25	\$0.25	\$0.98	\$1.02	\$1.06	\$1.10

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 31 Jul 12)
 NiSource Inc (NI, \$25.59, NEUTRAL, TP \$27.00)

Disclosure Appendix

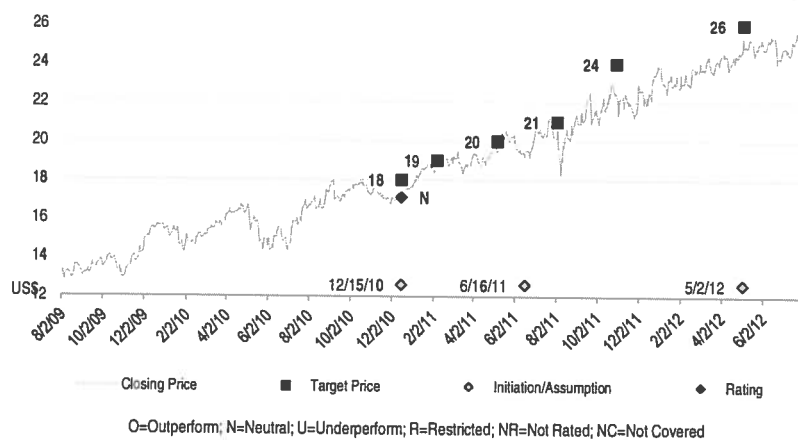
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3-Year Price, Target Price and Rating Change History Chart for NI

NI	Closing Price	Target Price	Initiation/
Date	(US\$)	(US\$)	Rating Assumption
12/15/10	17.09	18	N X
2/6/11	18.66	19	
5/6/11	19.44	20	
6/16/11			X
8/2/11	20.12	21	
10/28/11	22.52	24	
5/2/12	25.04	26	X



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Price Target: (12 months) for (NI)

Method: We derive our 12-month price target of \$27 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17x our next twelve months EPS estimate of \$1.57, which is at the upper end of NI's historic trading range. We believe this to be appropriate as NI has resolved several key regulatory issues and is well positioned for growth. Our price target is also consistent with our sum of the parts valuation assuming NI goes ahead with its MLP spinoff.

Risks: Main risks to our 12-month price target of \$27 for NiSource are that if NI decides to scrap its plans to establish an MLP that investors would flee the stock. Also, pipeline re-contracting risk and economic risk as NI's electric utility is levered to the economy.

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NiSource Inc (NI)

Rating	NEUTRAL*
Price (05 Nov 12, US\$)	24.79
Target price (US\$)	27.00 ¹
52-week price range	25.83 - 21.23
Market cap. (US\$ m)	7,678.83
Enterprise value (US\$ m)	15,460.77

*Stock ratings are relative to the relevant country benchmark.
¹Target price is for 12 months.

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EARNINGS

3Q In-Line; Mostly Holding Outlook

- **3Q12 Results In-Line:** NI reported 3Q12 diluted EPS of \$0.05/share, in line with our estimated \$0.05/share. The Electric segment was below our estimates offset by Gas distribution which by a similar amount. Gas Transmission & Storage missed slightly offset by other which beat slightly. NI held its dividend at \$0.24/share.
- **Update on a Number of Fronts:** Management provided an update on its West Side and East side expansion projects, its Pennant project which could exceed \$1B (currently targeted at \$300mm), its JV with Hilcorp to develop 100,000 acres in the Utica, its construction of FGD units in its NIPSCO unit, and regulatory developments in its Gas Distribution business where it received an order from the Mass DPU and its recent rate filing with the PA commission.
- **Mostly Holding Estimates In-Line with Guidance:** Management reiterated its 2012 EPS guidance range of \$1.40 - \$1.50/share. We are forecasting \$1.43/diluted share, up \$0.02/share on a slight adjustment to the share count as NI issued equity 24.265 mm shares pursuant to its forward equity agreement.
- **Maintain Neutral and Holding TP at \$27:** We maintain our Neutral rating and hold our TP at \$27. Our TP is based on a projected NTM price to earnings multiple of ~16.5-17.5x NTM EPS. Together with NTM dividend of \$0.97 translates to total return of 13%, which is consistent with our Neutral rating.

Share price performance



On 11/05/12 the S&P 500 INDEX closed at 1417.26

Quarterly EPS	Q1	Q2	Q3	Q4
2011A	0.72	0.16	0.11	0.31
2012E	0.73	0.23	0.05	0.42
2013E	0.71	0.26	0.18	0.49

Financial and valuation metrics

Year	12/11A	12/12E	12/13E	12/14E
EPS (CS adj.) (US\$)	1.31	1.43	1.64	1.72
Prev. EPS (US\$)	—	1.41	1.66	1.74
P/E (x)	18.9	17.3	15.1	14.4
P/E rel. (%)	124.6	121.7	117.3	124.7
Revenue (US\$ m)	5,794.9	4,991.8	4,986.1	5,270.8
EBITDA (US\$ m)	1,499.5	1,659.2	1,901.1	1,999.9
OCFPS (US\$)	3.02	4.68	3.66	4.56
P/OCF (x)	7.9	5.3	6.8	5.4
EV/EBITDA (current)	10.3	9.3	8.1	7.7
Net debt (US\$ m)	7,942	7,782	7,930	8,042
ROIC (%)	4.86	5.29	5.74	5.72
Number of shares (m)	309.76	IC (current, US\$ m)		12,939.60
BV/share (Next Qtr., US\$)	18.3	EV/IC (x)		1.2
Net debt (Next Qtr., US\$ m)	7,848.6	Dividend (Next Qtr., US\$)		0.24
Net debt/tot cap (Next Qtr., %)	153.7	Dividend yield (%)		0.97

Source: Company data, Credit Suisse estimates.

DISCLOSURE APPENDIX CONTAINS ANALYST CERTIFICATIONS AND THE STATUS OF NON-US ANALYSTS. U.S. Disclosure: Credit Suisse does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the Firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,500 miles of pipe and 640 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 450,000 customers.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage. NI also has a \$4.35 billion, 10-15 year infrastructure replacement program at its gas utilities and a \$850mm environmental investment program at its electric utility that should drive above average earnings growth (~7%/year) over the next several years. Importantly, we believe NI has the liquidity (\$1.4B), balance sheet, and opportunity set in place to maintain an annual cap ex program of approximately \$1.5 billion-\$1.8B.

Outlook Largely Unchanged

- **Cap Ex Opportunities of \$25-\$30b:** NI reiterated from its analyst day that its total inventory of infrastructure-focused investment opportunities is expected to be in the range of \$25-\$30b and equivalent to \$1.5-\$1.8B/year.
- **Earnings Growth of 5-7% expected:** The EPS growth outlook guidance has moved from 5%, to ~5-7% long term and is consistent with our existing forecast.
- **Modeling 4% Dividend Growth:** Management reiterated its 3-5% dividend/share growth guidance and 60-70% payout, which is consistent with our forecast.
- **Forward Equity Sales Occurred in Sept as expected:** NI intends to access its forward equity draw by September 2012. To recap, NI entered into a forward equity agreement in September 2010 that resulted in the issuance of 24.265mm shares on September 10, 2012. The equity issuance provided \$339mm in proceeds.
- **MLP Option A Couple of Years Out:** We believe management still views an MLP as a viable option to help finance growth of its midstream business but we now do not expect NI to pursue this strategy for at least the next couple of years. Once again, the issue was not raised on the conference call.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit in excess of \$1.5Bmm at the end of 3Q12.

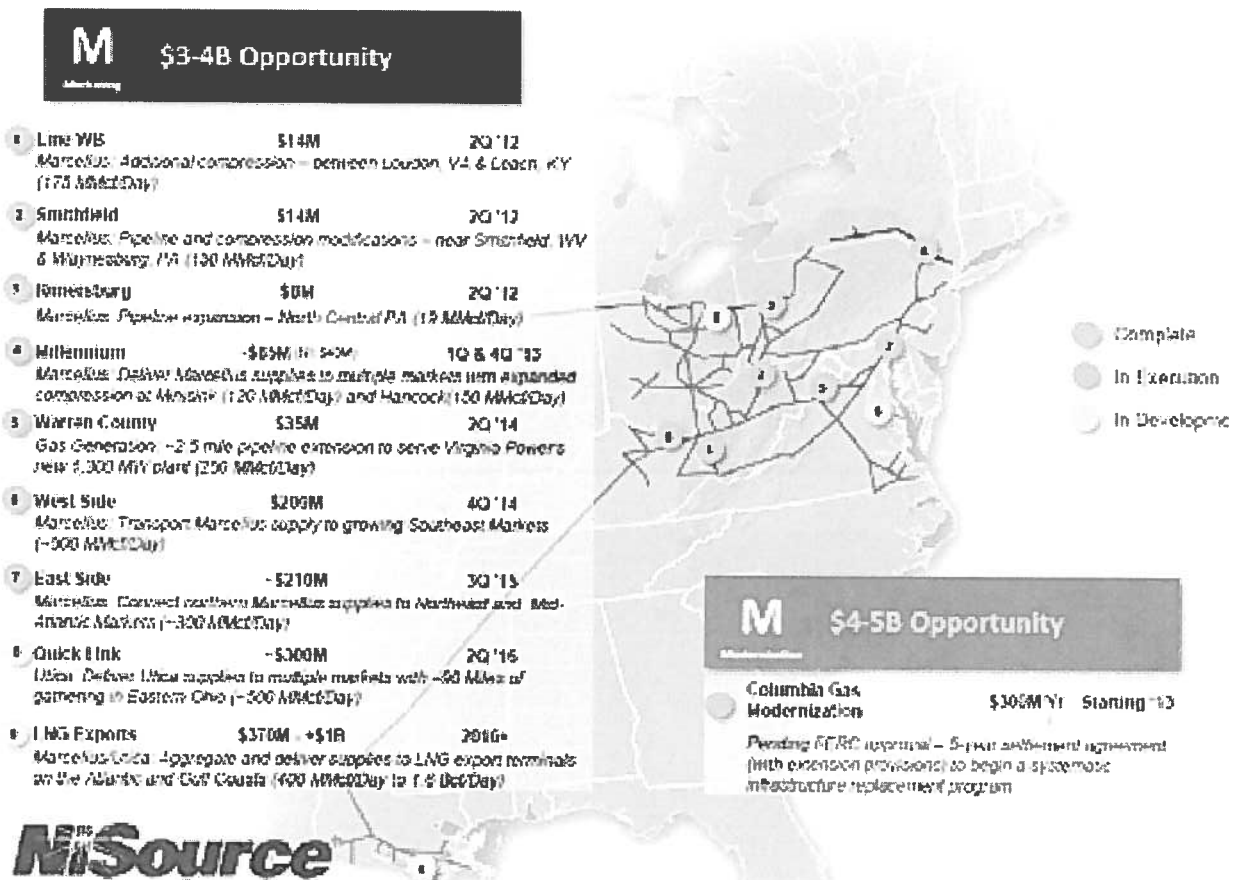
Call Highlights

- **Millennium pipeline received FERC approval:** NI's Millennium pipeline received FERC approval to add 12,000+ HP of compression in Orange County, NY with in-service targeted for Q1:13. NI is responsible for ½ of the \$43mm project cost.
- **West Side Project expansion is on track for late 2014 in service after receiving binding precedent agreements.** A FERC filing is scheduled for 1H:13.

- The 300mmcf/d East Side Project expansion has completed its precedent agreements. The \$200mm project, which moves gas from the Marcellus to East coast markets, is due in service Q3:15.
- The 50/50 Pennant Midstream JV with Hilcorp in which NI has invested \$300mm for the first phase of development is expected to be placed in service for H2:13. The first phase consists of 400mmcf/d gathering and 200mmcf/d gas processing. However, NI expects that the total opportunity could ultimately exceed \$1B (\$500mm NI share).
- NI expects to invest approximately \$250mm in an flue gas desulfurization unit beginning in 2013 at its Michigan City coal plant. NI is continuing to move forward on its \$300mm Reynolds to Hiple transmission project and its \$300mm Reynolds to Greentown JV project. Both projects are scheduled for in-service toward the end of the decade. NIPSCO expects to invest approximately \$400-\$450mm/year in its NIPSCO electric infrastructure.
- NI's Natural Gas Distribution business received an order from the Mass DPU to increase its base revenues by \$8mm/year and it recently file a rate increase request with the PA Commission requesting an annual revenue increase of \$77mm based on infrastructure investments needed there. A decision on the request is expected H2:13. Longer term infrastructure replacement in the Natural Gas Distribution segment is expected to be \$10B or more over the next 20 years.

Exhibit 1: NI Transmission and Storage Slate of Projects

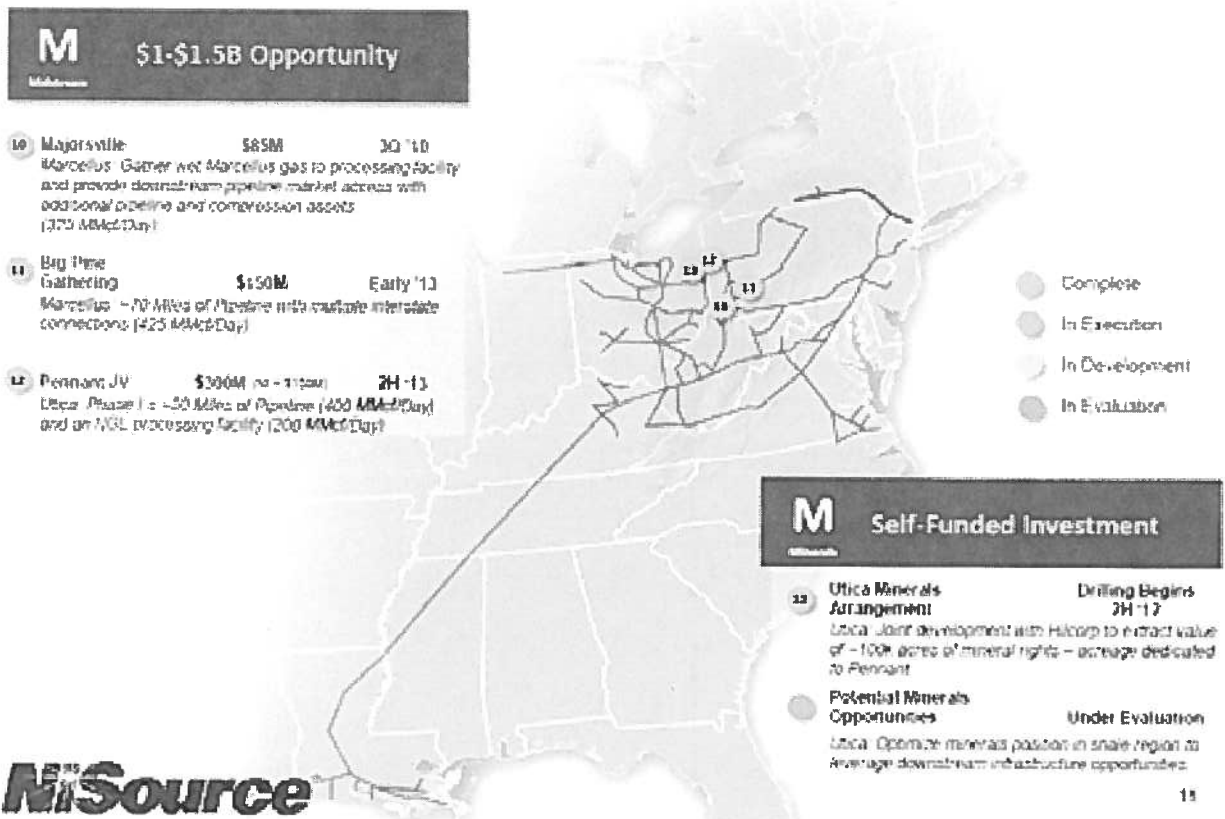
NGT&S Regulated Pipeline & Storage Growth Update



Source: NI Q312 Slide Deck, slide 10

Exhibit 2: NI Natural Gas Transmission and Storage Midstream and Minerals Opportunity Slate

NGT&S Midstream & Minerals Growth Update



Source: Slide 11, NI Q312 slide deck

Valuation

- We holding our target price at \$27 based on a projected NTM price to earnings multiple of ~16.5-17.5x NTM EPS. The stock trades at price to earnings multiples of ~17.3x 2012E and ~15.4x 2013E, respectively.
- Applying "normal" valuation multiples to NI's three segments results in a 12 month target price of \$23 – well below where NI currently trades
- Our 12-month target price of \$27 is based on 17x NTM EPS

Exhibit 3: Sum of the Parts Valuation

NTM - Next Twelve Months Valuation

	NTM		NTM		Metric	Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI			Low	Base	High	Low	Base	High
Electric Services	256.7	256.8	171.5		P/E	15.0x	16.0x	17.0x	2,572.2	2,743.7	2,915.2
Natural Gas Utilities	498.2	204.6	702.8		EV/EBITDA	8.5x	9.0x	9.5x	5,973.4	6,324.8	6,676.1
Transmission and Storage	459.3	146.6	605.8		EV/EBITDA	9.0x	9.5x	10.0x	5,452.5	5,755.4	6,058.3
Total Enterprise / Equity Value									13,998.1	14,823.8	15,649.6
Cash & Equivalents									137.8	137.8	137.8
Short-term Debt									731.5	731.5	731.5
Long-term Debt									6,806.9	6,806.9	6,806.9
Less Net Debt									7,400.6	7,400.6	7,400.6
Total Equity Value									6,597.5	7,423.2	8,249.0
Shares Outstanding									320	320	320
Per Share									\$20.61	\$23.19	\$25.77
Current Share Price (Oct 25, 2012)									\$24.79	\$24.79	\$24.79
Return									(17%)	(6%)	4%
Dividend per share (Est.)									\$0.97	\$0.97	\$0.97
Dividend Yield									4%	4%	4%
Total Return									(13%)	(3%)	8%
NTM EPS									\$1.57	\$1.57	\$1.57
Implied P/E									13.1x	14.7x	16.4x
										\$23.00	
										\$23.00	

Source: Company data, Credit Suisse estimates

- In a scenario where an MLP is created, we forecast 2013E target valuation of \$30/share i.e. ~18x 2013E EPS

Exhibit 4: Forecasted 2013E Valuation Assuming Creation of MLP

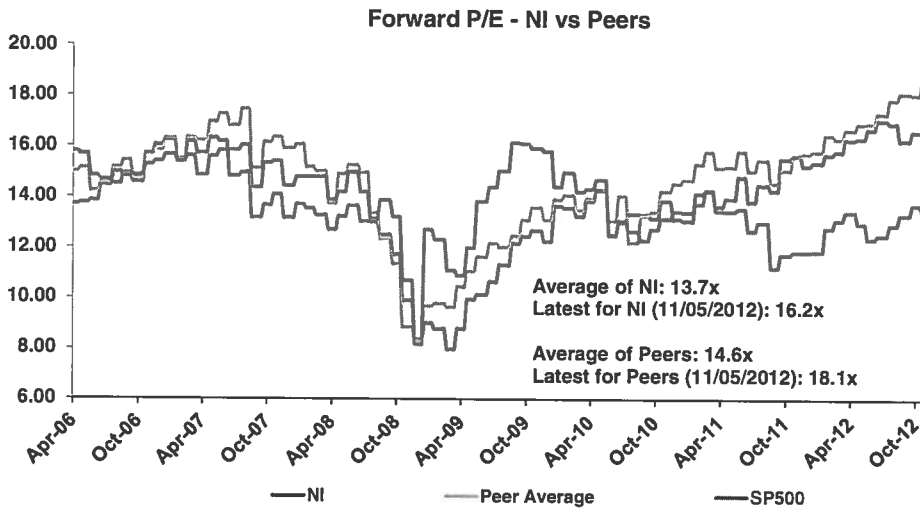
2013E - MLP Valuation Multiple for Transmission and Storage

	2013E		2013E		Metric	Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI			Low	Base	High	Low	Base	High
Electric Services	258.3	259.6	172.5		P/E	15.0x	16.0x	17.0x	2,587.9	2,760.5	2,933.0
Natural Gas Utilities	521.1	208.9	730.0		EV/EBITDA	8.5x	9.0x	9.5x	6,204.8	6,569.8	6,934.8
Transmission and Storage	475.5	150.1	625.7		EV/EBITDA	12.0x	12.5x	13.0x	7,507.9	7,820.8	8,133.6
Total Enterprise / Equity Value									16,300.7	17,151.1	18,001.4
Cash & Equivalents									137.8	137.8	137.8
Short-term Debt									731.5	731.5	731.5
Long-term Debt									6,806.9	6,806.9	6,806.9
Less Net Debt									7,400.6	7,400.6	7,400.6
Total Equity Value									8,900.1	9,750.5	10,600.8
Shares Outstanding									320	320	320
Per Share									\$27.81	\$30.46	\$33.12
Current Share Price (Feb 1, 2012)									\$24.79	\$24.79	\$24.79
Return									12%	23%	34%
Dividend per share (Est.)									\$0.00	\$0.00	\$0.00
Dividend Yield									0%	0%	0%
Total Return									12%	23%	34%
2013E EPS									\$1.64	\$1.64	\$1.64
Implied P/E									16.9x	18.5x	20.1x
										\$30.00	
										\$30.00	
										Implied P/E	18.2x

Source: Company data, Credit Suisse estimates

- Exhibits 3 and 4 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets may already be priced into the shares (or at least a portion of the potential). We believe NI shares currently price in its growth potential and have limited further upside given how NI's MLP plans are at least 2 years into the future in our view. Offsetting that downside is the location of NI's assets which are proximate to shale plays that offer some of the strongest returns to producers in the US.

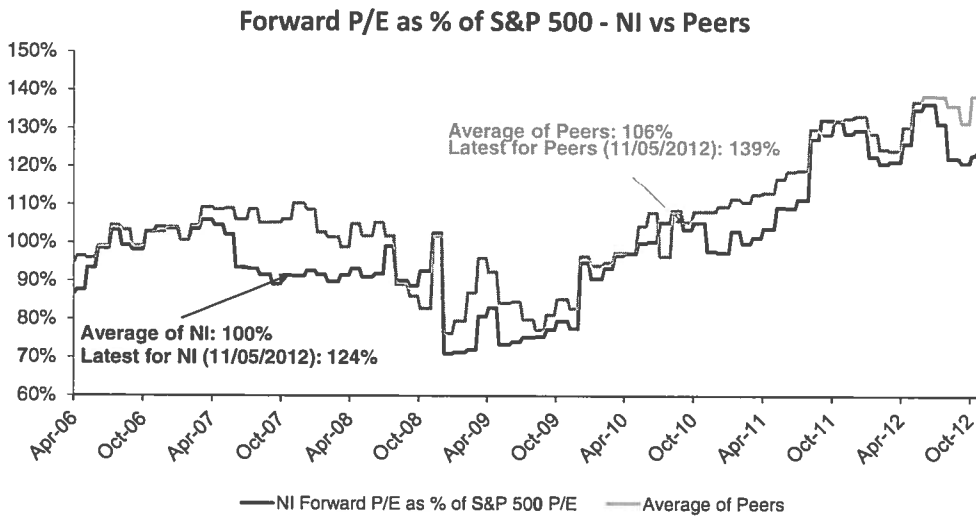
Exhibit 5: NI Trades at a 0.9x Forward P/E Multiple Discount to Peers on Average and 2.0x Discount Currently (16.5x vs. Peers at 18.5x)



Source: Company data, Credit Suisse estimates. Peers: CNP, D, PCG, OKE, SRE, STR, WMB

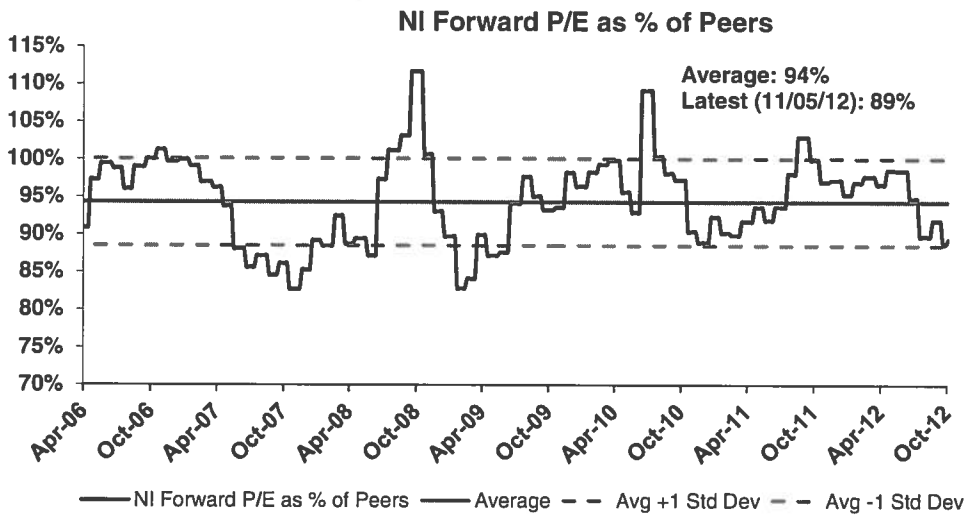
- Both NI and its peers are trading at the high end of the forward P/E ranges for the last 6 years. NI has averaged 13.7x forward P/E and its peers have averaged 14.6x forward P/E. As of Nov 5, NI trades at 16.2x forward EPS while peers trade at 18.1x. Thus, NI trades at 90% of the peer group and a 1.9x discount to peers. NI trades on average at 100% of the S&P 500 and currently at 124% of the S&P 500 while its peers trade at 139% of the S&P 500. The premium for NI and peers to the broader market is on account of the stability of the cash flows relative to the broader market, particularly in light of sovereign debt risks.
- Given NI's 5-7% EPS growth rate, offset by its balance sheet which leverage is above average at 58% debt/capital and 4.5x debt/LTM EBITDA we believe a discount multiple to its peers is warranted. It has averaged 94% of the forward P/E relative to peers which would translate to approximately 17.1x, which is higher than 15.8X at which it is currently trading. Using 16.5x-17.5x NTM EPS would translate to a valuation range of \$26-\$27.50 or an average of ~\$27, supporting our target price of \$27.

Exhibit 6: NI trades at 100% of the S&P 500 forward P/E on average and is currently at 124% of the S&P 500 forward P/E vs. peers currently at 139% of forward P/E vs. S&P 500



Source: Company data, Credit Suisse estimates

Exhibit 7: NI trades at an average of 94% Forward P/E relative to peers, 89% currently



Source: Company data, Credit Suisse estimates

Financials

Exhibit 8: Quarterly Variances by segment

Quarterly Variance

Earnings Variance

	3Q12 Actual	3Q12 CS Estimate	Diff.	Diff. (%)	3Q11 Actual	Comments
Segment EBITDA						
Gas Distribution	64	53	11	21%	52	
NIPSCO Electric	141	149	(8)	-5%	127	
Gas Transmission & Storage	47	78	(31)	-40%	101	Columbia Gulf vols below forecast
Other	2	2	(0)	-11%	(2)	
Total EBITDA (recurring)	254	282	(28)	-10%	277	
Segment EBIT						
Gas Distribution	15	5	11	218%	8	Rev beat, O&M beat, op taxes beat
NIPSCO Electric	78	87	(9)	-11%	73	Sales below forecast
Gas Transmission & Storage	39	43	(5)	-11%	68	D&A well below forecast
Other	(2)	(3)	1	-41%	(7)	
Total EBIT (recurring)	130	132	(2)	-1%	142	
Interest Expense	108	109	(1)	-1%	96	
Other Expenses	(2)	0	(2)	NM	(2)	
Taxes	9	8	0	3%	15	
Recurring Net Income	16	15	1	6%	33	
Diluted Wtd Avg shares outstanding	300	321	(21)	-6%	289	
Recurring EPS - Diluted	\$0.05	\$0.05	\$0.00	0%	\$0.11	
Dividend per share	\$0.24	\$0.24	\$0.00	0%	\$0.23	

Source: Company data, Credit Suisse estimates

Exhibit 9: Slight Trim to Outlook on Share Count Adjustment

Earnings Variance	Old estimates							New Estimates						
	3Q12E	4Q12E	2012E	2013E	2014E	2015E	2016E	3Q12A	4Q12E	2012E	2013E	2014E	2015E	2016E
Segment EBIT														
Gas Distribution	5	142	448	518	548	579	612	15	141	458	521	551	582	615
NIPSCO Electric	87	52	247	254	268	280	294	78	52	240	258	272	284	298
Gas Transmission & Storage	43	129	402	489	505	533	564	39	129	371	476	489	515	545
Other	(3)	(2)	(6)	7	5	5	5	(2)	(2)	20	7	5	5	5
Total EBIT (recurring)	132	321	1,091	1,269	1,326	1,397	1,475	130	320	1,088	1,262	1,317	1,387	1,463
Interest Expense	109	108	423	417	439	443	450	108	108	423	417	439	443	450
Other Expenses	0	0	(4)	0	0	0	0	(2)	0	(6)	0	0	0	0
Taxes	8	77	239	273	296	320	344	9	76	239	273	296	320	344
Recurring Net Income	15	137	433	579	591	634	681	16	136	433	572	582	624	669
Diluted Wtd Avg shares outstanding	321	321	308	322	324	326	328	300	321	302	322	324	326	328
Recurring EPS - Basic	\$0.05	\$0.44	\$1.46	\$1.72	\$1.81	\$1.90	\$2.02	\$0.05	\$0.44	\$1.48	\$1.70	\$1.77	\$1.87	\$1.98
Recurring EPS - Diluted	\$0.05	\$0.43	\$1.41	\$1.66	\$1.74	\$1.84	\$1.95	\$0.05	\$0.42	\$1.43	\$1.64	\$1.72	\$1.81	\$1.92
Dividend per share	\$0.24	\$0.24	\$0.95	\$0.98	\$1.02	\$1.06	\$1.10	\$0.24	\$0.24	\$0.95	\$0.98	\$1.02	\$1.06	\$1.10
Financing & Credit Metrics														
Total Debt / Total Cap	59.0%	58.4%	58.4%	55.8%	54.2%	52.9%	50.7%	59.3%	58.8%	58.8%	56.2%	54.7%	53.4%	51.3%
Net Debt / Total Cap	58.8%	58.2%	58.2%	55.6%	54.0%	52.7%	50.6%	59.2%	58.7%	58.7%	56.1%	54.6%	53.3%	51.2%
Net Debt / Equity	142.9%	139.4%	139.4%	125.3%	117.6%	111.4%	102.3%	145.2%	142.2%	142.2%	128.0%	120.4%	114.3%	105.1%
Book Value Per Share	\$16.99	\$17.16	\$17.91	\$19.36	\$20.78	\$22.08	\$24.06	\$18.04	\$17.06	\$18.10	\$19.25	\$20.63	\$21.91	\$23.85
Net Debt / TTM EBITDA	4.9x	4.5x	4.5x	4.1x	3.9x	3.8x	3.6x	5.0x	4.7x	4.7x	4.2x	4.0x	3.9x	3.7x
Operating Statistics														
Gas Distribution														
Sales Volumes (MMDth)	148	239	881	881	881	881	881	170	239	903	903	903	903	903
Customers ('000s)	3,306	3,342	3,342	3,356	3,369	3,383	3,396	3,289	3,326	3,326	3,339	3,352	3,366	3,379
Gross Profit per Customer	\$81	\$134	\$473	\$503	\$523	\$544	\$566	\$83	\$134	\$476	\$505	\$525	\$546	\$568
O&M per Customer	\$55	\$61	\$231	\$234	\$239	\$243	\$249	\$54	\$61	\$231	\$233	\$238	\$243	\$248
Electric Operations														
Sales (Gigawatt Hours)	4,859	4,260	17,496	17,730	17,920	18,058	18,197	4,622	4,260	17,260	17,491	17,679	17,815	17,953
Customers ('000s)	456.6	457.8	457.8	457.8	457.8	457.8	457.8	457.2	457.8	457.8	457.8	457.8	457.8	457.8
Gross Margin/Megawatt Hour	\$55.83	\$54.77	\$56.58	\$57.72	\$58.87	\$60.05	\$61.25	\$58.67	\$54.77	\$57.36	\$58.50	\$59.67	\$60.87	\$62.08
O&M/Megawatt Hour	\$22.13	\$24.05	\$24.79	\$25.16	\$25.16	\$25.16	\$25.17	\$22.13	\$24.05	\$25.49	\$25.20	\$25.20	\$25.20	\$25.20
Gas Transmission & Storage														
Throughput (MMDth)														
Columbia Transmission	193	318	1,101	1,156	1,225	1,299	1,376	189	318	1,097	1,152	1,221	1,294	1,372
Columbia Gulf	270	276	1,010	1,010	1,010	1,010	1,010	206	276	946	997	997	997	997
Crossroads Gas Pipeline	4	4	16	17	17	17	17	3	4	16	16	16	16	17
Intrasegment eliminations	(124)	(124)	(477)	(477)	(477)	(477)	(477)	(86)	(124)	(439)	(439)	(439)	(439)	(439)
Total	343	474	1,651	1,706	1,776	1,849	1,927	312	474	1,620	1,726	1,795	1,869	1,946
Revenue Per Dekatherm	\$0.73	\$0.67	\$0.66	\$0.68	\$0.69	\$0.71	\$0.72	\$0.60	\$0.67	\$0.63	\$0.65	\$0.67	\$0.68	\$0.69
O&M as % revenue	45.0%	45.0%	47.1%	41.6%	42.2%	42.1%	42.0%	45.0%	45.0%	47.3%	41.5%	42.2%	42.1%	42.0%

Source: Company data, Credit Suisse estimates

Companies Mentioned (Price as of 05 Nov 12)
 NiSource, Inc. (NI, \$24.79, NEUTRAL, TP \$27.00)

Disclosure Appendix

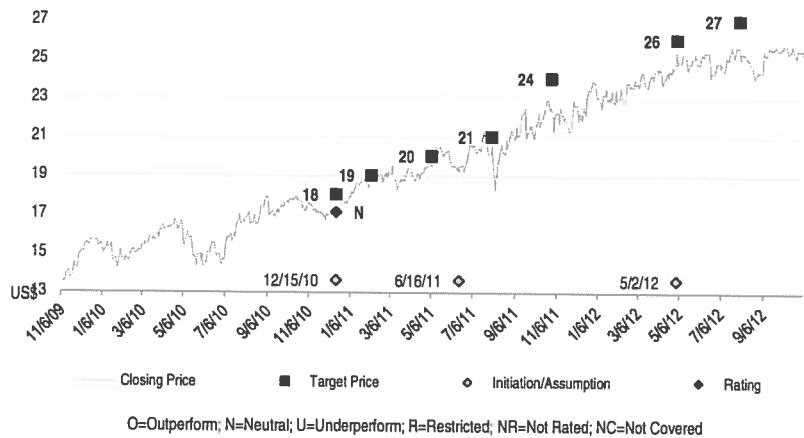
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3-Year Price, Target Price and Rating Change History Chart for NI

NI	Closing Price	Target Price	Initiation/
Date	(US\$)	(US\$)	Rating Assumption
12/15/10	17.09	18	N X
2/6/11	18.66	19	
5/6/11	19.44	20	
6/16/11			X
8/2/11	20.12	21	
10/28/11	22.52	24	
5/2/12	25.04	26	X
8/1/12	25.38	27	



O=Outperform; N=Neutral; U=Underperform; R=Restricted; NR=Not Rated; NC=Not Covered

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Underperform (U): The stock's total return is expected to underperform the relevant benchmark* by 10-15% or more over the next 12 months.

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Underperform/Sell*	15%	(40% banking clients)
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Price Target: (12 months) for (NI)

Method: We derive our 12-month price target of \$27 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 17x our next twelve months EPS estimate of \$1.59, which is at the upper end of NI's historic trading range but below its historic average relative to peers. We believe premium for peer group relative to broader market is warranted given stability of business models relative to broader market. NI is at a discount to its historical relationship to peers owing to its leveraged balance sheet. Our price multiple is also consistent with a premium to its historic average but at a discount relative to a sum of the parts valuation assuming NI goes ahead with its MLP spinoff. However, we do not expect the formation of an MLP for at least 2 years, justifying such discount to the sum of the parts.

Risks: Main risks to our 12-month price target of \$27 for NiSource are a reduction in the premium investors pay for NI and peers based on greater visibility to the economy resolving its sovereign debt issues, which would give greater visibility to sustainability of broad market economic growth and could prompt investor rotation away from utilities and towards riskier broader market assets. Another financial collapse could also cause investors to flee equities of all types including NI. Also, pipeline re-contracting risk and economic risk as NI's electric utility is levered to the economy. An unexpected tightening of NI's regulatory climate could also have an adverse impact to valuation.

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NiSource Inc. (NI)

Rating	NEUTRAL*
Price (19 Feb 13, US\$)	27.26
Target price (US\$)	(from 27.00) 29.00 [†]
52-week price range	27.27 - 23.40
Market cap. (US\$ m)	8,443.93
Enterprise value (US\$ m)	17,288.55

*Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.
[†]Target price is for 12 months.

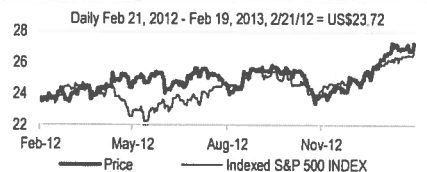
INCREASE TARGET PRICE

NI Remains Positioned for 5-7% EPS Growth. Reiterate Neutral on Stretched Valuation.

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- **Maintaining Neutral, but Valuation Downside Risks Growing:** Our TP increases by \$2, to \$29, based on a projected price to earnings multiple of ~16x-19x 2014E EPS. Together with NTM dividend of \$0.98 translates to total return of (2%)-17% for a mid-point of 9%, which is ~ 400 bp below our total return expectations for mid-stream MLPs. Our bias is that if NI shares experience substantial appreciation relative to MLPs, our investment outlook would be more pessimistic.
- **Trimming Estimates for 2013 and Beyond:** While 4Q:12 results were roughly in line, we are cutting our numbers for 2013-2015 to more fully reflect NI's guidance for 5-7% EPS growth over the long term which translates to ~\$0.10/share EPS growth for the 2013-2015 time frame.
- **Risks:** NI's low risk business model of regulated assets operating in a relatively benign regulatory environment, highly visible investment opportunities in each of NI's segments together with a 3.5% dividend has appeal to defensive, yield-oriented investors. However, we would expect that flare-ups in the macro political, economic, or financial environment could result in a pull-back in the valuation of the shares given that NI is trading at over 3 turns above average and its peers are trading at nearly 5 turns above average.

Share price performance



On 02/19/13 the S&P 500 INDEX closed at 1530.94

Quarterly EPS	Q1	Q2	Q3	Q4
2012A	0.73	0.23	-0.10	0.44
2013E	0.74	0.25	0.14	0.42
2014E	0.77	0.28	0.16	0.44

Financial and valuation metrics

Year	12/12A	12/13E	12/14E	12/15E
EPS (CS adj.) (US\$)	1.43	1.55	1.64	1.75
Prev. EPS (US\$)	—	1.64	1.72	1.81
P/E (x)	19.1	17.6	16.6	15.6
P/E rel. (%)	129.5	128.3	134.6	141.3
Revenue (US\$ m)	5,070.0	4,954.4	5,316.3	5,665.5
EBITDA (US\$ m)	1,633.3	1,798.3	1,956.5	2,119.4
OCFPS (US\$)	4.26	4.19	4.56	4.80
P/OCF (x)	5.8	6.5	6.0	5.7
EV/EBITDA (current)	10.1	9.2	8.4	7.8
Net debt (US\$ m)	8,067	8,845	9,457	9,698
ROIC (%)	5.13	5.18	5.31	5.44
Number of shares (m)	309.76			13,621.20
BV/share (Next Qtr., US\$)	18.8			EV/IC (x)
Net debt (Next Qtr., US\$ m)	8,037.1			Dividend (current, US\$)
Net debt/tot cap (Next Qtr., %)	140.5			Dividend yield (%)

Source: Company data, Credit Suisse estimates.

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Company Description

NI is a diversified energy company that operates in three segments including natural gas distribution, gas transmission and storage, and electric operations. Rate regulated operations account for the majority of NI's operating earnings. NI's gas distribution operations serve 3.3 million customers across seven states. NI's gas transmission and storage operations comprise 15,000 miles of pipe and 639 billion cubic feet of storage capacity. The electric operations consist of its Northern Indiana utility, Northern Indiana Public Service Company (NIPSCO), which serves approximately 458,000 customers in 20 counties.

Investment Thesis

NI offers an attractive dividend yield coupled with visible earnings growth driven by infrastructure investments across its diverse portfolio of mostly regulated businesses. In recent years, NI has shed non-core assets, substantially de-risked earnings at its gas utilities, and has begun to leverage its attractive natural gas pipeline footprint in the Marcellus Shale with the potential for Marcellus-like growth in the Utica Shale in Ohio where NI holds substantial acreage.

NI also has an inventory of project opportunities of ~\$10B in its regulated Gas Distribution segment, \$6-\$8 billion in its regulated electric segment and \$8-\$10B in its Gas Transmission and Storage Segment. See Exhibit 8 to Exhibit 11 for details. Importantly, we believe NI has the liquidity (\$1B), balance sheet, and opportunity set in place to maintain an annual cap ex program of approximately \$1.5 billion-\$1.8B.

Outlook: Trimming to Align with Guidance

- **Trimming our outlook:** Our numbers were simply too high, primarily due to our Corporate and other category being above guidance (Exhibit 1). We also adjusted our share count and brought our Gas Distribution and Gas Transmission operating earnings more in line with the guidance that NI published last fall. Operating earnings in its Gas Distribution segment is expected to grow 7-9%/year, its electric segment is expected to grow 7-9%/year and its Transmission and Storage segment is expected to grow by 10-12%/year.
- **Earnings Growth of 5-7% expected:** Our forecast is consistent with managements EPS growth outlook guidance of ~5-7% long term.
- **Modeling 4% Dividend Growth:** Our forecasted 4% growth rate is consistent with management growth guidance of 3-5% dividend/share and 60-70% payout.
- **Liquidity:** NI had a net available liquidity from its revolving credit facility and stand-by letters of credit of ~\$1.0B at the end of 4Q12.
- **Cap Ex Forecast of \$25-\$30b:** We continue to expect NI has a total inventory of 25-\$30b (equivalent to \$1.5-\$1.8B/year) in infrastructure focused investment opportunities.
- **MLP Option Not Raised:** We believe management still views an MLP as a viable option to help finance growth of its midstream business but we now do not expect NI to pursue this strategy for at least the next couple of years. Once again, the issue was not raised on the conference call.

Exhibit 1: Bringing 2013-2015 Estimates Down to Align More Closely With Guidance

Earnings Variance	Old estimates					New Estimates								
	4Q12E	2012E	2013E	2014E	2015E	4Q12A	2012A	1Q13E	2Q13E	3Q13E	4Q13E	2013E	2014E	2015E
Segment EBITDA														
Gas Distribution	191	641	727	822	873	182	642	310	118	77	195	700	761	824
NIPSCO Electric	115	495	514	563	588	115	487	118	130	151	122	521	554	586
Gas Transmission & Storage	164	538	640	712	757	154	497	174	129	117	163	583	647	715
Other	3	14	28	27	27	(2)	(40)	6	4	(10)	(6)	(6)	(6)	(6)
Total EBITDA (recurring)	473	1,688	1,909	2,124	2,245	449	1,587	608	381	335	474	1,798	1,956	2,119
Segment EBIT														
Gas Distribution	141	458	521	551	582	134	450	259	67	24	141	490	532	577
NIPSCO Electric	52	240	258	272	284	52	239	54	65	86	55	260	281	303
Gas Transmission & Storage	129	371	476	489	515	129	388	139	91	78	124	432	477	524
Other	(2)	20	7	5	5	(1)	(6)	4	1	(12)	(9)	(16)	(17)	(18)
Total EBIT (recurring)	320	1,088	1,262	1,317	1,387	313	1,071	455	225	176	311	1,167	1,274	1,386
Interest Expense	108	423	417	439	443	104	418	103	103	108	112	426	476	524
Other Expenses	0	(6)	0	0	0	4	(2)	0	0	0	0	0	0	0
Taxes	76	239	273	296	320	69	228	123	43	24	70	273	296	320
Recurring Net Income	136	433	572	582	624	136	427	229	79	44	130	468	502	542
Diluted Wtd Avg shares outstanding	321	302	322	324	326	310	300	310	311	311	312	311	313	315
Recurring EPS - Basic	\$0.44	\$1.48	\$1.70	\$1.77	\$1.87	\$0.44	\$1.46	\$0.74	\$0.25	\$0.14	\$0.42	\$1.55	\$1.64	\$1.75
Recurring EPS - Diluted	\$0.42	\$1.43	\$1.64	\$1.72	\$1.81	\$0.44	\$1.43	\$0.74	\$0.25	\$0.14	\$0.42	\$1.55	\$1.64	\$1.75
Dividend per share	\$0.24	\$0.95	\$0.98	\$1.02	\$1.06	\$0.24	\$0.95	\$0.24	\$0.24	\$0.25	\$0.25	\$0.98	\$1.02	\$1.06
Financing & Credit Metrics														
Total Debt / Total Cap	58.8%	58.8%	59.7%	59.7%	58.0%	59.3%	59.3%	58.5%	59.5%	60.5%	60.6%	60.6%	61.2%	59.6%
Net Debt / Total Cap	58.7%	58.7%	59.6%	59.7%	58.0%	59.2%	59.2%	58.4%	59.4%	60.4%	60.5%	60.5%	61.1%	59.5%
Net Debt / Equity	142.2%	142.2%	147.6%	148.2%	138.1%	145.2%	145.2%	140.5%	146.4%	152.7%	153.0%	153.0%	156.9%	147.1%
Book Value Per Share	\$17.06	\$18.10	\$18.24	\$18.90	\$20.35	\$17.92	\$18.53	\$18.43	\$18.46	\$18.36	\$18.54	\$18.58	\$19.25	\$20.93
Net Debt / TTM EBITDA	4.7x	4.7x	4.4x	4.4x	4.2x	5.1x	4.9x	5.0x	5.1x	4.9x	4.9x	4.9x	4.8x	4.6x
Operating Statistics														
Gas Distribution														
Sales Volumes (MMDth)	239	903	903	903	903	259	923	309	185	170	259	923	923	923
Customers ('000s)	3,326	3,326	3,339	3,352	3,366	3,347	3,347	3,351	3,354	3,357	3,361	3,361	3,374	3,388
Gross Profit per Customer	\$134	\$476	\$505	\$525	\$546	\$127	\$467	\$172	\$101	\$87	\$134	\$493	\$518	\$544
O&M per Customer	\$61	\$231	\$233	\$238	\$243	\$61	\$229	\$62	\$55	\$55	\$62	\$233	\$238	\$242
Electric Operations														
Sales (Gigawatt Hours)	4,260	17,260	17,491	17,679	17,815	4,009	17,008	4,183	4,309	4,680	4,065	17,238	17,424	17,559
Customers ('000s)	457.8	457.8	457.8	457.8	457.8	458.3	458.3	457.5	457.4	457.2	458.3	458.3	458.3	458.3
Gross Margin/Megawatt Hour	\$54.77	\$57.36	\$58.85	\$60.03	\$61.23	\$61.96	\$59.09	\$61.06	\$59.20	\$60.87	\$64.29	\$61.30	\$62.99	\$64.72
O&M/Megawatt Hour	\$24.05	\$25.49	\$25.20	\$25.20	\$25.20	\$29.66	\$26.83	\$28.83	\$25.43	\$24.97	\$30.10	\$27.23	\$27.23	\$27.23
Gas Transmission & Storage														
Throughput (MMDth)														
Columbia Transmission	318	1,097	1,152	1,221	1,294	329	1,108	385	214	192	334	1,124	1,169	1,239
Columbia Gulf	276	946	997	997	997	213	883	228	236	257	213	934	943	953
Crossroads Gas Pipeline	4	16	16	16	16	4	16	4	4	3	4	16	16	16
Intrasegment eliminations	(124)	(439)	(439)	(439)	(439)	(108)	(423)	(106)	(123)	(86)	(108)	(423)	(423)	(423)
Total	474	1,620	1,726	1,795	1,869	438	1,584	511	331	366	443	1,652	1,706	1,786
Revenue Per Dekatherm	\$0.67	\$0.63	\$0.65	\$0.67	\$0.68	\$0.67	\$0.63	\$0.55	\$0.74	\$0.61	\$0.67	\$0.63	\$0.68	\$0.73
O&M as % revenue	45.0%	47.3%	41.5%	42.2%	42.1%	45.7%	47.6%	35.0%	45.0%	45.0%	42.0%	41.5%	41.0%	42.0%

Source: Company data, Credit Suisse estimates

Exhibit 2: 4Q:12 Results Mostly In-Line

Earnings Variance						
	4Q12	4Q12 CS		Diff.	4Q11	
	Actual	Estimate	Diff.	(%)	Actual	Comments
Segment EBITDA						
Gas Distribution	182	191	(9)	-5%	52	
NIPSCO Electric	115	115	0	0%	96	
Gas Transmission & Storage	154	164	(10)	-6%	121	Below forecast throughput
Other	(2)	3	(5)	-159%	(14)	
Total EBITDA (recurring)	449	473	(24)	-5%	255	
Segment EBIT						
Gas Distribution	134	141	(7)	-5%	141	weather 5% warmer than normal
NIPSCO Electric	52	52	(1)	-1%	43	In line
Gas Transmission & Storage	129	129	(0)	0%	89	In line
Other	(1)	(2)	1	-45%	(20)	
Total EBIT (recurring)	313	320	(7)	-2%	253	
Interest Expense	104	108	(4)	-4%	97	
Other Expenses	4	0	4	NM	13	
Taxes	69	76	(7)	-9%	52	
Recurring Net Income	136	136	0	0%	91	
Diluted Wtd Avg shares outstanding	310	321	(11)	-3%	291	Equity issuance late last Q impacted less than est
Recurring EPS - Diluted	\$0.44	\$0.42	\$0.00	0%	\$0.31	
Dividend per share	\$0.24	\$0.24	\$0.00	0%	\$0.23	
Financing & Credit Metrics						
Total Debt / Total Cap	61.4%	57.0%	4.4%	7.7%	61.4%	
Net Debt / Total Cap	61.4%	57.0%	4.4%	7.7%	61.4%	
Net Debt / Equity	158.9%	132.7%	26.3%	19.8%	158.9%	
Book Value Per Share	\$17.73	\$17.86	(\$0.13)	(\$0.01)	\$17.73	
Net Debt / TTM EBITDA	5.4x	4.4x	1.0x	0.2x	5.4x	

Source: Company data, Credit Suisse estimates

Valuation

- We are raising our target price by \$2, to \$29, based on a projected price to earnings multiple of ~16-19x 2014E EPS. The stock trades at price to earnings multiples of ~17.6x 2013E and ~16.5x 2014E, respectively.
- Applying “normal” valuation multiples to NI’s three segments results in a 12 month target price of \$26 – below where NI currently trades.

Exhibit 3: Sum of the Parts Valuation

NTM - Next Twelve Months Valuation

	NTM		NTM		Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI	Metric	Low	Base	High	Low	Base	High
Electric Services	260.2	260.4	173.8	P/E	16.0x	17.0x	18.0x	2,780.8	2,954.6	3,128.4
Natural Gas Utilities	490.3	209.9	700.2	EV/EBITDA	9.0x	9.5x	10.0x	6,301.9	6,652.0	7,002.2
Transmission and Storage	432.4	150.6	583.1	EV/EBITDA	10.0x	11.0x	12.0x	5,830.6	6,413.7	6,996.8
Total Enterprise / Equity Value								14,913.4	16,020.3	17,127.3
Cash & Equivalents								83.1	83.1	83.1
Short-term Debt								1,284.1	1,284.1	1,284.1
Long-term Debt								6,819.1	6,819.1	6,819.1
Less Net Debt								8,020.1	8,020.1	8,020.1
Total Equity Value								6,893.3	8,000.2	9,107.2
Shares Outstanding								310	310	310
Per Share								\$22.21	\$25.78	\$29.35
Current Share Price (Feb 19, 2013)								\$27.25	\$27.25	\$27.25
Return								(15%)	(2%)	11%
Dividend per share (Est.)								\$0.98	\$0.98	\$0.98
Dividend Yield								4%	4%	4%
Total Return								(11%)	2%	15%
2014E EPS								\$1.64	\$1.64	\$1.64
Implied P/E								13.5x	15.7x	17.9x
									\$25.00	
									\$26.00	
									Implied P/E	15.8x

Source: Company data, Credit Suisse estimates

- In a scenario where an MLP is created, we forecast 2013E target valuation of \$29/share i.e. ~17.6x 2013E EPS

Exhibit 4: Forecasted 2013E Valuation Assuming Creation of MLP

2013E - MLP Valuation Multiple for Transmission and Storage

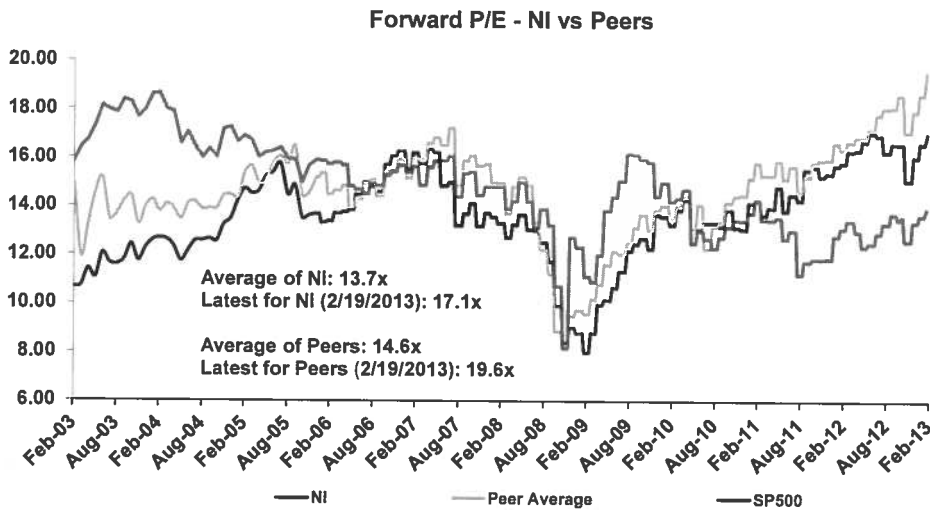
	2013E		2013E		Multiple			Enterprise Value / Equity Value		
	EBIT	D&A	EBITDA / NI	Metric	Low	Base	High	Low	Base	High
Electric Services	260.2	260.4	173.8	P/E	16.0x	17.0x	18.0x	2,780.8	2,954.6	3,128.4
Natural Gas Utilities	490.3	209.9	700.2	EV/EBITDA	9.0x	9.5x	10.0x	6,301.9	6,652.0	7,002.2
Transmission and Storage	432.4	150.6	583.1	EV/EBITDA	12.0x	12.5x	13.0x	6,996.8	7,288.3	7,579.8
Total Enterprise / Equity Value								16,079.5	16,894.9	17,710.4
Cash & Equivalents								83.1	83.1	83.1
Short-term Debt								1,284.1	1,284.1	1,284.1
Long-term Debt								6,819.1	6,819.1	6,819.1
Less Net Debt								8,020.1	8,020.1	8,020.1
Total Equity Value								8,059.4	8,874.8	9,690.3
Shares Outstanding								310	310	310
Per Share								\$26.02	\$28.90	\$31.23
Current Share Price (Feb 19, 2012)								\$27.25	\$27.25	\$27.25
Return								(1%)	10%	18%
Dividend per share (Est.)								\$0.98	\$0.98	\$0.98
Dividend Yield								4%	4%	4%
Total Return								3%	13%	22%
2014E EPS								\$1.64	\$1.64	\$1.64
Implied P/E								15.8x	17.6x	19.0x
									\$29.00	
									\$29.00	
									Implied P/E	17.6x

Source: Company data, Credit Suisse estimates

Exhibits 3 and 4 show how by forming an MLP and enjoying a higher EV/EBITDA multiple for NI's Transmission and Storage assets may already be priced into the shares (or at least a portion of the potential). We believe NI shares currently price in its growth potential and have limited further upside at least from a multiple expansion standpoint given how NI's MLP plans are at least two years into the future in our view and the currently stretched valuation which we discuss in more detail below. Offsetting the downside:

- (1) the execution of numerous infrastructure replacement programs in each of its gas distribution utilities,
- (2) execution of environmental cost recovery mechanisms for its environmental enhancements to its electric utility generation fleet along with a distribution modernizations program that it is working to establish from a recovery standpoint via legislation SB560,
- (3) a 5-year settlement agreement with the FERC to begin a systematic \$300mm/year infrastructure replacement program on its Columbia Gas Transmission system.
- (4) Execution and development of NI's assets which are proximate to shale plays that offer some of the strongest returns to producers in the US.

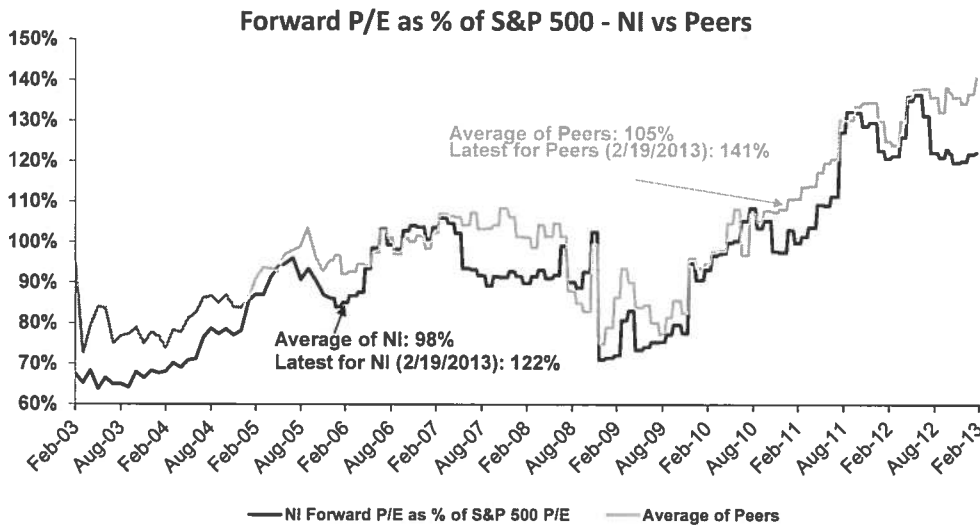
Exhibit 5: NI Trades at a 0.94x Forward P/E Multiple to Peers on Average and 0.9x Currently (17.1x vs. Peers at 19.6x)



Source: FactSet, Credit Suisse estimates. Peers: CNP, D, PCG, OKE, SRE, STR, WMB

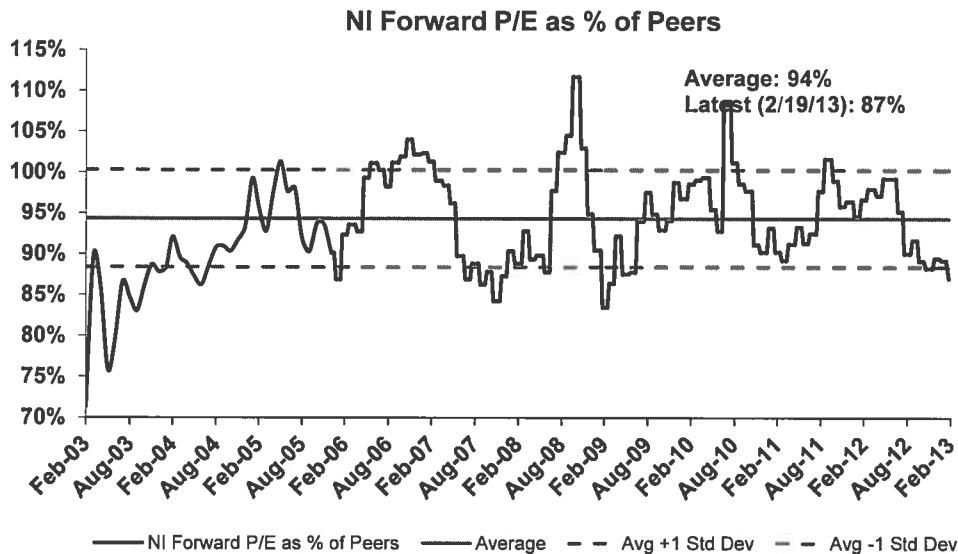
Both NI and its peers are trading at the high end of the forward P/E ranges for the last 6 years. NI has averaged 13.7x forward P/E and its peers have averaged 14.6x forward P/E. As of Feb 19, NI trades at 17.1x forward EPS while peers trade at 19.6x or 90% of the peer group and a 2.5 turn discount to peers. NI trades on average at 100% of the S&P 500 and currently at 122% of the S&P 500 while its peers trade at 141% of the S&P 500. The premium for NI and peers to the broader market is on account of the stability of the cash flows relative to the broader market, particularly in light of sovereign debt risks.

Exhibit 6: NI trades at 100% of the S&P 500 forward P/E on average and is currently at 122% of the S&P 500 forward P/E vs. peers currently at 142% of forward P/E vs. S&P 500



Source: FactSet, Credit Suisse estimates

Exhibit 7: NI trades at an average of 94% Forward P/E relative to peers, 87% currently



Source: FactSet, Credit Suisse estimates

Snapshot of Projects by Segment

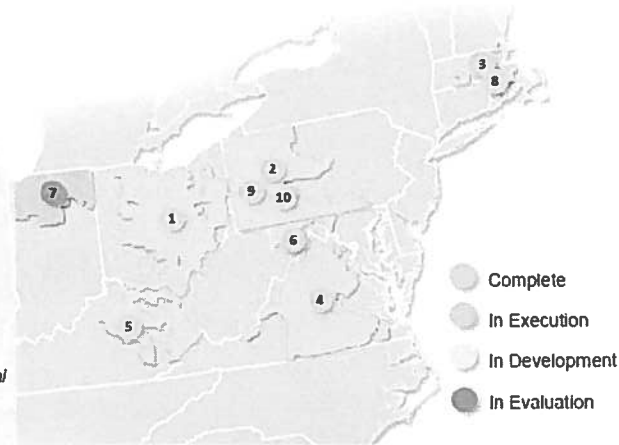
Exhibit 8: NI's Projects in the Natural Gas Distribution Segment

NGD Infrastructure Investment Update

Modernize Infrastructure (\$10B+ Opportunity)

Annual Investment

- 1 Columbia Gas of Ohio \$150M - \$200M 20+ Years
Tracked: Execution of established Infrastructure Replacement Program (IRP); annual tracker filings with 5-year program renewal (next renewal 2017)
- 2 Columbia Gas of Pennsylvania \$100M - \$150M 20+ Years
Rate Case/Tracked: Execution of established Infrastructure Replacement Program; current recovery utilizes forward test year rate case filings supplemented by periodic DSIC filings under Act 11
- 3 Columbia Gas of Massachusetts \$25M - \$50M 20+ Years
Tracked: Execution of established Infrastructure Replacement Program; annual tracker filings; program approved in 2009 and expanded in 2012 rate case
- 4 Columbia Gas of Virginia \$20M - \$35M 20+ Years
Tracked: Execution of established Infrastructure Replacement Program; annual tracker filings with 5-year program renewal (next renewal 2017)
- 5 Columbia Gas of Kentucky \$10M - \$15M 20+ Years
Tracked: Execution of established Infrastructure Replacement Program with annual tracker filings
- 6 Columbia Gas of Maryland \$5M - \$10M 20+ Years
Rate Case/Tracked: Execution of established Infrastructure Replacement Program; rate case filings with make whole filings for up to three subsequent years
- 7 NIPSCO - Gas TBD TBD
Relatively modern gas system, with some opportunity for replacement of aging infrastructure to improve reliability and system integrity (currently working to establish DSIC type legislation under SB 560)



Current Regulatory Activity

- 8 Columbia Gas of Massachusetts
Completed 2012 rate case in November. Order resulted in \$8M annual Revenue increase and enhancement of Infrastructure Program.
- 9 Columbia Gas of Pennsylvania – Rate Case

Requested Increase: \$77M	Filed: 9/2012
Effective: 2Q/2013	

First rate case filed under the new Act 11 legislation, case supports ongoing infrastructure program in PA with forward test year ending 2Q/2014. Reached a unanimous settlement in principle in Feb. 2013 – expected to be filed with the PUC in March 2013.
- 10 Columbia Gas of Pennsylvania – DSIC Filing Tracker: -\$1M/Qtr

Requested Tracker: -\$1M/Qtr	Filed: 1/2013
Effective: 1Q/2013	

Distribution System Improvement Charge (DSIC) filing to capture infrastructure investments from the later part of 2012



Source: Company data

Exhibit 9: NI's Projects in the Electric Utility Segment

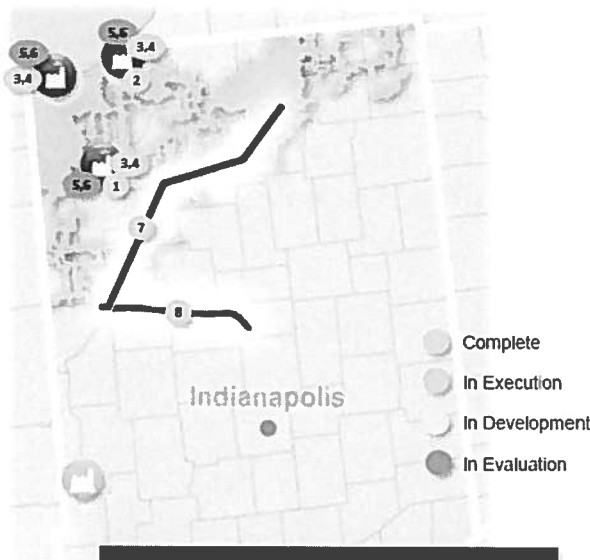
Electric Operations Infrastructure Investment Update

Upgrade Generation Fleet (\$700M - \$1.4B Opportunity)

- 1 U14/15 FGDs - \$500M YE'13/YE'14
 Environmental: ECRM (Environmental Cost Recovery Mechanism) Tracked FGD (Flue Gas Desulfurization) facilities at Schahfer Generating Station
- 2 U12 FGD - \$240M YE'15
 Environmental: ECRM Tracked FGD facilities at Michigan City Generating Station
- 3 NOx Upgrades - \$50M YE'15
 Environmental: ECRM Tracked NOx upgrades and monitoring
- 4 MATS \$30M - \$65M YE'13/YE'14/YE'15
 Environmental: ECRM Tracked projects enhancing mercury and particulate controls at all coal plants
- 5 Water Treatment \$25M - \$100M YE'17/YE'18
 Environmental: S.B. 251 Tracked projects enhancing wastewater treatment at all coal plants and water intake modifications at Bailly Station
- 6 Fly Ash Improvements \$100M - \$300M TBD
 Environmental: S.B. 251 Tracked projects upgrading ash handling and disposal at all coal plants

Modernize Infrastructure (\$3B - \$4B Opportunity)

- 1 NIPSCO Electric Distribution Modernization TBD TBD
 Systematic replacement of aging infrastructure to improve reliability and system integrity (currently working to establish DSIC type legislation under SB 560)



Enhance Transmission System (\$500M - \$1.0B Opportunity)

- 7 Reynolds-Topeka \$250M - \$300M Later part of Decade
 MISO MVP. FERC approved 345Kv transmission project from Reynolds Substation to Hiple Substation (100 miles) - final route not determined
- 8 Transmission Project II \$300M - 400M (NI: \$150M - \$200M) Later part of Decade
 MISO MVP - partnership. FERC approved 765Kv transmission project from Reynolds Substation to Greentown Substation (66 miles) - final route not determined



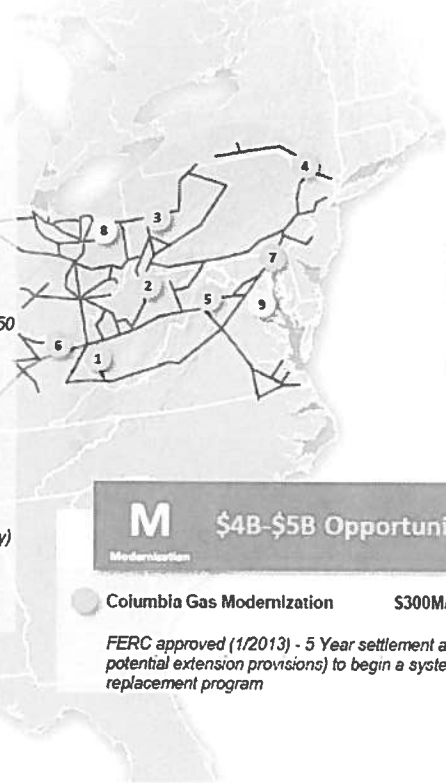
Source: Company data

Exhibit 10: NI's Projects In the Natural Gas Transportation and Storage Segment

NGT&S Regulated Pipeline & Storage Growth Update

M
 Marketing
\$3B-\$4B Opportunity

- 1 **Line WB** \$14M 2Q '12
Marcellus: Compression – between Loudon, VA & Leach, KY (175 MMcf/Day)
- 2 **Smithfield** \$14M 2Q '12
Marcellus: Pipeline and compression modifications – near Smithfield, WV & Waynesburg, PA (150 MMcf/Day)
- 3 **Rimersburg** \$8M 2Q '12
Marcellus: Pipeline expansion – North Central PA (19 MMcf/Day)
- 4 **Millennium** ~\$85M (Net \$40M) 2Q '13
Marcellus: Deliver Marcellus supplies to multiple markets with expanded compression at Minisink (150 MMcf/Day) and Hancock (150 MMcf/Day)
- 5 **Warren County** \$35M 2Q '14
Gas Generation: Expansion to serve Virginia Power's new 1,300 MW plant (250 MMcf/Day)
- 6 **West Side** \$200M 4Q '14
Marcellus: Transport supply to growing Southeast Markets (~500 MMcf/Day)
- 7 **East Side** ~\$210M 3Q '15
Marcellus: Connect northern Marcellus supplies to Northeast and Mid-Atlantic Markets (~300 MMcf/Day)
- 8 **Quick Link** ~\$300M 2Q '16
Utica: ~90 Miles of processed gas transportation in East Ohio (~500 MMcf/Day)
- 9 **LNG Exports** \$200M - +\$1B 2017+
Marcellus/Utica: Aggregate and deliver supplies to LNG export terminals on Atlantic and Gulf Coasts (400 MMcf/Day to 1.6 Bcf/Day)



- Complete
- In Execution
- In Development
- In Evaluation

M
 Modernization
\$4B-\$5B Opportunity

- **Columbia Gas Modernization** \$300M/Yr Starting '13
FERC approved (1/2013) - 5 Year settlement agreement (with potential extension provisions) to begin a systematic infrastructure replacement program



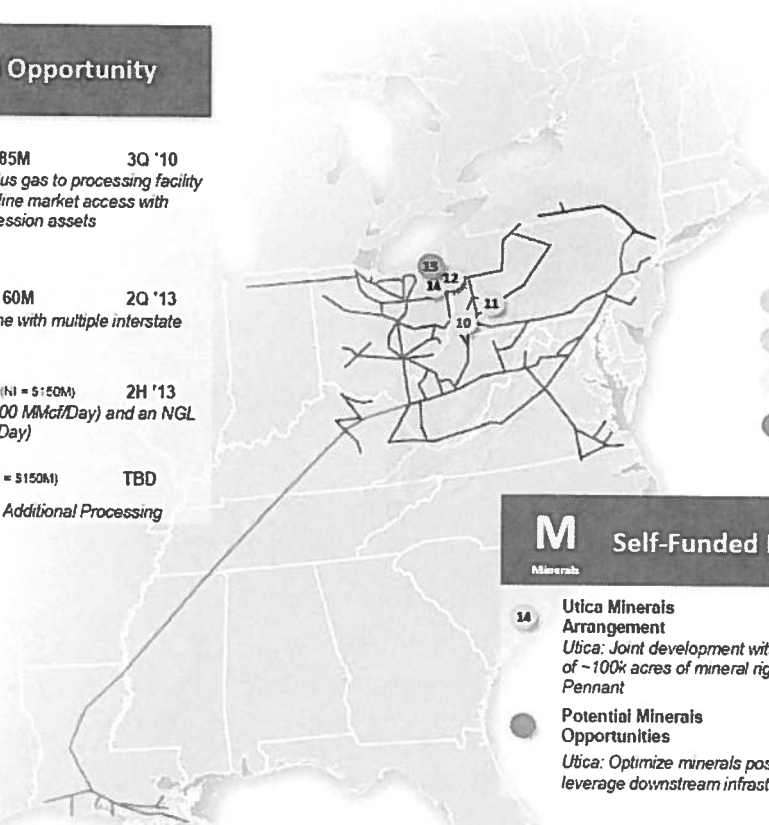
Source: Company data

Exhibit 11: NGT&S Midstream and Minerals Expansions

NGT&S Midstream & Minerals Growth Update

M \$1B-\$1.5B Opportunity Midstream

- 10 **Majorsville** \$85M 3Q '10
Marcellus: Gather wet Marcellus gas to processing facility and provide downstream pipeline market access with additional pipeline and compression assets (325 MMcf/Day)
- 11 **Big Pine Gathering** \$160M 2Q '13
Marcellus: ~70 Miles of Pipeline with multiple interstate connections (425 MMcf/Day)
- 12 **Pennant JV Phase I** \$300M (NI = \$150M) 2H '13
Utica: ~50 Miles of Pipeline (400 MMcf/Day) and an NGL processing facility (200 MMcf/Day)
- 13 **Pennant JV Phase II** \$300M (NI = \$150M) TBD
Utica: Pipeline Extension and Additional Processing



M Self-Funded Investment Minerals

- 14 **Utica Minerals Arrangement** Drilling Started 2H '12
Utica: Joint development with Hilcorp to extract value of ~100k acres of mineral rights – acreage dedicated to Pennant
- Potential Minerals Opportunities** Under Evaluation
Utica: Optimize minerals position in shale region to leverage downstream infrastructure opportunities



Source: Company data

Companies Mentioned (Price as of 19-Feb-2013)

NiSource Inc. (NI.N, \$27.26, NEUTRAL, TP \$29.0)

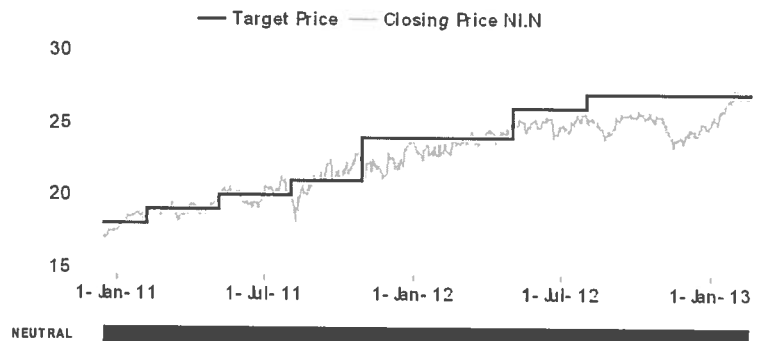
Disclosure Appendix

Important Global Disclosures

John Edwards, CFA, Scott Fogleman, Brett Reilly, CFA, Bhavesh Lodaya, each certify, with respect to the companies or securities that the individual analyzes, that (1) the views expressed in this report accurately reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

Price and Rating History for NiSource Inc. (NI.N)

NI.N Date	Closing Price (US\$)	Target Price (US\$)	Rating
15-Dec-10	17.09	18.00	N *
06-Feb-11	18.40	19.00	
06-May-11	19.44	20.00	
16-Jun-11	19.30		*
02-Aug-11	20.40	21.00	N
28-Oct-11	22.52	24.00	
02-May-12	25.04	26.00	*
01-Aug-12	25.38	27.00	



* Asterisk signifies initiation or assumption of coverage.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark* over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

*Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

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Neutral/Hold*	38%	(46% banking clients)
Underperform/Sell*	16%	(40% banking clients)
Restricted	3%	

*For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.

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Price Target: (12 months) for NiSource Inc. (NI.N)

Method: We derive our 12-month price target of \$29 for NiSource via a forward P/E valuation. Our price is based on a P/E multiple of 16-19x 2014E EPS estimate of \$1.64, which is at the upper end of NI's historic trading range but below its historic average relative to peers.

Risk: Main risks to our 12-month price target of \$29 for NiSource would be mean reversion on multiples. Both NI and peers are trading well above historical multiples both compared to themselves and the S&P 500. Consequently, should issues surface on the macro political, financial, economic, or other fronts, there is risk of pull back from current multiples. valuation.

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See the Companies Mentioned section for full company names

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Electric Utilities

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July 31, 2012

COMPANY UPDATE

Key Metrics

Ni - NYSE (Price as of 7/30/12)	\$25.63
Price Target	NA
52-Week Range	\$25.84 - \$17.95
Shares Outstanding (mm)	284.4
Market Cap. (\$mm)	\$7,289
3-Mo. Average Daily Volume	2,421,000
Institutional Ownership	85.0%
Debt/Total Capital (6/30)	60.7%
ROE (ttm)	5.9%
Book Value/Share	\$17.82
Price/Book Value	1.44x
Indicated Dividend / Yield	\$0.96 3.7%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2011	Prior 2012E	2012E	Prior 2013E	Curr. 2013E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$1.35	\$1.45	\$1.55		
P/E	19.0x	17.7x	16.5x		
Payout	75%	68%	62%		

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2011	Prior 2012E	2012E	Prior 2013E	Curr. 2013E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$6,019	\$6,250	\$6,475		

Company Description: Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.

NiSource Inc.

NI -- NYSE -- Neutral -- 3

Company reports higher second quarter earnings and reaffirms 2012 guidance

Investment Highlights

- **NiSource reported second quarter net operating earnings of \$0.23 per share versus \$0.17 per share earned in the second quarter of 2011.** Earnings were \$0.03 per share above expectations. The company posted higher earnings from all three of its business units in the second quarter: natural gas distribution, gas transmission and storage and electric operations. We thought this was a good quarter for NiSource, and note NI's results have beat expectations twice this year.
- **Management reaffirmed 2012 earnings guidance of \$1.40 to \$1.50 per share.** The outlook is expected to be driven by execution of its infrastructure-investment programs and is premised upon a modest and gradual economic recovery. We are maintaining our 2012 EPS estimate of \$1.45.
- **The company's plan to invest a record \$1.4 billion in capital investments this year remains on track.** The majority of these investments are expected to be in the natural gas distribution and transmission and storage and gas infrastructure areas. NI expects these investments to drive future earnings growth.
- **Company to host analyst conference on September 12th.** NiSource is expected to provide greater detail on its growth projects at this upcoming presentation.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued.** However, we believe the company's fundamentals continue to improve and that the company has solid growth prospects. As evidence, the company raised its dividend by 4.3% in May, its first increase in ten years. We would maintain positions in the stock and would consider upgrading our opinion on pullbacks assuming no negative change in fundamentals.

**Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.**

July 31, 2012

Outlook

We are maintaining our Neutral rating on NiSource as we believe the stock is fairly valued. However, we continue to be impressed by recent results as evidenced by two consecutive earnings beats thus far in 2012. In our view, the company has a solid long-term fundamental outlook. NI is seeing ongoing positive results from regulatory, modernization and growth initiatives. The company feels a combination of rate relief and continued investment in its gas infrastructure business can drive future earnings growth. NI expects to spend up to \$1.4 billion in capital investments in 2012 with \$541 million being invested in its natural gas distribution business; \$432 million in natural gas transmission and storage; and \$405 million at the company's electric operations. Management believes NiSource remains capable of generating long-term earnings growth of 5% or greater. We will learn more about the company's growth initiatives at its upcoming analyst conference scheduled for September 12th.

We are maintaining our 2012 earnings estimate of \$1.45 per share, although that figure could prove conservative. We expect earnings to further grow to \$1.55 per share in 2013. We note the company increased its dividend by 4.3% in May, its first dividend increase in ten years. We believe the company's expected future earnings growth could allow for additional dividend increases on a more consistent basis going forward. With a solid 3.7% dividend yield and seemingly improving growth prospects, we remain comfortable holding NiSource shares. We would likely upgrade our opinion on any price pullbacks assuming no negative change in fundamentals.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

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Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

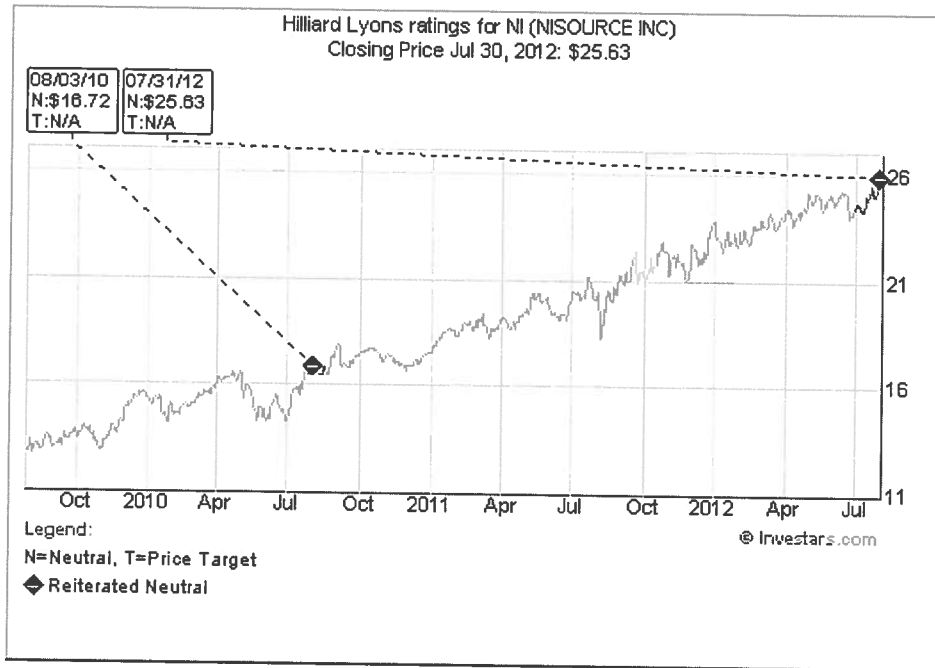
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	63	48%	8%	92%
Hold/Neutral	65	49%	5%	95%
Sell	4	3%	0%	100%

As of 10 July 2012

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Electric Utilities

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 April 30, 2013

COMPANY UPDATE

Key Metrics

NI - NYSE (Price as of 4/29/13)	\$31.15
Price Target	NA
52-Week Range	\$31.39 - \$23.14
Shares Outstanding (mm)	311.1
Market Cap. (\$mm)	\$9,690
3-Mo. Average Daily Volume	1,994,000
Institutional Ownership	82.0%
Debt/Total Capital (3/31)	58.5%
ROE (ttm)	7.7%
Book Value/Share	\$17.82
Price/Book Value	1.75x
Indicated Dividend / Yield	\$0.96 3.1%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$1.46		\$1.55		\$1.67
P/E	21.3x		20.1x		18.7x
Payout	66%		62%		57%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2012	Prior 2013E	2013E	Prior 2014E	Curr. 2014E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$5,070		\$5,300		\$5,750

Company Description: Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports lower first quarter earnings, but reaffirms 2013 earnings guidance

Investment Highlights

- **NiSource reported first quarter net operating earnings of \$0.69 per share versus \$0.76 per share earned in the first quarter of 2012 and slightly below expectations.** While net income rose, earnings declined due largely to a 24 million share \$340 million equity issuance done last September. The company's Columbia pipeline group operations and natural gas distribution businesses saw their earnings contributions decline modestly in the first quarter. By contrast, NI's electric utility operation posted a gain in the period. In sum, it was another solid quarter for NI in our view.
- **Management reaffirmed 2013 earnings guidance of \$1.50 to \$1.60 per share.** The outlook is expected to be driven by execution of its infrastructure-investment programs and a modest and gradual economic recovery. We are maintaining our 2013 EPS estimate of \$1.55. In addition, we are initiating a 2014 EPS estimate of \$1.67 per share.
- **The company plans to invest \$1.8 billion in capital expenditures this year and expects to continue to keep making significant investments in future years as well.** Most of these investments are expected to be in the natural gas distribution and transmission and storage and gas infrastructure areas. NI expects these investments to drive future operating growth of 5% to 7% annually for the next several years. NI's growth plans should also provide earnings visibility as well.
- **Our rating on NiSource remains Neutral as we believe the stock is fairly valued.** However, we believe NI has a positive fundamental outlook and expect the company to generate ongoing earnings and dividend growth. We expect another dividend hike in May. We would maintain positions in NI and regard it as a well positioned core holding.

Note Important Disclosures on Pages 2 and 3.

Note Analyst Certification on Page 2.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

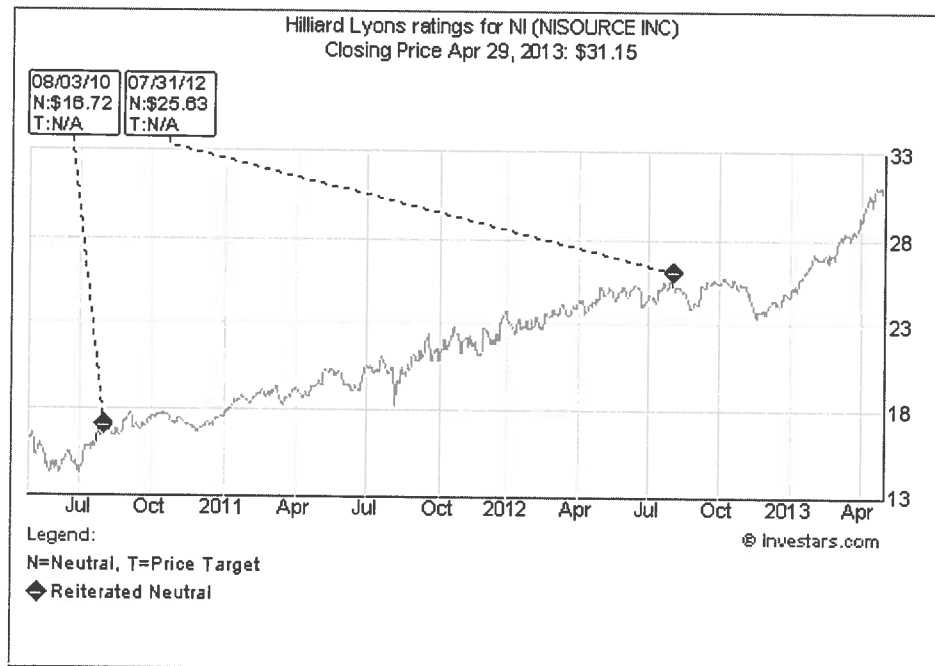
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



April 30, 2013

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of	% of		
Rating	Stocks Covered	Stocks Covered	Banking	No Banking
Buy	56	40%	13%	88%
Hold/Neutral	79	57%	13%	87%
Sell	4	3%	0%	100%

As of 10 April 2013

Other Disclosures

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Electric Utilities

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May 1, 2012

COMPANY UPDATE

Key Metrics

NI - NYSE (Price as of 4/30/12)	\$24.65
Price Target	NA
52-Week Range	\$24.76 - \$17.95
Shares Outstanding (mm)	282.9
Market Cap. (\$mm)	\$7,015
3-Mo. Average Daily Volume	2,943,000
Institutional Ownership	82.0%
Debt/Total Capital	60.7%
ROE (ttm)	6.7%
Book Value/Share	\$17.66
Price/Book Value	1.40x
Indicated Dividend / Yield	\$0.92 3.7%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2010	Prior 2011	2011	Prior 2012E	Curr. 2012E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$1.22		\$1.35		\$1.45
P/E	20.2x		18.3x		17.0x
Payout	75%		68%		63%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2010	Prior 2011	2011	Prior 2012E	Curr. 2012E
1Q		--		--	--
2Q		--		--	--
3Q		--		--	--
4Q		--		--	--
Year	\$6,422		\$6,019		\$6,250

Company Description: Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.

NiSource Inc.

NI -- NYSE -- Neutral -- 3

Company reports higher first quarter earnings and reaffirms 2012 guidance

Investment Highlights

- **NiSource reported first quarter net operating earnings of \$0.76 per share versus \$0.74 per share earned in the first quarter of 2011.** Earnings were \$0.05 per share above expectations. The company posted higher earnings from both its natural gas distribution and natural gas transmission and storage segments in the first quarter. The company's electric operations saw its earnings contribution decline slightly. We thought this was a good quarter for NiSource, particularly given the mild winter and slow economic growth (2.2% GDP expansion) this period.
- **Management reaffirmed 2012 earnings guidance of \$1.40 to \$1.50 per share.** The higher outlook is expected to be driven by execution of its infrastructure-investment programs and is premised on a fairly modest and gradual economic recovery. We are maintaining our 2012 EPS estimate of \$1.45.
- **The company's plan to invest a record \$1.4 billion in capital investments this year remains on track.** The majority of these investments are expected to be in the natural gas distribution and transmission and storage and gas infrastructure areas. NI expects these investments to drive future earnings growth.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued.** The stock is trading at a modest premium to the group. Yet we believe the company's fundamentals continue to improve. Management reiterated its belief that the company is capable of generating 5% or more long term earnings growth. We expect the company will begin to grow its dividend, starting later this month. We would maintain positions in the stock and would consider upgrading our opinion on pullbacks assuming no negative change in fundamentals.

**Note Important Disclosures on Pages 2 and 3.
Note Analyst Certification on Page 2.**

Outlook

We are maintaining our Neutral rating on NiSource as we believe the stock is fairly valued, trading at 17.0x estimated 2012 earnings and at a premium to its peer group. However, we continue to be impressed by recent results as evidenced by the stronger than expected first quarter earnings and still believe the company has a solid long-term fundamental outlook. NI is seeing ongoing positive results from regulatory, modernization and growth initiatives. The company feels a combination of rate relief and continued investment in its gas infrastructure business can drive future earnings growth. NI expects to spend up to \$1.4 billion in capital investments in 2012 with \$541 million being invested in its natural gas distribution business; \$432 million in natural gas transmission and storage; and \$405 million at the company's electric operations. Management believes NiSource remains capable of generating long-term earnings growth of 5% or greater.

We are maintaining our 2012 earnings estimate of \$1.45 per share. Moreover, the company's financial situation has improved to the point where we feel the company is likely to announce a dividend increase later this month. We note NI's dividend payout ratio is just 63% of this year's estimated earnings. A dividend hike would be significant, in our view, as the last dividend increase occurred in 2002. With a solid 3.7% dividend yield and seemingly improving growth prospects, we remain comfortable holding NiSource shares. We would likely upgrade our opinion on any price pullbacks assuming no negative change in fundamentals.

Additional information is available upon request.

Analyst Certification

I, David B. Burks, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

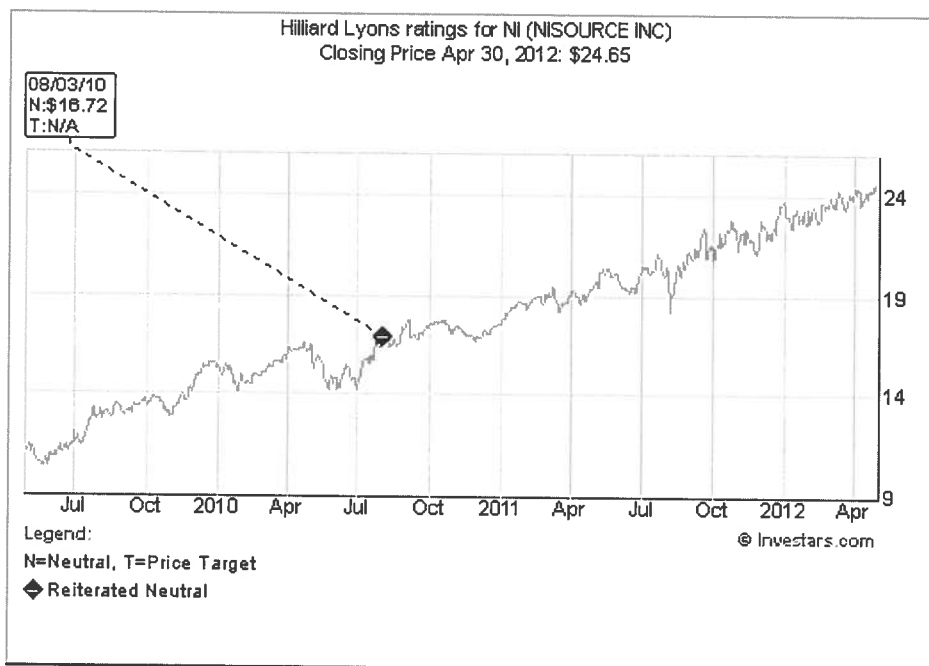
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	60	44%	7%	93%
Hold/Neutral	70	52%	1%	99%
Sell	4	3%	0%	100%
Restricted	1	1%	100%	0%

As of 10 April 2012

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

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Electric Utilities

David Burks
 J.J.B. Hilliard, W.L. Lyons, LLC
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 February 21, 2013

COMPANY UPDATE

Key Metrics

Ni - NYSE (Price as of 2/20/13)	\$27.04
Price Target	NA
52-Week Range	\$27.40 - \$23.14
Shares Outstanding (mm)	309.9
Market Cap. (\$mm)	\$8,379
3-Mo. Average Daily Volume	2,553,000
Institutional Ownership	86.0%
Debt/Total Capital	60.7%
ROE (ttm)	5.9%
Book Value/Share	\$17.62
Price/Book Value	1.53x
Indicated Dividend / Yield	\$0.96 3.6%
Dividend Cycle	Feb., May, Aug., Nov.

EPS FY 12/31

	2011	Prior 2012	2012	Prior 2013E	Curr. 2013E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$1.32		\$1.46		\$1.55
P/E	20.5x		18.5x		17.4x
Payout	70%		66%		62%

Note: Figures exclude non-recurring items

Revenue (\$mm)

	2011	Prior 2012	2012	Prior 2013E	Curr. 2013E
1Q	--	--	--	--	--
2Q	--	--	--	--	--
3Q	--	--	--	--	--
4Q	--	--	--	--	--
Year	\$5,756		\$5,070		\$5,245

Company Description: Based in Merrillville, Ind., NiSource Inc. is a Fortune 500 company engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution. NiSource operating companies deliver energy to 3.7 million customers located within the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. Generation sources: Coal 77%, Natural Gas 22%, Hydro 1%.

NiSource Inc.

NI -- NYSE -- Neutral -- 2

Company reports higher 2012 earnings and introduces 2013 earnings

Investment Highlights

- **NiSource reported fourth quarter net operating earnings of \$0.44 per share versus \$0.32 per share earned in the fourth quarter of 2011 and slightly above expectations.** The company's gas transmission and storage operations business along with its electric operations segment posted gains in the quarter while the gas distribution unit recorded a small decline. For the year, NiSource earned \$1.46 per share compared to \$1.32 per share in 2012, an increase of nearly 11%. All three of NI's core business segments, gas transmission and storage, electric and gas distribution, all contributed higher earnings in 2012 versus 2011.
- **Management introduced 2013 earnings guidance of \$1.50 to \$1.60 per share.** The outlook is expected to be driven by execution of its infrastructure-investment programs and a modest and gradual economic recovery. We are maintaining our 2013 EPS estimate of \$1.55.
- **The company plans to invest \$1.8 billion in capital expenditures this year and expects to continue to keep making significant investments in future years as well.** The majority of these investments are expected to be in the natural gas distribution and transmission and storage and gas infrastructure areas. NI expects these investments to drive future earnings growth, generating 5% to 7% annual growth in operating earnings. This should allow the company to grow its dividend annually by 3% to 5%.
- **We maintain our Neutral rating on NiSource as we believe the stock is fairly valued, trading at 17.4x estimated 2013 earnings.** However, we believe NI has a positive fundamental outlook. We would maintain positions in NI and could upgrade our opinion on pullbacks, assuming no change in fundamentals.

**Note Important Disclosures on Pages 2 and 3.
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Outlook

We are maintaining our Neutral rating on NiSource as we believe the stock is fairly valued. However, we continue to be impressed by the company's ability to deliver good results as evidenced by last year's favorable earnings increase. Moreover, we believe the company has developed an effective growth strategy that should allow for continued earnings gains in the future. This growth should be largely driven by the company's ambitious capital expenditure plan over the next five years. NI expects to spend between \$1.5 billion and \$1.8 billion in capital investments annually over the next five years. The company also expects to make additional regulatory filings for rate hikes as well. Management remains committed to achieving an annual earnings growth target of 5% to 7%.

We are maintaining our 2013 earnings estimate of \$1.55 per share. We expect earnings to further grow to \$1.65 per share in 2014. We note the company increased its dividend by 4.3% last May, its first dividend increase in ten years. We believe the company's expected future earnings growth could allow for additional dividend increases on a more consistent basis going forward and we expect another increase to be announced this May. With a solid 3.6% dividend yield and seemingly improving and increasingly visible growth prospects, we remain comfortable holding NiSource shares. We would likely upgrade our opinion on any price pullbacks assuming no negative change in fundamentals. Finally, we are increasing our suitability rating to a 2 from a 3 previously to reflect NiSource's ongoing financial progress and favorable fundamental outlook.

Additional information is available upon request.

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Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

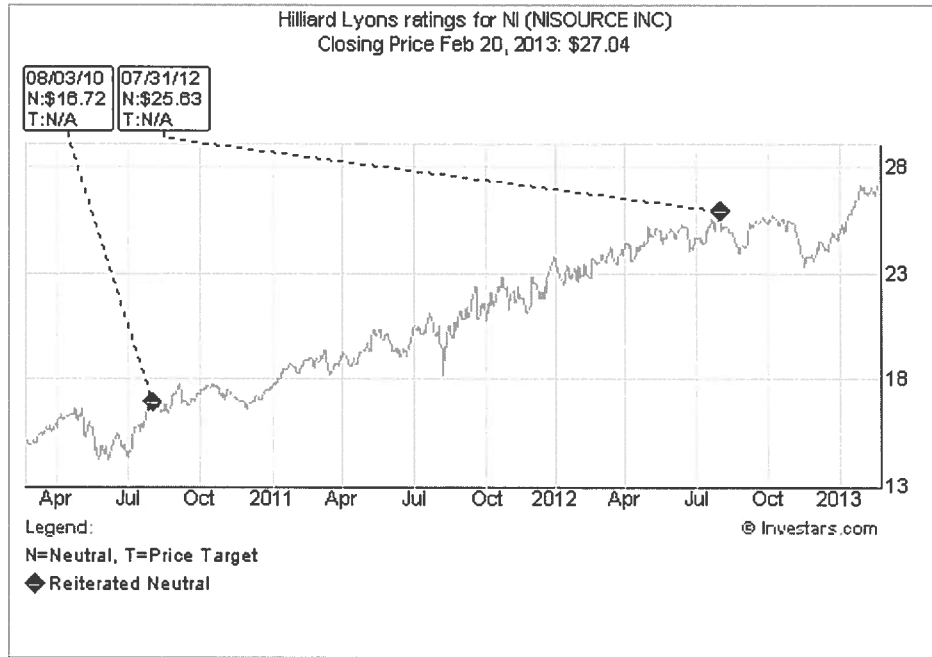
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Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	57	42%	12%	88%
Hold/Neutral	73	54%	11%	89%
Sell	4	3%	0%	100%
Restricted	2	1%	100%	0%

As of 6 February 2013

Other Disclosures

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NiSource, Inc.:

NI: Analyst Day Upbeat; Raising Price Target

KeyBanc Capital Markets Inc.
 Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
 Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

Rating	BUY
Price	\$25.61
12- Mo. Price Target	\$27.50
Dividend	\$0.96
Yield	3.7%
52- Wk. Range	\$20 - \$26
Trading Volume (000)	2,453
Market Cap. (mm)	\$7,360.3
Shares Out. (mm)	287.40
Book Value/Share	\$17.90

EPS (Net) Summary

FY Dec	2011A	2012E	2013E
1Q	\$0.73	\$0.69A	--
2Q	\$0.17	\$0.23A	--
<i>Prior</i>	\$0.17	\$0.22	--
3Q	\$0.13	\$0.08	--
4Q	\$0.28	--	--
YEAR	\$1.31	\$1.45	\$1.55
First Call	--	\$1.46E	\$1.56E
P/E	19.5x	17.7x	16.5x

Note 1: 2010 Q2: We include \$0.02 unfavorable weather impact to \$0.13 reported net operating earnings per share from continuing operations.

Note 2: 2010 Q3: We include \$0.02 favorable weather impact to \$0.04 reported net operating earnings per share from continuing operations.

Note 3: 2010 Q4: We include \$0.02 favorable weather impact to \$0.33 reported net operating earnings per share from continuing operations.

Note 4: 2011 Q1: We include \$0.01 favorable weather impact to \$0.72 reported net operating earnings per share from continuing operations.

Note 5: 2011 Q3: We include \$0.02 favorable weather impact to \$0.11 reported net operating earnings per share from continuing operations.

Note 6: 2011 Q4: We include \$0.03 unfavorable weather impact to \$0.31 reported net operating earnings per share from continuing operations.

ACTION STATEMENT

At its September 12 analyst day, NiSource, Inc. (NI-NYSE) gave an update on its strategy to build out its regulated businesses and its low risk plan to grow midstream infrastructure centered around its Appalachian position. NI discussed \$25 billion-\$30 billion of investment opportunities over the 15-20+ year time horizon. Management indicated it expects 5-7% EPS growth and foresaw 3-5% annual dividend growth over this period. While the meeting content was in line with views, we walked away feeling incrementally better around management's credibility and ability to execute on the attractive business plan. We continue to view NI as one of the better positioned companies in the sector. We have raised our price target from \$26.50 to \$27.50 after reviewing our valuation.

- **Price Target: \$27.50 from \$26.50**

KEY INVESTMENT POINTS

At its recent analyst day, NI reaffirmed its strategy of growing earnings through low risk investment in its core businesses of regulated natural gas distribution, regulated electric utility and midstream natural gas infrastructure.

NI outlined \$25 billion- \$30 billion of potential investment in the coming 15- 20+ years.

Given heightened clarity achieved through last week's settlement around the pipeline modernization initiative, NI was able to raise its growth target from 5% to a range of 5- 7%. Management indicated it expected 3- 5% dividend growth.

NI also reiterated its commitment to an investment grade credit rating, indicating it would maintain a strong balance sheet through a \$50 million annual drip and 2015 equity issuance. Debt issuances for new money are expected to average \$500 million annually.

While no formal 2013 guidance was issued, management essentially endorsed the current consensus view of \$1.56 per share.

We maintain our current 2012 and 2013 estimates of \$1.45 and \$1.55, respectively. We have revised our price target to \$27.50 from \$26.50 per share.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 4 - 5 OF THIS NOTE.

VALUATION

Given NI's diverse mix of businesses, we believe a sum-of-the-parts valuation is most appropriate. While NI does not provide segment EPS detail, management has indicated that its net income mix is approximately 25- 30% regulated electric utility, 35- 40% regulated gas distribution and 35- 40% gas transmission and storage. We apply respective 2013 peer group multiples (14.7x, 15.9x and 20.4x) to these percentages, and our 2012 estimate yields segment values of \$5.70, \$9.25 and \$11.89 (or \$26.84 in total). To this we add \$0.85 per share to capture the value of NI's 100,000- 200,000 acres of mineral rights in the Utica shale. We use 150,000 acres at \$2,500/acre taxed at 35%, given minimal tax basis on the acreage. Our resulting price target of \$27.50 represents a P/E multiple of 17.7x our 2013 estimate. The stock recently traded intraday (\$25.80) at a 2013 P/E of 16.6x.

RISKS

We believe the primary risks that could impede the stock from achieving our price objective are the potential for regulatory deterioration impacting returns at the regulated businesses and any pullback in the development of the Appalachian shale plays, which represent a meaningful part of NI's investment opportunity set.

DISCUSSION

On September 12, 2012, NI management hosted an investor meeting in New York City. Key takeaways from the meeting are discussed below:

Long- Term Investment Opportunity Quantified - NI indicated that in the next 15- 20+ years, it had \$25 billion- \$30 billion of potential investments in assets with revenues that are expected to be 90% fee based. This capital is allocated as:

- \$10 billion at the Natural Gas Distribution (NGD) segment.
- \$6 billion- \$8 billion at Nipsco Electric.
- \$8 billion- \$10 billion at the Nisource Gas Transmission & Storage (NGT&S) midstream segment.

Higher Growth Rate Targeted - Given \$1.5 billion- \$1.8 billion of annual capex (of which \$500 million is sustenance spending), NI raised its EPS growth target from 5% to a range of 5- 7%. Operating earnings are expected to grow 7- 9%, with the delta related to financing requirements.

Dividend Growth – Management indicated that given the attractive investment inventory, dividend growth would be less than EPS growth. The dividend is expected to grow at 3- 5%.

NGD Discussion – NI indicated it saw \$600 million- \$650 million of annual capex at the regulated natural gas delivery business, of which 75% was growth capital. ROIC for this segment are targeted at 12%. 75% of the NGD capital spend falls under trackers, reducing lag and the need to file rate cases.

Nipsco Electric Segment – NI expects to spend \$400 million- \$450 million annually at the regulated electric segment, which currently has a rate base of roughly \$2.3 billion. This capital is expected to flow in four "waves". The first wave is environmental compliance, with all federally mandated spending eligible for trackers. The second wave is around tracked transmission enhancements. The third wave is around modernizing the distribution and transmission system, including undergrounding some of the critical paths. The Indiana electric companies are jointly working on the introduction of legislation to allow trackers for this spend. The final wave is longer dated and looks forward to capacity shortfalls, with new natural gas plants representing a \$600 million- \$1 billion opportunity. ROIC at Nipsco is expected to be 11%. Customer impact (on the whole bill, not just capital recovery) is expected to be inflation-like, with some of the recovery on transmission coming from all of the MISO territory. NI also indicated that its Indiana rate settlement allowed rate making that made it less sensitive to steel production. 22% of Nipsco margin is industrial, with 76% of this margin driven by non- volumetric demand charges.

NGT&S – NI divided its \$8 billion- \$10 billion investment opportunity into four categories, the 4 Ms, as follows:

- **Modernization** - NI recently (September 4, 2012) settled with its pipeline customers around the \$4 billion- \$5 billion capital spend to rebuild its interstate pipeline to improve system flexibility and reliability (see our September 5, 2012 quick alert titled "NI- QA: Customer Settlement Announced for Gas Transmission Modernization Project"). The five- year agreement allows annual growth capital of up to \$300 million with minimal lag. Under the plan, more than 1,000 miles of pipeline and 100,000 horsepower of compression is to be replaced.
- **Marketing** – The \$3 billion- \$4 billion program enhances market liquidity by streamlining existing transmission routes and opening new markets. Key projects include the West Side Expansion to reverse flow to deliver Marcellus gas to the Gulf to serve growing southeast markets, the East Side Expansion to move gas to the northeast and Mid- Atlantic markets, and the Quicklink Expansion to improve flow and bring producer gas to market around the Majorsville hub in southeast PA/WV region, exploiting LNG export opportunities and feed new and existing gas fired power plants.
- **Midstream** – The \$1 billion opportunity will develop gathering systems and processing facilities in NI's core territory around the Utica and Marcellus acreage.

- Minerals – NI's self- funding strategy will capitalize on NI's 100k- 200k acreage position in the western Utica. NI plans to partner with producers to develop this acreage as it recently did with Hilcorp. NI emphasized its strategy created minimal commodity exposure.

ROIC at the NGT&S is expected to be 12- 15%.

High Level Discussion of 2013 Earnings– While NI did not give formal 2013 guidance, it did indicate that the current Street consensus of \$1.56 per share was consistent with its heightened earnings growth target. Management appeared comfortable with the consensus outlook. 2012 guidance of \$1.40- \$1.50 includes the negative impact of the \$50 million (approximately \$0.11 per share) charge for refunds stipulated under the Modernization Project settlement. NI indicated that it was taking extraordinary efforts to offset this charge in 2012, and that expenses would likely rise in 2013 as a result. We are maintaining our 2013 estimate of \$1.55, but note there could be upside potential.

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

NiSource, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource, Inc. during the past 12 months

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

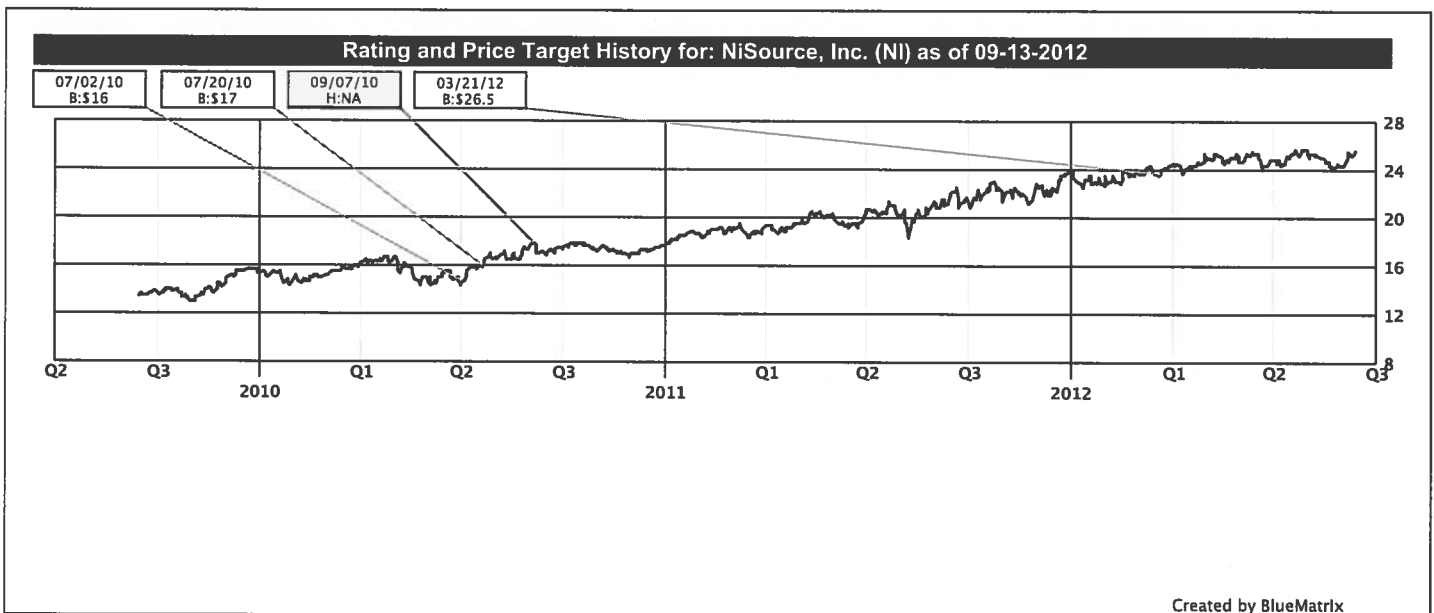
During the past 12 months, NiSource, Inc. has been a client of the firm or its affiliates for non- securities related services.

We have managed or co- managed a public offering of securities for NiSource, Inc. within the past 12 months.

Reg AIC Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets			IB Serv/Past 12 Mos.		ENERGY			IB Serv/Past 12 Mos.	
Rating	Count	Percent	Count	Percent	Rating	Count	Percent	Count	Percent
BUY [BUY]	227	42.67	44	19.38	BUY [BUY]	39	50.00	16	41.03
HOLD [HOLD]	291	54.70	47	16.15	HOLD [HOLD]	39	50.00	17	43.59
SELL [UND]	14	2.63	4	28.57	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

The information contained in this report is based on sources considered to be reliable but is not represented to be complete and its accuracy is not guaranteed. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities. Our company policy prohibits research analysts and members of their families from owning securities of any company followed by that analyst, unless otherwise disclosed. Our officers, directors, shareholders and other employees, and members of their families may have positions in these securities and may, as principal or agent, buy and sell such securities before, after or concurrently with the publication of this report. In some instances, such investments may be inconsistent with the opinions expressed herein. One or more of our employees, other than the research analyst responsible for the preparation of this report, may be a member of the Board of Directors of any company referred to in this report. The research analyst responsible for the preparation of this report is compensated based on various factors, including the analyst's productivity, the quality of the analyst's research and stock recommendations, ratings from investor clients, competitive factors and overall Firm revenues, which include revenues derived from, among other business activities, the Firm's performance of investment banking services. In accordance with industry practices, our analysts are prohibited from soliciting investment banking business for our Firm.

Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

July 9, 2012

ENERGY: Multi- Utilities

Quick Alert

KeyBanc

Capital Markets



NiSource, Inc. (BUY)

NI - Quick Alert: Utica JV Announced, Awaiting Details

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

KEY INVESTMENT POINTS

NiSource, Inc. (NI- NYSE) announced its Utica joint venture with Hilcorp, a private oil and gas firm. The joint venture, known as Pennant Midstream, will invest approximately \$300 million in the first phase of the development, a 50- mile 20- inch gathering pipeline with 400 million cubic foot capacity and a 200 million cubic foot cryogenic plant. It appears NI will invest 50% of the capital and will operate the infrastructure. The project is expected to be operational by 3Q13.

NI also contributed acreage to a land joint venture. Hilcorp will develop the "significant combined acreage block in the Utica/Point Pleasant Shale formation." The release does not indicate each parties' acreage contribution. Past discussions with NI have lead us to expect NI to contribute about 15% to a total 100,000 acreage position.

Preliminary numbers suggest this could be \$0.03 accretive to NI on infrastructure, with mineral royalties being additive.

We expect a neutral to positive reaction given concerns we have heard around the roughly five- week delay of this announcement. Initial feedback we have heard around Hilcorp is generally positive. \$150 million (NI's 50% of \$300 million) may be below views, but the release indicates this is the first investment phase. NI indicated that it was exploring other similar opportunities.

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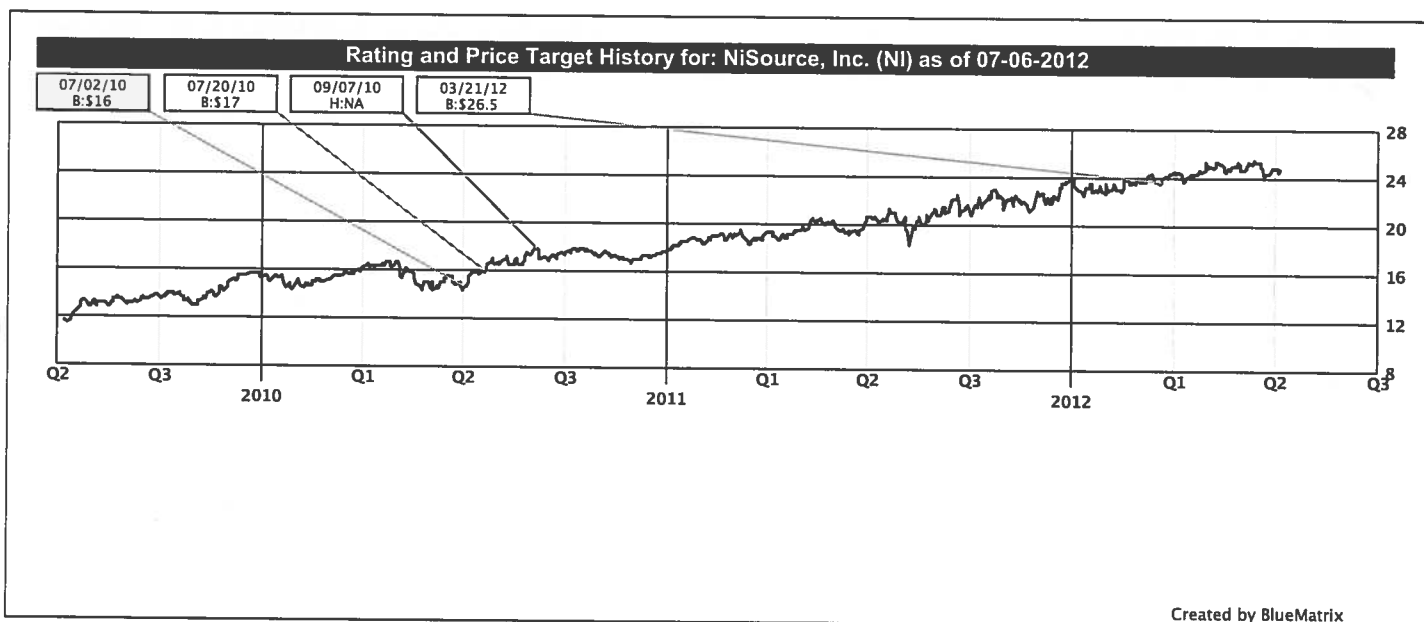
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Three- Year Rating and Price Target History



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KeyBanc Capital Markets					ENERGY				
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			Count	Percent				Count	Percent
BUY [BUY]	226	44.05	43	19.03	BUY [BUY]	38	48.10	14	36.84
HOLD [HOLD]	276	53.80	47	17.03	HOLD [HOLD]	41	51.90	16	39.02
SELL [UND]	11	2.14	4	36.36	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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NiSource, Inc. (BUY)

NI- QA: Customer Settlement Announced for Gas Transmission Modernization Project

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

KEY INVESTMENT POINTS

Last night, NiSource, Inc.'s (NI- NYSE) Columbia Gas Transmission subsidiary announced that it had reached a customer settlement in its planned natural gas pipeline modernization program, requesting the Federal Energy Regulatory Commission (FERC) to approve the settlement before year- end 2012.

The pipeline modernization project is expected to spend about \$4 billion over the next 10- 15 years (about \$300 million annually) to enhance the integrity, reliability and flexibility of the Columbia Gas Transmission interstate natural gas pipeline system. The settlement agreement with customers provides for an annual cost recovery tracker for an initial five- year term.

Recall we had highlighted additional clarity (possible customer settlement) around the gas pipeline modernization project as one of several positive catalysts for NI shares as the basis for our March 21, 2012 upgrade.

From a high level we gather the following details around the deal:

- Settlement term of five years.
- Annual filings capture previous years' capital, but with a mechanism to timely capture depreciation.
- Costs to achieve of \$50 million (split evenly between 2012 and 2013). We expect NI will book both settlement payments in 3Q12, and some level was contemplated in guidance.
- 14% pretax return on capital (including 2% for other taxes). We estimate the annual impact of roughly \$0.07 per share, starting in 2014.
- Initial \$25 million rate cut in 2014, partially impacts 2014 accretion by \$0.06 per share
- Reduced depreciation rate (earnings neutral) will reduce customer bills by \$35 million annually, commencing in 2012.

We believe this announcement builds momentum heading into NI's September 12 Analyst Day in New York City and shows management's continued execution of the NI growth plan – where after raising the dividend in May 2012, confirming Utica shale joint ventures with HilCorp in July 2012 (upstream acreage and midstream infrastructure), and now finalizing a customer settlement for Columbia Gas Transmission pipeline modernization, the Company could be in a position to reassess the trajectory of its long- term EPS growth target (currently at 5%).

We expect NI shares to react positively to this announcement, although positive language on the 2Q call around "constructive dialogs" with parties has boosted market expectations of a settlement.

KeyBanc Capital Markets Inc. Disclosures and Certifications

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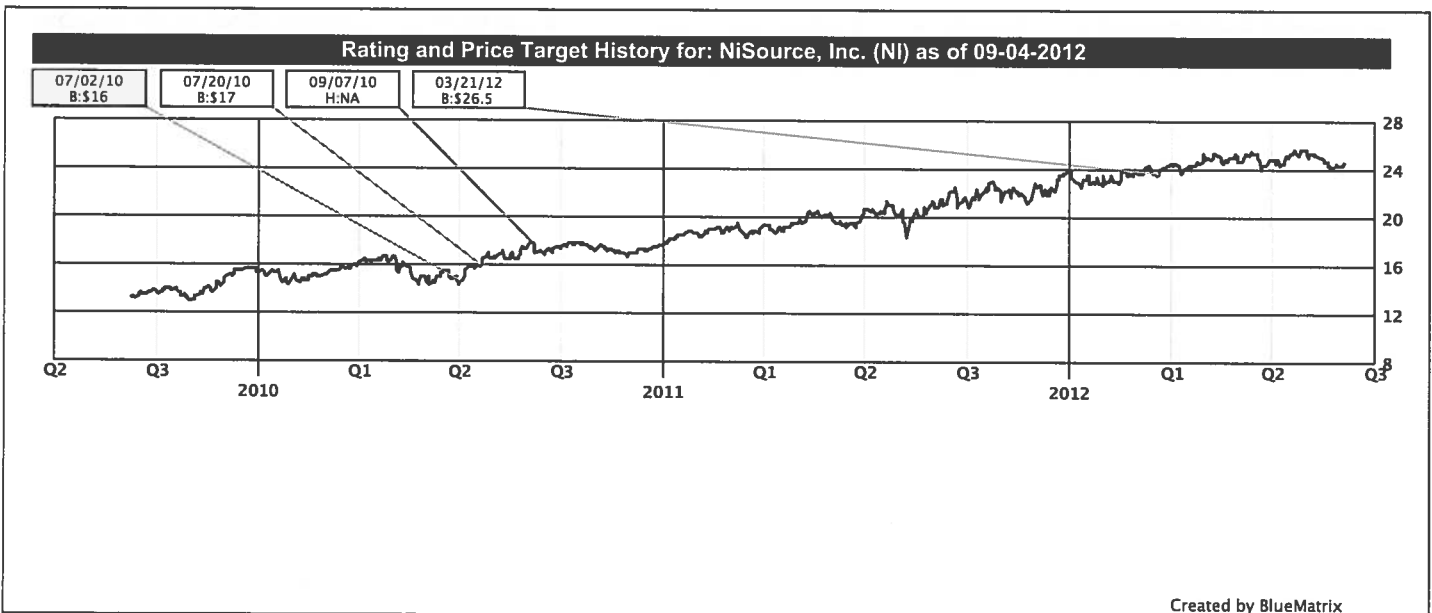
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Reg AIC Certification

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Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	225	42.21	43	19.11	BUY [BUY]	39	49.37	16	41.03
HOLD [HOLD]	294	55.16	45	15.31	HOLD [HOLD]	40	50.63	17	42.50
SELL [UND]	14	2.63	4	28.57	SELL [UND]	0	0.00	0	0.00

Rating System

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April 30, 2013

ENERGY: Multi- Utilities

Quick Alert

KeyBanc

Capital Markets



NiSource, Inc. (BUY)

NI – Quick Alert: 1Q13 Results Essentially in Line

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com

KEY INVESTMENT POINTS

April 29, 2013 Close: \$31.15

1Q13 KBCM EPS Estimate: \$0.70 (Consensus: \$0.71)

2013 KBCM EPS Estimate: \$1.55 (Consensus: \$1.55)

1Q13 Actual Results (vs. 1Q12):

- Ongoing EPS \$0.69 vs. \$0.72; GAAP EPS \$0.69 vs. \$0.75.
- Results were essentially in line with our \$0.70 estimate and slightly below the \$0.71 consensus view

Guidance: Maintained 2013 ongoing weather adjusted guidance of \$1.50- \$1.60 per share.

1Q Highlights:

- Columbia Pipeline Group (formerly Gas Transmission and Storage) results declined (operating earnings of \$133.3 million vs. \$138.6 million) on \$3.0 million lower revenues due to the modernization settlement and higher expenses of \$1.7 million stemming from higher outside services and administrative costs.
- Gas Distribution operating earnings were \$233.3 million vs. 244.8 million. Revenues rose \$5.0 million on regulatory and service programs partly offset by lower commercial and industrial volumes. Expenses were up \$16.5 million on employee and administrative costs, outside service costs and higher depreciation. Uncollectibles were lower, partly offsetting these higher costs.
- Electric operations earnings were up (operating earnings of \$64.9 million vs. \$48.5 million) on higher environmental and transmission cost recovery of \$7.6 million. Expenses fell \$8.8 million on maintenance timing and lower MISO fees.
- Corporate and Other operating earnings fell \$5.5 million to a loss of \$3.6 million due to the roll- off of gains on corporate owned life insurance (COLI). Interest costs fell \$4.7 million on a maturity in late 2012. The effective tax rate was 35.4% vs. 35.6%. The quarter was impacted by the September 2012 equity issuance under NI's forward sale, with the share count rising by 19 million shares vs. the prior year quarter. Weather for the quarter was very close to normal vs. a very mild 1Q12.
- NI announced a new pipeline extension project to support a coal to gas electric plant conversion. Capital cost for the project is \$40 million. The project is expected to be in service in 4Q14.

Initial Take: We expect an essentially neutral response to the earnings release as results were largely in line with views.

9:00 AM ET Conference Call #: (866) 700- 57706067 ID#: 9584932

We will be focused on:

- Incremental infrastructure investment opportunities
- Pipeline modernization project updates
- Any color on how management views MLP's

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 2 - 3 OF THIS NOTE.

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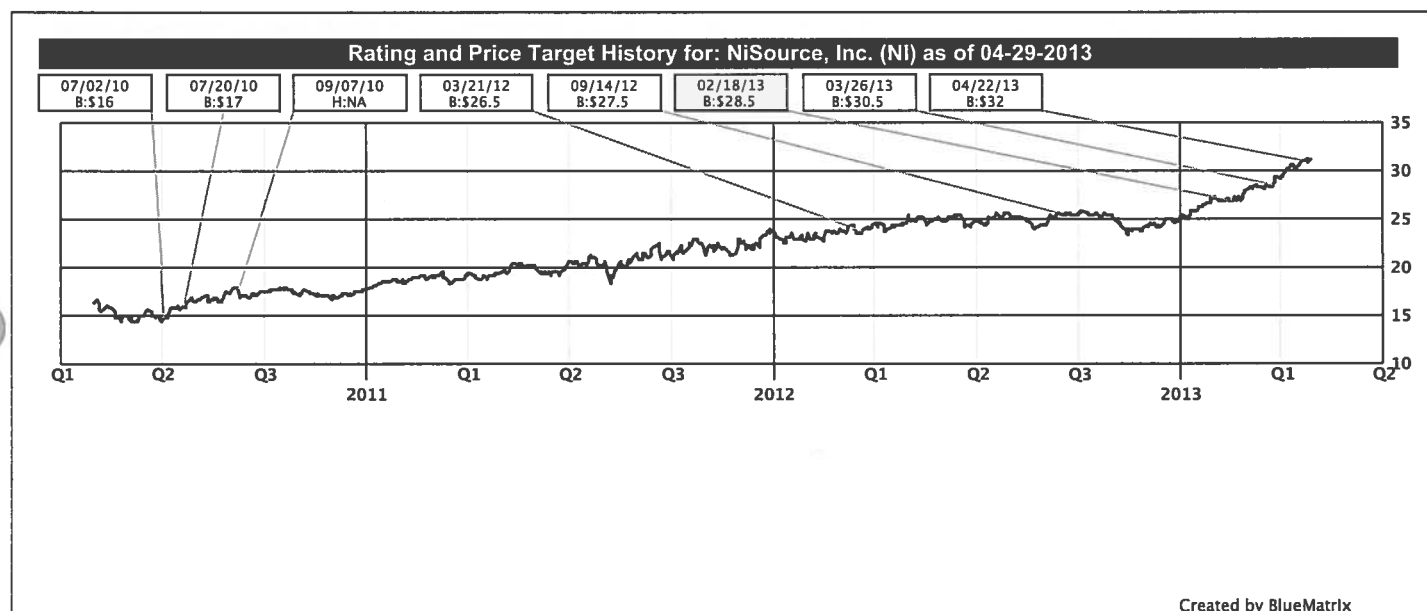
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Three- Year Rating and Price Target History



Rating Disclosures

KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	221	44.11	48	21.72	BUY [BUY]	29	43.28	18	62.07
HOLD [HOLD]	269	53.69	64	23.79	HOLD [HOLD]	38	56.72	18	47.37
SELL [UND]	11	2.20	1	9.09	SELL [UND]	0	0.00	0	0.00

Rating System

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May 1, 2012

ENERGY: Multi- Utilities

Quick Alert

KeyBanc

Capital Markets



NiSource, Inc. (BUY)

NI – Quick Alert: 1Q12 Solid Results, excluding Weather Impact

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

KEY INVESTMENT POINTS

April 30, 2012 Close: \$24.65

1Q12 KBCM EPS Estimate: \$0.69 (Consensus: \$0.71)

2012KBCM EPS Estimate: \$1.45 (Consensus: \$1.44)

1Q12 Actual Results (vs. 1Q11):

- Ongoing EPS \$0.67 vs. \$0.72; GAAP EPS \$0.68 vs. \$0.75. (We note NI reports ongoing earnings of \$0.76, with the Company's ongoing number being on a weather- normalized basis.)
- We note consensus is a mix of weather adjusted and non- adjusted estimates, making it difficult to compare actual results with consensus.

Guidance: Maintained 2012 ongoing weather adjusted guidance of \$1.40- \$1.50 per share. Management reaffirmed that dividend growth remains under consideration.

1Q Highlights:

- Gas Distribution operating earnings were \$9.5 million higher on new Pennsylvania rates, Ohio infrastructure trackers, higher depreciation, partly offset by lower employee expenses.
- Gas Transmission and Storage improved (operating earnings of \$139 million vs. \$118 million) on higher demand margin at new projects and the Columbia Gulf FERC rate case. Results were partly offset by weather- related lower volumes and slightly higher expenses.
- Electric operations earnings were off less than \$1 million as improved margin on the Indiana rate case was offset by higher expenses. Weather adjusted retail load fell 2.5%.
- NI reaffirmed commitment to growth initiatives including a joint venture with a producer in the Marcellus/Utica to drive infrastructure buildout, ongoing pipeline modernization project discussions (potential \$4 billion over 10- 15 years) and completion of two open seasons to move gas from the Marcellus to the Gulf (\$220 million of capital) and Mid- Atlantic markets.

Initial Take: We expect a positive response to solid earnings and continued focus on initiatives (including disclosing \$220 million size of Gulf pipeline expansion project), potentially tempered by no major announcements on the Utica joint venture and dividend growth.

9:00 AM ET Conference Call #: (866) 730- 5770 ID#: 77451655

We will be focused on:

- Further detail on potential joint venture on its Utica/Marcellus acreage
- Pipeline modernization project updates
- Timing around potential dividend growth. We note a May 15 shareholder meeting in Chicago.

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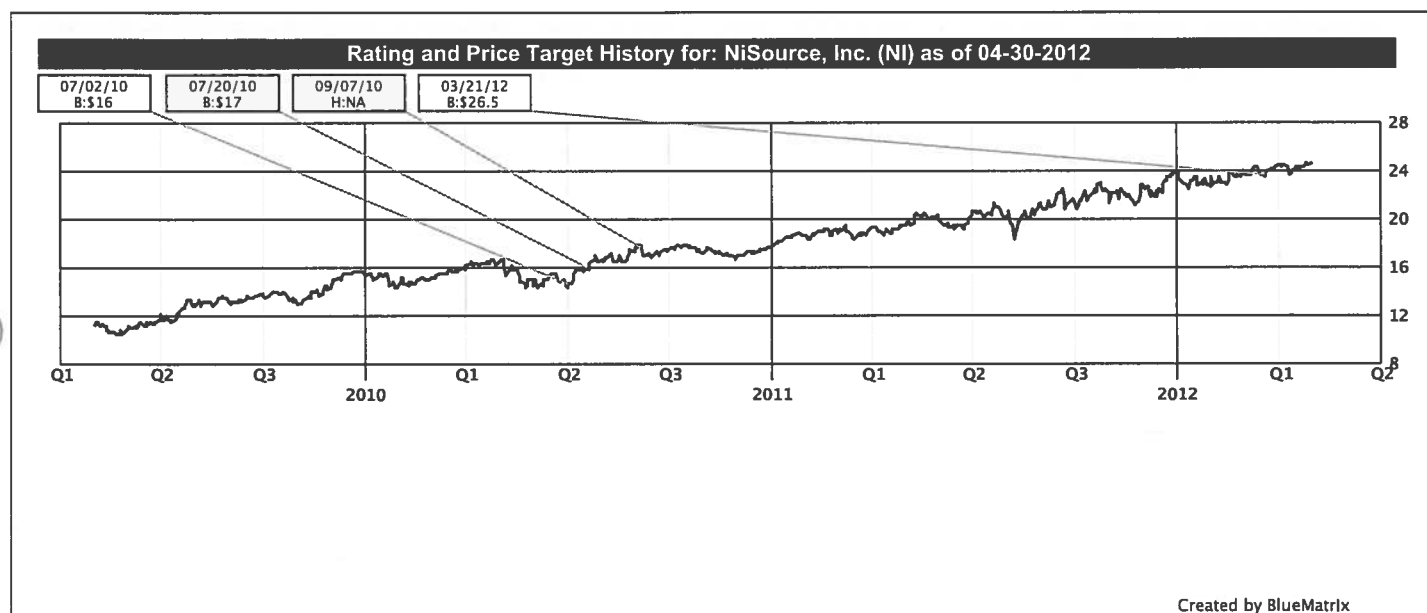
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Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
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BUY [BUY]	222	43.44	46	20.72	BUY [BUY]	38	48.10	17	44.74
HOLD [HOLD]	278	54.40	53	19.06	HOLD [HOLD]	41	51.90	19	46.34
SELL [UND]	11	2.15	4	36.36	SELL [UND]	0	0.00	0	0.00

Rating System

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NiSource, Inc. (BUY)

NI - Quick Alert: 2Q12- Solid Results; Growth Projects Intact

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

KEY INVESTMENT POINTS

July 30, 2012 Close: \$25.63

2Q12 KBCM EPS Estimate: \$0.22 (Consensus: \$0.20)

2012 KBCM EPS Estimate: \$1.45 (Consensus: \$1.45)

2013 KBCM EPS Estimate: \$1.55 (Consensus: \$1.54)

2Q12 Actual Results (vs. 2Q11):

- Ongoing EPS of \$0.24 vs. \$0.17; GAAP EPS of \$0.25 vs. \$0.14. (We note NI reported ongoing earnings of \$0.23, with the Company's ongoing number being on a weather- normalized basis.)
- The difference between GAAP and ongoing EPS was due to the discontinued gas marketing business and an asset gain.
- Results were ahead our estimate of \$0.22 and consensus of \$0.20.
- Relative to our estimate, each segment performed modestly better, with the Gas Transmission and Storage segment particularly benefiting from Millennium Pipeline equity earnings.
- Growth projects remain on track in all segments.
- The earnings release has few incremental details on growth projects, which we expect will be fully discussed at the September 12 investor day.

Guidance: Maintained 2012 ongoing weather adjusted guidance of \$1.40- \$1.50 per share.

2Q Highlights:

- Gas Distribution operating earnings were \$5.7 million higher on new rates in Ohio and Pennsylvania, partly offset by higher depreciation and outside service costs.
- Gas Transmission and Storage improved (operating earnings of \$91.6 million vs. \$84.6 million) on higher demand margin at new projects, partly offset by lower NGL revenues. Equity earnings in the Millennium Pipeline drove the strong quarterly earnings, adding \$6.2 million. Expenses rose modestly as administrative costs were controlled.
- Electric operations earnings were \$59.8 million vs. \$37.8 million due to improved margin on the Indiana rate case, including reduced customer credits. Off- system sales also benefited results. Expenses rose on implementation of deferred depreciation on the Sugar Creek plant and higher MISO fees. Cooling degree days were 64% above normal and 46% above 2Q11.

Initial Take: We expect a positive response to the strong results, potentially offset by lack of incremental detail around the joint venture process and pipeline modernization projects. We expect NI will fully vet these and other issues at its upcoming analyst day in NYC on September 12.

9:00 AM ET Conference Call #: (866) 783- 2142; ID#: 45747504.

We will be focused on:

- Further detail on the potential joint venture on its Utica/Marcellus acreage.
- Pipeline modernization project updates, including commentary around settlement with customers.

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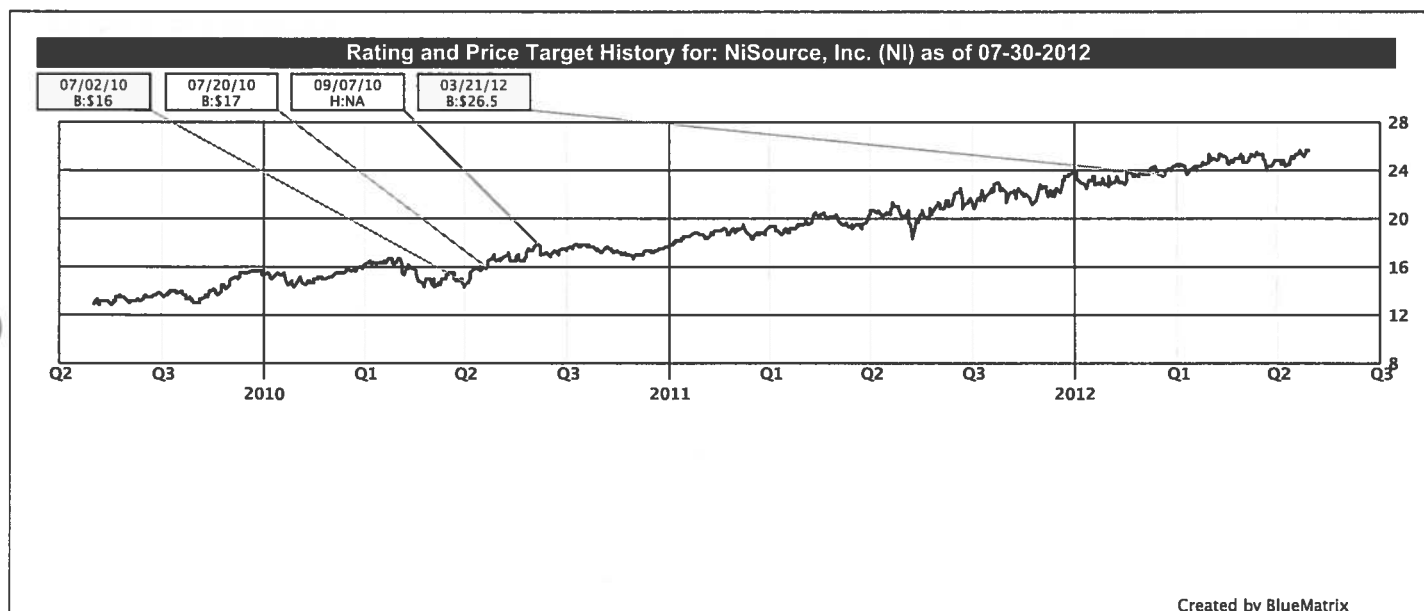
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			Count	Percent				Count	Percent
BUY [BUY]	230	43.48	44	19.13	BUY [BUY]	38	48.10	14	36.84
HOLD [HOLD]	287	54.25	47	16.38	HOLD [HOLD]	41	51.90	17	41.46
SELL [UND]	12	2.27	4	33.33	SELL [UND]	0	0.00	0	0.00

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NiSource, Inc. (BUY)

NI – Quick Alert: 3Q12 Solid Results, Execution on Track

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
Timothy Yee: (216) 689- 0385 — tyee@key.com

KEY INVESTMENT POINTS

November 1, 2012 Close: \$25.45

3Q12 KBCM EPS Estimate: \$0.03 (Consensus: \$0.04)

2012 KBCM EPS Estimate: \$1.45 (Consensus: \$1.45)

2013 KBCM EPS Estimate: \$1.55 (Consensus: \$1.57)

3Q12 Actual Results (vs. 3Q11):

- Ongoing EPS \$0.05 vs. \$0.13; GAAP EPS \$0.06 vs. \$0.12.
- NI excludes the impact weather variations from normal in its ongoing earnings. Results were approximately \$0.02 better before this normalization.
- Results were ahead of our estimate of \$0.03 and consensus of \$0.04 per share. Relative to our estimate, NGT&S performed more strongly, despite booking a \$50 million refund (treated as ongoing).

Guidance: Maintained 2012 ongoing weather-normalized guidance of \$1.40- \$1.50 per share. NI reiterated long-term growth target of 5- 7%.

3Q Highlights:

- Growth projects remain on track in all segments.
- Gas Distribution operating earnings were \$15.5 million vs. \$8.0 million higher on new rates in Ohio and Pennsylvania partly offset by higher depreciation and employee costs.
- Gas Transmission and Storage improved (operating earnings of \$38.8 million vs. \$64.6 million) as NI booked the full \$50 million 2012- 2013 refund as agreed under its infrastructure modernization settlement. This charge was partially offset by earnings on new projects and higher rates at Columbia Gulf. Equity earnings rose from higher Millennium Pipeline demand and commodity revenue. Expenses fell on lower depreciation under the settlement and lower environmental costs.
- Electric operations earnings were \$77.7 million vs. \$72.9 million, mostly from reduced customer credits from the Nipsco rate case and higher commercial and industrial margins on new rates. Expenses rose on implementation of deferred depreciation on the Sugar Creek plant and higher generation, property tax, storm, personal and MISO costs. Cooling degree days were 16.6% above normal and 3.9% above 3Q11. Overall, weather had a \$0.02 per share positive impact overall.

Initial Take: We expect a positive response to the earnings coming in better than views and continued strategic execution.

9:00 AM ET Conference Call #: (800) 510- 9834 ID#: 83599252

We will be focused on:

- Economic update
- Business update on Utica/Marcellus joint venture acreage development
- Infrastructure project updates

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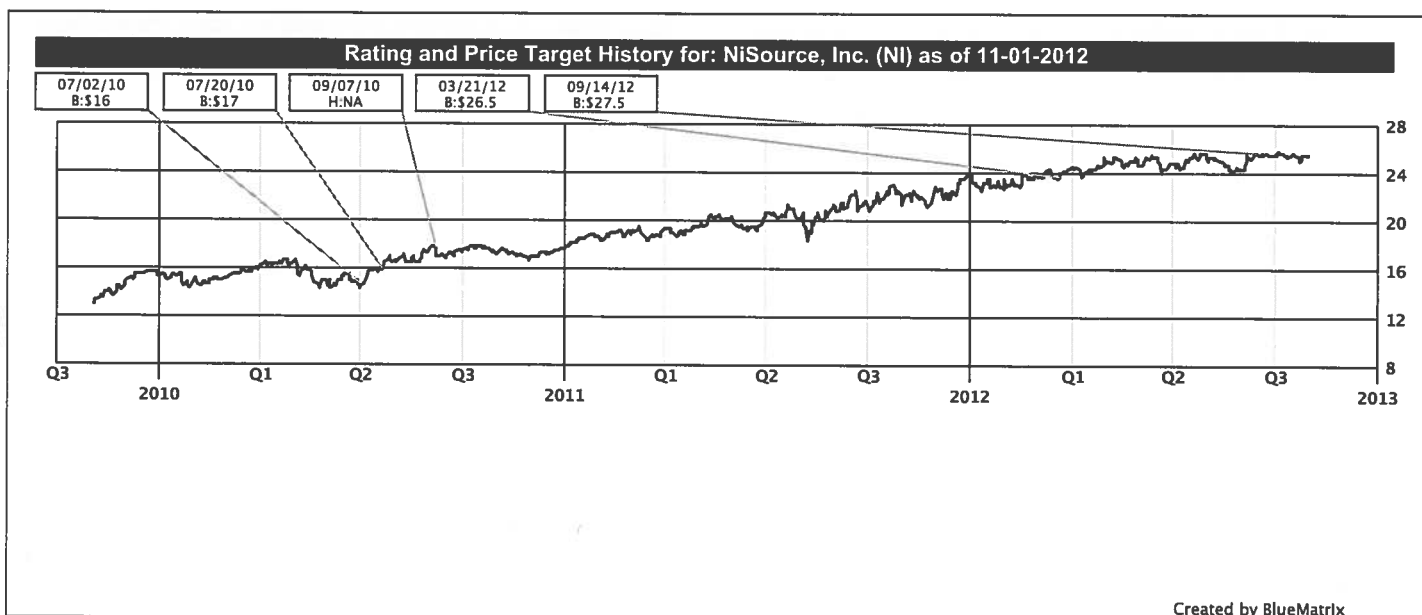
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Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	210	42.42	48	22.86	BUY [BUY]	31	50.82	15	48.39
HOLD [HOLD]	275	55.56	48	17.45	HOLD [HOLD]	30	49.18	19	63.33
SELL [UND]	10	2.02	3	30.00	SELL [UND]	0	0.00	0	0.00

Rating System

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UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

NiSource, Inc. (BUY)

Ni – Quick Alert: 4Q12 Solid Quarter, Guidance in Line with Views

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Timothy Yee: (216) 689- 0385 — tyee@key.com

KEY INVESTMENT POINTS

February 15, 2013 Close: \$26.78

4Q12 KBCM EPS Estimate: \$0.40 (Consensus: \$0.43)

2012 KBCM EPS Estimate: \$1.45 (Consensus: \$1.45)

2013 KBCM EPS Estimate: \$1.55 (Consensus: \$1.57)

4Q12 and FY12 Actual Results (vs. 4Q11 and FY11):

- 4Q12 ongoing EPS \$0.44 vs. \$0.32; 4Q12 GAAP EPS \$0.42 vs. \$0.05
- FY12 ongoing EPS \$1.46 vs. \$1.32; FY12 GAAP EPS \$1.41 vs. \$1.05
- NI excludes the impact of weather variations from normal in its ongoing earnings. The 4Q results were approximately \$0.01 worse before this normalization. Full- year weather impact was a roughly \$0.08 per share negative.
- 4Q results were ahead of our estimate of \$0.40 and consensus of \$0.43 per share. Relative to our estimate, employee costs appear to have declined.

Guidance: Initiated 2013 ongoing weather- normalized guidance of \$1.50- \$1.60 per share. Reiterated long- term growth target of 5- 7%.

4Q Highlights:

- Gas Distribution operating earnings were \$133.6 million vs. \$141.1 million higher on new rates in Ohio, partly offset by higher depreciation, outside services, environmental expense and materials and supplies. Employee costs fell for the quarter.
- Gas Transmission and Storage improved (operating earnings of \$128.8 million vs. \$89.0 million) as customer settlement payments and lower midstream revenues were offset by mineral rights, demand margin and growth projects. On the expense side, costs fell on lower employee costs and lower depreciation stemming from the settlement. Equity earnings rose from higher Millennium Pipeline demand and commodity.
- Electric operations operating earnings were \$51.6 million vs. \$42.9 million, mostly increased industrial and commercial margins and recognition of emission allowances. Expenses rose \$30 million on higher depreciation and generation costs. Employee costs rose at this segment.
- NI outlined \$1.8 billion of 2013 capital expenditures consistent with its growth initiative.

Initial Take: We expect a positive response to a solid quarter and execution around capital programs.

9:00 AM ET Conference Call #: (800) 510- 9661 ID#: 50399586

We will be focused on:

- 2013 outlook
- Business update on Utica/Marcellus joint venture acreage development
- Infrastructure project updates
- Indiana legislative update on distribution improvement riders
- Economic update and retail trends

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 2 - 3 OF THIS NOTE.

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

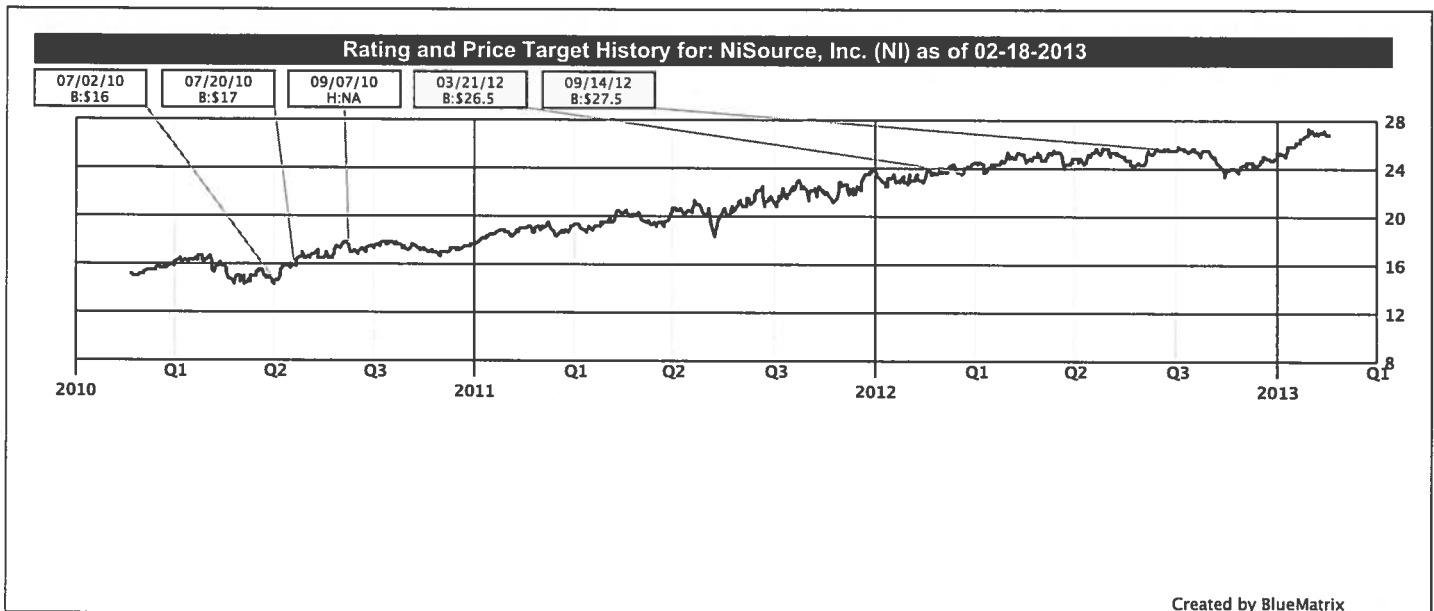
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Reg A/C Certification

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Three- Year Rating and Price Target History



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Rating System

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Electric Utilities: Raising Price Targets After Group Multiple Expansion

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com
Timothy Yee: (216) 689- 0385 — tyee@key.com

Sym	Cur Rtg	Prv Rtg	Cur Target	Prv Target	FC 2012	FC 2013	Current EPS			Previous EPS		
							2012	2013	2014	2012	2013	2014
AEP	BUY	BUY	\$47.00	\$45.50	\$3.13	\$3.30	\$3.09	\$3.10	--	\$3.05	\$3.10	--
ALE	BUY	BUY	\$48.00	\$45.50	\$2.74	\$3.01	\$2.58	\$2.70	--	\$2.55	\$2.70	--
CMS	BUY	BUY	\$27.00	\$25.50	\$1.54	\$1.63	\$1.55	\$1.65	--	\$1.55	\$1.65	--
CNL	BUY	BUY	\$45.00	\$44.00	\$2.43	\$2.52	\$2.40	\$2.55	--	\$2.40	\$2.55	--
IDA	BUY	BUY	\$48.00	\$46.00	\$3.35	\$3.26	\$3.35	\$3.25	--	\$3.35	\$3.25	--
NI	BUY	BUY	\$28.50	\$27.50	\$1.45	\$1.55	\$1.45	\$1.55	--	\$1.45	\$1.55	--

ACTION STATEMENT

We are revisiting price targets on some of our **BUY**-rated names after the strength in the markets has lifted the overall valuation of the utility group. On a relative basis, we still find value in these names despite the fact that several of them have traded through our prior price targets. We are raising our price targets on American Electric Power Company, Inc. (AEP-NYSE), Allete, Inc. (ALE-NYSE), CMS Energy Corporation (CMS-NYSE), Cleco Corporation (CNL-NYSE), IDACORP, Inc. (IDA-NYSE) and NiSource, Inc. (NI-NYSE). Given the nature of how the utility sector historically trades as a group, we use essentially the same valuation methodology, grounded against a higher group multiple.

KEY INVESTMENT POINTS

Given the recent strength in the utilities sector and the overall market, we are revisiting several price targets for our **BUY**-rated names. Since the end of 2012, the S&P 500 is up 6.6% while the Philadelphia utility index (UTY) has risen by 4.1%.

We are raising price targets on **BUY**-rated AEP, ALE, CMS, CNL, IDA and NI to reflect a higher group multiple. Some of these names have traded through our previous price targets given a strong overall market. Our coverage universe currently trades at a P/E multiple of 15.5x 2013 earnings. We continue to view these names favorably based on relative valuation.

Below we discuss the characteristics that attract us to these companies:

American Electric Power Company, Inc. (AEP- NYSE; BUY; \$47.00 price target; \$3.10 EPS 2013E) - We continue to view AEP as a core large cap holding. At its recent Analyst Day, AEP issued 2013 and 2014 guidance ranges of \$3.05- \$3.25 and \$3.15- \$3.45 per share, respectively. The dividend policy was raised from a 50- 60% payout ratio to 60- 70%, supported by regulated earnings. The Company's 4- 6% growth rate was reaffirmed. We believe AEP offers investment opportunity on generally reasonable regulatory environments and offers upside in a tightening commodity market. **We have increased our price target to \$47.00 from \$45.50 per share.** Our valuation is based upon a modest group discount.

Allete, Inc. (ALE- NYSE; BUY; \$48.00 price target; \$2.70 EPS 2013E) - We believe ALE offers above- average growth prospects through investment in renewables, environmental, transmission and potentially new generation, all in a constructive regulatory environment. Potential near- to medium- term catalysts include incremental wind capacity and possible monetization of Florida real estate assets. **We have increased our price target to \$48.00 from \$45.50 per share.** We add back the Florida real estate losses and apply a premium valuation and then add back 70% of the real estate book value in our valuation.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGE 3 OF THIS NOTE.

CMS Energy Corporation (CMS- NYSE; BUY; \$27.00 price target; \$1.65 EPS 2013E) - In our view, CMS offers a number of capital opportunities in a constructive regulatory environment. CMS has potential investment in renewables and baseload natural gas generation. NOL's (net operating loss carry forwards) allow investment without meaningful equity needs. **We have increased our price objective to \$27.00 from \$25.50 per share.** We use a valuation premium of 6%.

Cleco Corporation (CNL- NYSE; BUY; \$45.00 price target; \$2.55 EPS 2013E) - CNL has successfully completed its large capital program and represents a free cash flow story. We estimate CNL can generate roughly \$90 million of free cash annually. Management has indicated it would utilize this free cash to seek investment opportunities with utility- like risk and returns and/or return cash to shareholders through higher dividend payments or share repurchases. **Our new \$45 price target (prior \$44.00)** is derived from the value of a premium utility, including earnings from rate- basing the Coughlin plant, and adding the cash generated by leveraging the plant to the utility's capital structure.

IDACORP, Inc. (IDA- NYSE; BUY; \$48.00 price target; \$3.25 EPS 2013E) - IDA has investment opportunities around large transmission projects and potential generation to fill the needs caused by expiring power contracts. We believe Idaho regulation continues to improve as evidenced by recent constructive settlements that act to put a 9.5% floor on IDA's earned ROE. **We have raised our price target to \$48.00 from \$46.00 per share,** based upon our view that shares should trade at a 5% discount to the group given lingering risk that improvement in Idaho regulation stalls.

NiSource, Inc. (NI- NYSE; BUY; \$28.50 price target; \$1.55 EPS 2013E) - We view NI as a portfolio of attractive assets in the gas distribution, electric utility and gas midstream businesses, coupled with a meaningful (100,000- 200,000 acres) position in the Utica/ Marcellus. Our valuation is based on a sum- of- the- parts of companies in respective peer groups. **We have raised our price objective to \$28.50 from \$27.50 per share.**

VALUATION TABLE FOR COMPANIES IN THIS REPORT WITH PRICE TARGET CHANGES

Company	TKR	Rating	2013E EPS	2013 P/E	Price Tgt P/E	Price Target
Allete, Inc.	ALE	Buy	\$2.70	17.3x	17.8x	\$48.00
American Electric Power, Inc.	AEP	Buy	\$3.10	14.4x	15.2x	\$47.00
CMS Energy Corp.	CMS	Buy	\$1.65	15.6x	16.4x	\$27.00
Cleco Corp.	CNL	Buy	\$2.55	17.1x	17.6x	\$45.00
IDACORP, Inc.	IDA	Buy	\$3.25	14.4x	14.8x	\$48.00
NiSource, Inc.	NI	Buy	\$1.55	17.4x	18.4x	\$28.50
KBCM Utility Peer Group Average Multiple = 15.5x						

KeyBanc Capital Markets Inc. Disclosures and Certifications

Important disclosures for the companies mentioned in this report can be found at [https://key2.bluematrix.com/sellside/ Disclosures.action](https://key2.bluematrix.com/sellside/Disclosures.action).

Please refer to the analysts' recently published reports for company- specific valuation and risks.

Reg AIC Certification

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May 23, 2012

ENERGY: Multi- Utilities

Quick Alert

KeyBanc

Capital Markets



NiSource, Inc. (BUY)

Ni - Quick Alert: Close to Finalizing JV?

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

KEY INVESTMENT POINTS

In a Cleveland Plain Dealer newspaper article, we have learned that on Friday, May 18, 2012, Columbia Gas Transmission (a NiSource subsidiary) filed an agreement to transfer the right to drill for oil and gas on about 14,000 leased gas storage acres associated with the Brinker storage field in Ohio to sister subsidiary NiSource Energy Ventures.

(see http://www.cleveland.com/business/index.ssf/2012/05/old_natural_gas_leases_block_h.html)

Recall that NI has indicated that it is working with an oil and gas developer on a potential joint venture in which NI would contribute around 15,000 of its own acres, to be married with a larger position in the wet Utica shale region, and as part of the agreement, NI would look to develop the supporting infrastructure around production of the combined joint venture acreage (around 100,000 acres).

We believe as a gating issue, NI is not likely to have filed for property transfer until a joint venture deal was in place. We would expect an announcement soon on the producer counterparty in which NI has described as "widely recognized, widely respected" (and not Chesapeake Energy).

Assuming the transfer is related to the joint venture, we view this news positively, as it signals the joint venture is proceeding and likely close to announcement.

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KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

NiSource, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource, Inc. during the past 12 months

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

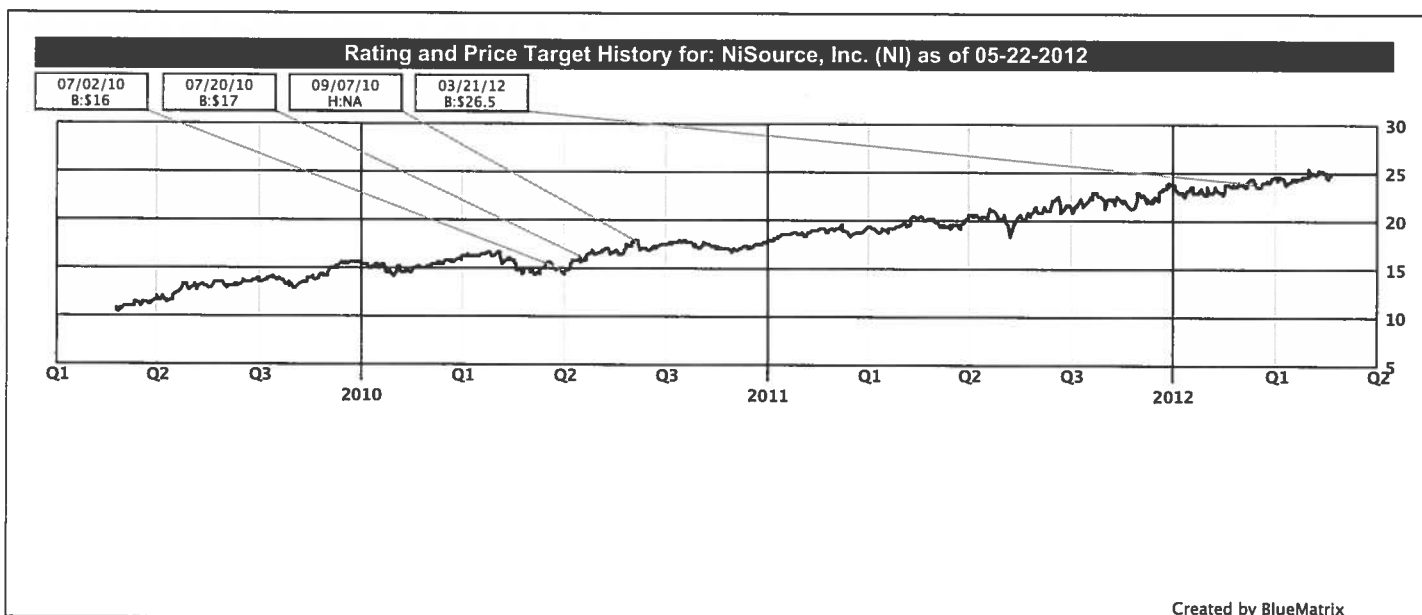
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We have managed or co- managed a public offering of securities for NiSource, Inc. within the past 12 months.

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NiSource, Inc. (BUY)

NI - Quick Alert: Gas Explosion Reported, No Deaths Reported

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Timothy Yee: (216) 689- 0385 — tyee@key.com

KEY INVESTMENT POINTS

Over the weekend, a natural gas explosion occurred on the Springfield system of NiSource's (NI- NYSE) Columbia Gas of Massachusetts.

While the investigation is ongoing, here is what the Associated Press has reported: a NI gas worker responded to the evacuated area to investigate a potential leak. Cuing off apparently misplaced markings on the sidewalk, he used an underground probe to detect a leak, and accidentally pierced a high pressure line. Through some source, gas ignited and caused an explosion, which did severe damage to a few and less severe damage to the surrounding buildings. According to the report, 42 buildings sustained some level of damage.

There were no deaths, but several minor injuries were reported; most (if not all) have been released.

While the event is tragic, we believe the financial impact to NI is contained. We expect insurance will likely cover much of the damage. Reports indicate that the worker was following proper procedure, but mismarking of the gas line position led him to probe directly over the line. It is unknown if NI or an outside contractor marked the line.

We expect the stock may open weaker around uncertainty of the extent of damage and liability of NI.

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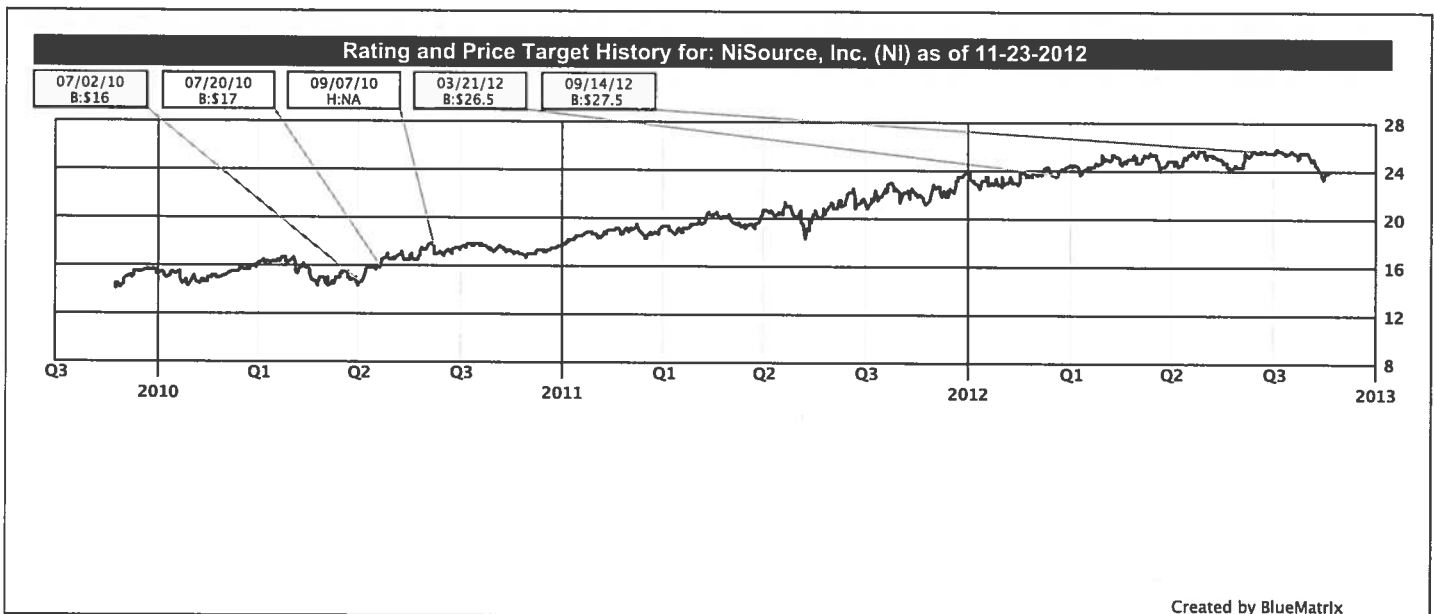
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NiSource, Inc. (BUY)

NI - Quick Alert: West Virginia Pipeline Fire, Risk Appears Contained

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

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Timothy Yee: (216) 689- 0385 — tyee@key.com

KEY INVESTMENT POINTS

A pipeline owned by NiSource, Inc.'s (NI- NYSE) Columbia Gas experienced an explosion on the afternoon of December 11. Details of the incident are still being collected. What is currently known from various media reports is summarized below.

A large natural gas pipeline in Sissonville, W.Va. experienced an explosion from unknown causes in the early afternoon. The explosion and subsequent fire from the ruptured pipe destroyed nearby structures and shut a stretch of I- 77. At this point, no injuries other than smoke inhalation have been reported.

In our view, given what we know, this incident is not a cause for major concern. The roughly \$95 million reduction in market cap experienced in yesterday afternoon's trading likely bounds the risk. We expect insurance will essentially minimize NI's financial exposure.

What would cause us more concern?

- Any fatality related to the incident would obviously change the situation and response to it
- Any finding that the explosion resulted from gross negligence
- If the incident impacted the pending FERC approval of NI's settlement around its pipeline modernization project. Pending the root cause analysis, one could argue that the incident reinforces the need for these projects

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We have received compensation for investment banking services from NiSource, Inc. during the past 12 months

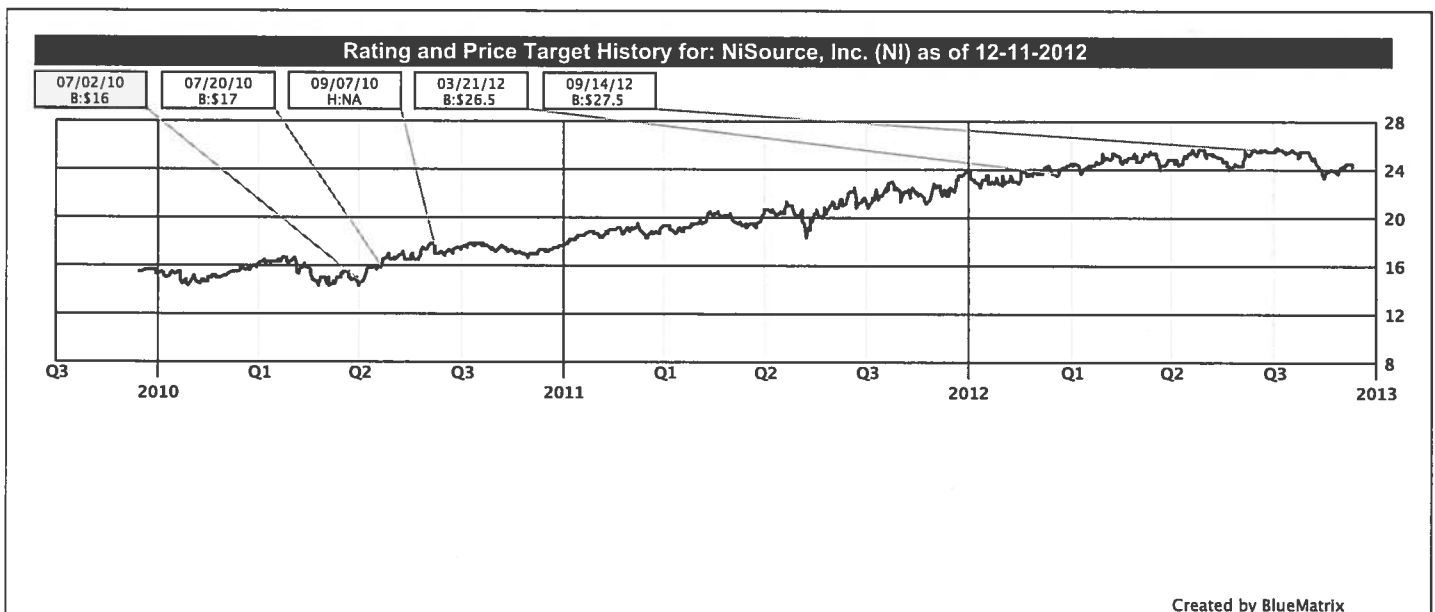
We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

During the past 12 months, NiSource, Inc. has been a client of the firm or its affiliates for non- securities related services.

Reg AIC Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	223	44.16	50	22.42	BUY [BUY]	31	49.21	15	48.39
HOLD [HOLD]	273	54.06	54	19.78	HOLD [HOLD]	32	50.79	19	59.38
SELL [UND]	9	1.78	2	22.22	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

The information contained in this report is based on sources considered to be reliable but is not represented to be complete and its accuracy is not guaranteed. The opinions expressed reflect the judgment of the author as of the date of publication and are subject to change without notice. This report does not constitute an offer to sell or a solicitation of an offer to buy any securities. Our company policy prohibits research analysts and members of their families from owning securities of any company followed by that analyst, unless otherwise disclosed. Our officers, directors, shareholders and other employees, and members of their families may have positions in these securities and may, as principal or agent, buy and sell such securities before, after or concurrently with the publication of this report. In some instances, such investments may be inconsistent with the opinions expressed herein. One or more of our employees, other than the research analyst responsible for the preparation of this report, may be a member of the Board of Directors of any company referred to in this report. The research analyst responsible for the preparation of this report is compensated based on various factors, including the analyst's productivity, the quality of the analyst's research and stock recommendations, ratings from investor clients, competitive factors and overall Firm revenues, which include revenues derived from, among other business activities, the Firm's performance of investment banking services. In accordance with industry practices, our analysts are prohibited from soliciting investment banking business for our Firm.

Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

NiSource, Inc.:

NI: Upgrading Shares as Growth Story Unfolds

KeyBanc Capital Markets Inc.
 Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@keybanccm.com
 Timothy Yee: (216) 689- 0385 — tyee@keybanccm.com

Rating	BUY
Price	\$23.50
12- Mo. Price Target	\$26.50
Dividend	\$0.92
Yield	3.9%
52- Wk. Range	\$18 - \$25
Trading Volume (000)	3,106
Market Cap. (mm)	\$6,753.9
Shares Out. (mm)	287.40
Book Value/Share	\$17.73

EPS (Net) Summary

FY Dec	2011A	2012E	2013E
1Q	\$0.73	\$0.69	--
2Q	\$0.17	--	--
3Q	\$0.13	--	--
4Q	\$0.28	--	--
<i>Prior</i>	\$0.32	--	--
YEAR	\$1.31	\$1.45	--
First Call	--	\$1.45E	\$1.52E
P/E	17.9x	16.2x	

Note 1: 2010 Q2: We include \$0.02 unfavorable weather impact to \$0.13 reported net operating earnings per share from continuing operations.

Note 2: 2010 Q3: We include \$0.02 favorable weather impact to \$0.04 reported net operating earnings per share from continuing operations.

Note 3: 2010 Q4: We include \$0.02 favorable weather impact to \$0.33 reported net operating earnings per share from continuing operations.

Note 4: 2011 Q1: We include \$0.01 favorable weather impact to \$0.72 reported net operating earnings per share from continuing operations.

Note 5: 2011 Q3: We include \$0.02 favorable weather impact to \$0.11 reported net operating earnings per share from continuing operations.

Note 6: 2011 Q4: We include \$0.03 unfavorable weather impact to \$0.31 reported net operating earnings per share from continuing operations.

ACTION STATEMENT

We are upgrading shares of NiSource, Inc.'s (NI-NYSE) stock to **BUY** from HOLD based on our sum of the parts valuation that captures higher market multiples for its gas distribution and pipeline/storage segments and assigns some value to NI's Utica acreage. We believe 2012 will have multiple positive catalysts for the shares including raising the dividend and establishing a payout policy, additional infrastructure opportunities in the Marcellus and Utica shale plays, and incremental detail around the transmission pipe modernization opportunity.

• **Rating: BUY from HOLD**

KEY INVESTMENT POINTS

We recently visited NI and came away incrementally more positive on the Company's set of investment opportunities.

We believe that NI will have several positive catalysts over the balance of 2012 that investors may want to get in front of. Included in these catalysts are a potential dividend increase, \$4 billion gas transmission investment, joint ventures around Utica acreage, incremental Marcellus and Utica infrastructure and the potential to raise the Company's earnings growth target.

Given the nature of much of this investment is around shale and infrastructure, we have reworked our valuation as a sum of the parts, including an allowance for NI's Utica acreage, which does not yet add meaningfully to earnings.

We are upgrading shares to **BUY** from HOLD and establishing a \$26.50 price target representing a 12 month total return potential greater than 16%.

VALUATION

Given NI's diverse mix of businesses, we believe a sum of the parts valuation is most appropriate. While NI does not provide segment EPS detail, management has indicated that its net income mix is approximately 25- 30% regulated electric utility, 35- 40% regulated gas distribution and 35- 40% gas transmission and storage. We apply respective 2012 peer group multiples (14.0x, 15.65x and 19.8x) to these percentages and our 2012 estimate yields segment values of \$5.08, \$8.51 and \$10.76 (or \$24.35 in total). To this we add \$2.15 per share to capture the value of NI's 100,000- 200,000 acres of mineral rights in the Utica shale. We use 175,000 acres at \$5,500/acre taxed at 35%, given minimal tax basis on the acreage. Our resulting price target of \$26.50 represents a P/E multiple 18.3x our 2012 estimate. The stock is currently trading at a 2012 P/E of 16.2x.

RISKS

We believe the primary risk that could impede NI from achieving our price target would be the inability to realize the inherent value and capitalize on the infrastructure opportunities around its Utica acreage position.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGES 3 - 4 OF THIS NOTE.

DISCUSSION

We recently met with NI management and feel better about NI, and are upgrading the shares. While we may be early in our upgrade, we want to get ahead of several catalysts we foresee in the name. Incrementally, from our meetings, we believe management has made solid progress on some of these catalysts. We discuss these items below:

UPCOMING CATALYSTS

Dividend Increase and Growth Policy – NI indicated that the dividend was ripe for action and the issue was in front of the board. We expect a dividend increase on the order of 5% is more likely sooner than later this year, with communication of a policy to annually grow the dividend at a pace below the 5% growth target (given attractive investment opportunities). The board meets in March and then again in May, ahead of the May 15 annual meeting.

Clarity Around Gas Transmission Modernization – Management indicated it was in active discussions with its transmission customers to spend \$4 billion plus over 10- 15 years to enhance reliability and flexibility of the Columbia Gas Transmission system, with major spending (\$300 million- \$400 million annually) commencing in 2013. We believe it is in NI's and its customers' best interest to settle this matter, allowing NI timely recovery and giving customers a voice in timing and shape of the project. An agreement with customers is not a gating issue as NI plans to spend the capital regardless of whether or not a settlement is achieved. Absent a settlement, NI would simply file frequent rate cases with FERC. In our view, FERC would not obstruct the project given heightened concerns around aging pipeline infrastructure, particularly after the San Bruno explosion.

Detail Around \$145 Million Marcellus Pipeline Project – NI previously announced a project with a "blue chip" Marcellus producer to service its partner's natural gas processing plant. The pipeline would deliver gas from the plant and interconnect to three other pipelines in Pennsylvania (one owned by NI). This project is expected to come online in late 2012. We expect that the partner could be named and greater detail announced in the coming weeks.

Potential Utica Acreage Joint Venture – NI has indicated that it was working with an oil and gas developer on a potential JV in which NI would contribute 15,000- 20,000 of its own acres, to be married with a larger position in the wet Utica region. Each party would reap the benefit of the greater scale of the combined acreage position. As part of the agreement, NI would build the supporting infrastructure around the production. This would serve as a template for NI's strategy to leverage its remaining acreage (NI's last statement was that it held 100,000- 200,000 acres of mineral rights in the Utica). Under this template we envision NI receiving a potential bonus payment, a royalty stream as well as be the developer of supporting infrastructure. We believe an existing infrastructure footprint (with existing rights of way) and a large Utica acreage position to lever, differentiates NI from other players. We expect an update on this potential JV on NI's 1Q earnings conference call.

Capital Opportunities Around Two Open Seasons – NI recently closed two open seasons to assess interest in two pipeline projects to move Marcellus gas to market. The first, on the western end would reverse the flow on one of NI's Gulf pipes to move gas from the Marcellus to the Florida market. We expect growing gas demand in Florida would likely generate strong customer interest in this project. The second project would transmit gas from the eastern side of the system to the mid- Atlantic market. We believe NI may be in a position to speak in greater detail around these opportunities by late 2012 to early 2013.

Revisit Growth Rate – NI currently has a 5% EPS growth target. In our view, if NI is successful around the preceding initiatives, management could be in a position to reassess NI's EPS growth aspiration with a meaningful increase.

Upcoming Analyst Day – NI has been discussing holding an analyst day in 2012. The time has been pushed out, and we currently expect that the event could be held in September. NI indicated it will wait until its initiatives are well gelled before it would schedule the meeting, rather than bringing investors to a meeting without firm project details. We believe the event will be positive and provide greater clarity around NI's set of investment opportunities. Given that much of this set is outside the electric utility, we believe investors will be less prone to paint NI with a regulated electric brush in their valuation.

KeyBanc Capital Markets Inc. Disclosures and Certifications

NiSource, Inc. - NI

NiSource, Inc. is an investment banking client of ours.

We have received compensation for investment banking services from NiSource, Inc. during the past 12 months

We expect to receive or intend to seek compensation for investment banking services from NiSource, Inc. within the next three months.

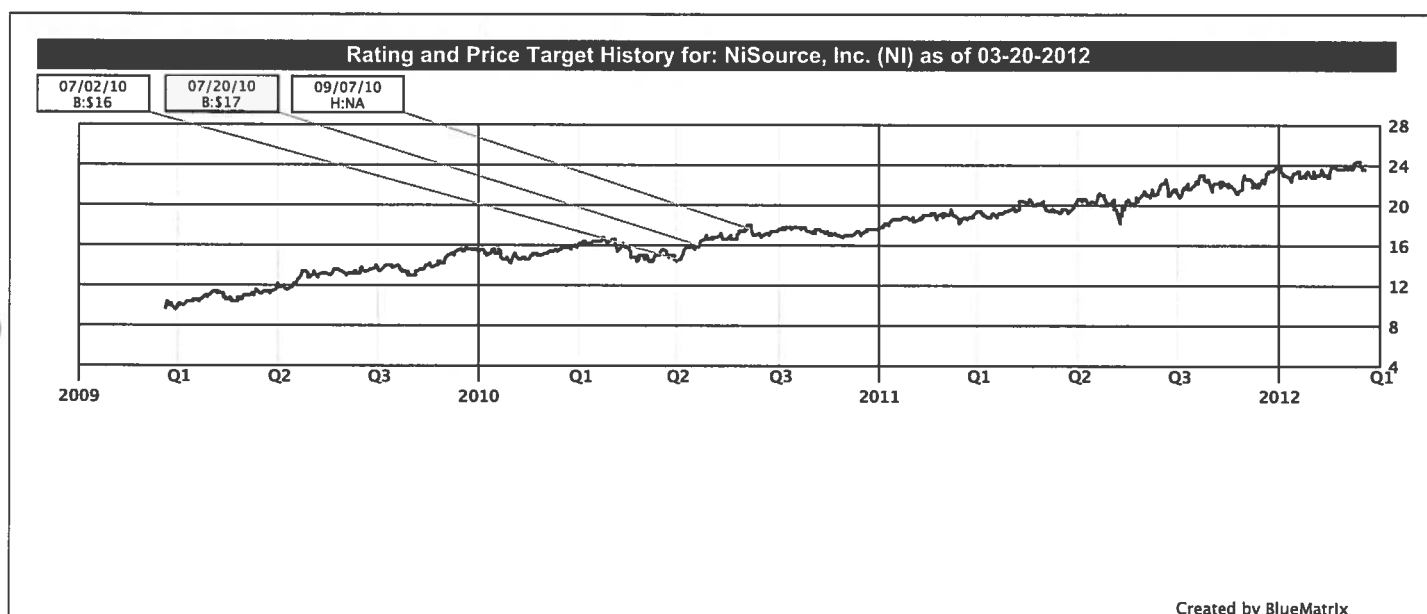
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We have managed or co- managed a public offering of securities for NiSource, Inc. within the past 12 months.

Reg AIC Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Three- Year Rating and Price Target History



Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	226	44.23	47	20.80	BUY [BUY]	37	46.84	15	40.54
HOLD [HOLD]	273	53.42	51	18.68	HOLD [HOLD]	42	53.16	18	42.86
SELL [UND]	12	2.35	4	33.33	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

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Stock Rating
Equal-weight
Industry View
Attractive

September 13, 2012

NiSource, Inc. Growth Visibility Improving

Ni's roadmap is expected to support CAGRs of 5 – 7% for EPS and 3 – 5% for dividends through 2015 (MS at 7% EPS growth in 2013). While we remain Equal-weight rated (in an Attractive sector), we would have exposure to NI as we see solid, low risk 15% total return potential (\$28 price target).

A Lower-Risk, Accelerating Outlook. NI is an improving fundamental story with investment opportunities and growth driven by a low-risk regulated business (ROE recovery mechanisms in place) and future upside from its pipeline business via the Marcellus / Utica. NI plans to spend \$1.5 – 1.8b per year (up to \$300m/year from midstream / G&P) at ~12% ROICs, driving EBIT growth of 8-10% and EPS growth of 5 – 7% from 2012 – 2017. NI expects to generate \$1.1 – 1.3b of annual CFFO and fund the remaining ~40% of its cash needs through its balance sheet (equity issuance anticipated in 2015, maintaining its investment grade rating). With the stock trading at 16.1x P/E and 9.3x EV/EBITDA on 2013e, we see some room for multiple expansion given improving growth and new project development to help shares grind higher.

All Segments Primed to Perform. Gas Distribution: 7 – 9% EBIT growth driven by \$10b of investment (\$600 – 650m annually; ~75% revenue enhancing) focused on customer growth and infrastructure modernization. NIPSCO Electric: 7 – 9% EBIT growth driven by \$6 – 8b of investment (\$400 – 450m annually). NIPSCO is earning close to allowed ROEs in most areas (10.2% based on 55%/45% equity/debt) and does not foresee a rate case near-term as it can earn its allowed ROEs based on modernizations. NGT&S: 10 – 12% EBIT growth driven by \$7 – 9b of regulated investment and \$1 – 1.5b of midstream spend (\$500 – 700m in total capex spend annually). The pipeline system is well positioned with generally the lowest rates of markets served and the recent rate settlement is expected to be EPS accretive in 2014 and cash accretive in 2015. NI expects to leverage its asset position and location to look for G&P opportunities in underserved areas of the Marcellus/Utica and looks to replicate the Hilcorp deal structure for its remaining minerals positions.

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Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$28.00
Shr price, close (Sep 12, 2012)	\$25.35
Mkt cap, curr (mm)	\$7,229
52-Week Range	\$26.15-20.31

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	1.33	1.47	1.57	1.67
Prior ModelWare EPS (\$)	-	1.44	1.57	1.68
P/E	17.9	17.3	16.1	15.2
Consensus EPS (\$)§	1.35	1.46	1.56	1.67
EBITDA (\$mm)**	1,499	1,651	1,788	1,959
EV/EBITDA**	9.6	9.5	9.3	8.9
Div yld (%)	3.9	3.7	3.9	4.0
Div per shr (\$)	0.92	0.94	0.98	1.02
Shrs out, diluted, avg (mm)	281	289	291	293

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

** = Based on consensus methodology
e = Morgan Stanley Research estimates

Morgan Stanley does and seeks to do business with companies covered in Morgan Stanley Research. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of Morgan Stanley Research. Investors should consider Morgan Stanley Research as only a single factor in making their investment decision.

For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

September 13, 2012
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: Thomson One; Morgan Stanley Research

Price Target \$28	Derived from base case average of four valuation methodologies	
Bull Case \$32	10x GT&S '13e EBITDA, 8.5x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$28	9.0x GT&S '13e EBITDA, 8.0x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case \$22	8x GT&S '13e EBITDA, 7x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$5,541	\$19
Gas Transmission & Storage	5,831	21
Electric Utility	3,801	13
Utica	900	3
Value per Share	\$16,072	\$57
Net Debt	(7,830)	(28)
Net Equity Value	\$8,243	\$29
Shares Outstanding (in mm)		284

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 3 – 5% annual growth.

Potential Catalysts

- Announcement of additional Marcellus or Utica projects or acquisition beyond those included in guidance.
- Another minerals joint venture in the Utica similar to Hilcorp transaction.
- Possible decision to create an MLP.

Where We Could Be Wrong (Risks to Our Price Target)

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Exhibit 1

NI Income Statement

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
Net Revenues					
Gas Distribution	2,927,700	2,586,052	3,508,161	3,740,061	3,918,913
Gas Transportation and Storage	1,297,400	1,320,176	1,216,255	1,353,894	1,488,482
Electric	1,477,800	1,487,982	1,606,140	1,701,164	1,793,798
Other	99,700	50,000	-	-	-
Total Net Revenues	5,802,600	5,444,210	6,330,555	6,795,119	7,201,193
Operating Costs					
Cost of Sales	2,336,700	1,851,537	2,383,839	2,477,016	2,618,351
Operation and maintenance	1,688,100	1,688,814	1,881,664	2,060,636	2,175,203
Depreciation and amortization	542,800	581,443	594,073	643,523	659,236
Other taxes	293,300	286,432	312,925	338,884	358,434
Total Operating Costs	4,860,900	4,408,225	5,172,501	5,520,059	5,811,225
Equity Earnings (Loss) in Uncon. Affiliates	14,600	33,379	36,271	40,301	41,318
EBIT	956,300	1,069,363	1,194,325	1,315,361	1,431,285
EBITDA	1,499,100	1,650,806	1,788,399	1,958,884	2,090,521
Other income					
Interest expense, net	(376,800)	(427,157)	(492,288)	(563,658)	(592,877)
Other income	(7,300)	9,400	-	-	-
Inc. from continuing operations bef inc. taxes	572,200	651,606	702,037	751,703	838,408
Income tax (provision)	197,500	227,670	244,002	262,978	291,819
Operating Net income (Loss)	374,700	423,936	458,036	488,725	546,590
Net Income per Share (Operating)	\$1.33	\$1.47	\$1.57	\$1.67	\$1.81
Net Income per Share (GAAP)	\$1.31	\$1.41	\$1.57	\$1.67	\$1.81
Weighted Avg Diluted Units Outstanding	281,400	289,200	291,175	293,111	302,658
Dividends per share	0.92	0.94	0.98	1.02	1.06

Source: Company data, Morgan Stanley Research

September 13, 2012
NiSource, Inc.

Exhibit 2

NI Operating Data

	2011	2012E	2013E	2014E	2015E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	254.5	214.0	218.2	222.6	227.1
Commercial	168.6	151.1	155.6	160.3	165.1
Industrial	431.7	483.9	532.3	572.2	600.8
Off System	62.5	53.4	53.9	54.4	55.0
Other	0.5	0.4	0.4	0.4	0.4
Total Sales and Transports	917.8	902.7	960.4	1,009.9	1,048.3
Weather Adjustment	(5.6)	60.8	-	-	-
Sales and Transport Vols — Excluding Weather	912.2	963.5	960.4	1,009.9	1,048.3
<i>y/y change</i>	2.6%	5.6%	-0.3%	5.2%	3.8%
Sales Price (\$ / Dth)	\$3.85	\$3.06	\$3.65	\$3.70	\$3.74
<i>y/y change</i>	-7.0%	-20.4%	19.2%	1.4%	0.9%
COGS Price (\$ / Dth)	\$2.10	\$1.45	\$1.86	\$1.83	\$1.88
<i>y/y change</i>	-9.5%	-30.9%	28.4%	-1.9%	2.6%
Gross Margin (\$ / Dth)	\$1.74	\$1.61	\$1.79	\$1.88	\$1.86
<i>y/y change</i>	-3.8%	-7.6%	11.0%	4.8%	-0.6%
GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,117.5	1,089.6	1,193.7	1,253.4	1,316.0
Columbia Gulf	1,048.0	977.8	1,044.0	1,096.2	1,151.0
Crossroads Gas Pipeline	18.7	16.4	17.5	17.9	18.3
Total throughput	2,184.2	2,083.8	2,255.2	2,367.4	2,485.3
Intrasegment eliminations	(548.5)	(513.9)	(599.4)	(609.0)	(635.8)
Total third-party throughput	1,635.7	1,569.9	1,655.8	1,758.4	1,849.5
<i>y/y change</i>	17.0%	-4.0%	5.5%	6.2%	5.2%
Tariff (\$ / Dth)	\$0.47	\$0.53	\$0.58	\$0.59	\$0.61
<i>y/y change</i>	-8.9%	11.5%	8.9%	3.1%	2.9%
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,526.5	3,717.3	3,905.7	4,022.9	4,143.5
Commercial	3,886.5	3,959.7	4,096.1	4,218.9	4,345.5
Industrial	9,257.6	9,296.3	9,634.3	9,923.3	10,221.0
Wholesale	651.6	190.3	243.2	248.0	253.0
Other	165.5	121.3	100.0	75.0	56.2
Total sales	17,487.7	17,284.9	17,979.2	18,488.1	19,019.3
Weather Adjustment	(101.1)	81.8	-	-	-
Total sales volumes — Adj. for weather impacts	17,386.6	17,366.7	17,979.2	18,488.1	19,019.3
<i>y/y change</i>	5.3%	-0.1%	3.5%	2.8%	2.9%
Revenue (\$ / Gigawatt hour)	\$82.19	\$85.90	\$89.33	\$92.01	\$94.31
<i>y/y change</i>	-1.9%	4.5%	4.0%	3.0%	2.5%
COGS (\$ / Gigawatt hour)	\$31.56	\$30.16	\$33.05	\$34.11	\$34.32
<i>y/y change</i>	2.5%	-4.4%	9.6%	3.2%	0.6%
Gross Margin (\$ / Gigawatt hour)	\$50.63	\$55.74	\$56.29	\$57.91	\$60.00
<i>y/y change</i>	-4.5%	10.1%	1.0%	2.9%	3.6%

Source: Company data, Morgan Stanley Research

September 13, 2012

NiSource, Inc.

Exhibit 3

NI Balance Sheet

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
ASSETS					
Cash and cash equivalents	11,500	166,420	252,578	196,317	120,219
Restricted cash	160,600	85,000	85,000	85,000	85,000
Accounts receivable	854,800	895,269	998,832	1,035,948	1,112,157
Income tax receivable	900	700	700	700	700
Gas inventory	427,600	319,791	300,601	341,411	356,200
Regulatory assets	169,700	192,900	192,900	192,900	192,900
Other	261,800	274,200	274,200	274,200	274,200
Total Current Assets	2,248,200	2,274,080	2,444,610	2,466,276	2,481,176
Net Property, Plant and Equipment	11,800,100	12,642,157	13,698,084	14,704,561	15,695,325
Unconsolidated affiliates	204,700	211,500	211,500	211,500	211,500
Other investments	150,900	156,800	156,800	156,800	156,800
Price risk management assets	188,700	90,300	90,300	90,300	90,300
Regulatory assets	1,978,200	1,899,200	1,899,200	1,899,200	1,899,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	297,600	292,100	292,100	292,100	292,100
Deferred charges, Postretirement, other	162,400	181,400	181,400	181,400	181,400
TOTAL ASSETS	20,708,300	21,425,037	22,651,494	23,679,637	24,685,301
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	327,300	766,900	766,900	766,900	766,900
Short-term borrowings	1,359,400	1,018,276	1,018,276	1,018,276	1,018,276
Accounts payable	434,800	490,301	493,807	531,703	561,345
Dividends payable	-	68,300	68,300	68,300	68,300
Customer deposits and credits	313,600	201,800	201,800	201,800	201,800
Taxes accrued	220,900	185,500	185,500	185,500	185,500
Interest accrued	111,900	116,600	116,600	116,600	116,600
Price risk management liabilities	167,800	132,700	132,700	132,700	132,700
Exchange gas payable	168,200	101,400	101,400	101,400	101,400
Deferred revenue	10,100	10,000	10,000	10,000	10,000
Regulatory liabilities	112,000	93,300	93,300	93,300	93,300
Acc liab for post-retirement / -employment benefits	26,600	26,600	26,600	26,600	26,600
Other accruals	301,000	219,800	219,800	219,800	219,800
Total Current Liabilities	3,646,400	3,551,177	3,554,683	3,592,579	3,622,221
Long-term debt, excl amounts due within one year	6,267,100	6,806,900	7,806,900	8,556,900	9,056,900
Price risk management liabilities	138,900	45,600	45,600	45,600	45,600
Deferred income taxes	2,541,900	2,730,500	2,730,500	2,730,500	2,730,500
Deferred inc. taxes, credits, other	107,900	111,900	111,900	111,900	111,900
Acc liability for post-retirement/-employment benefits	953,800	939,400	939,400	939,400	939,400
Regulatory liabilities and other removal costs	1,663,900	1,615,700	1,615,700	1,615,700	1,615,700
Asset retirement obligations	146,400	149,700	149,700	149,700	149,700
Other noncurrent liabilities	244,700	242,100	242,100	242,100	242,100
Total Other Liabilities and Deferred Credits	12,064,600	12,641,800	13,641,800	14,391,800	14,891,800
Common stock	2,800	2,900	2,900	2,900	2,900
Additional paid-in capital	4,167,700	4,341,000	4,391,000	4,441,000	4,691,000
Retained earnings	917,000	987,660	1,160,612	1,350,858	1,576,880
Treasury stock	(30,500)	(59,000)	(59,000)	(59,000)	(59,000)
Accumulated other comprehensive loss	(59,700)	(40,500)	(40,500)	(40,500)	(40,500)
Total Common Stockholders' Equity	4,997,300	5,232,060	5,455,012	5,695,258	6,171,280
TOTAL CAPITALIZATION & LIABILITIES	20,708,300	21,425,037	22,651,494	23,679,637	24,685,301
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,653,300	8,272,938	9,092,076	9,967,076	10,592,076
Average Net Debt	7,642,950	8,183,978	8,882,577	9,742,628	10,433,808
Net Debt/ Total Book Capitalization	60.6%	61.5%	62.4%	63.6%	63.7%
Average Debt/ EBITDA	5.1x	5.0x	5.1x	5.1x	5.1x
Average Interest Rate	4.9%	5.2%	5.4%	5.7%	5.6%

Source: Company data, Morgan Stanley Research

September 13, 2012

NiSource, Inc.

Exhibit 4

NI Cash Flow Statement

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
Cash from Operating Activities					
Net Income	299,100	405,636	458,036	488,725	546,590
Debt: Gain Early Extinguishment / Amort Disc.+Premium	53,900	2,300	-	-	-
Depreciation and Amortization	538,200	579,143	594,073	643,523	659,236
Net Changes in Price Risk Mgmt A / L	38,100	(20,100)	-	-	-
Deferred: Inc. Tax/Credits; Revenues	180,900	128,900	-	-	-
Stock Compensation Expense	39,200	19,700	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	16,800	(3,100)	-	-	-
Income from Unconsolidated Affiliates	(13,700)	(14,900)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	4,700	1,200	-	-	-
AFUDC Equity	(2,400)	(3,000)	-	-	-
Dist. of Earnings Received from Equity Investee	18,800	21,900	-	-	-
Other	8,900	-	-	-	-
Changes in Assets and Liabilities:	(312,300)	(126,359)	(80,867)	(40,030)	(61,356)
Net cash from operating activities	870,200	991,319	971,242	1,092,218	1,144,470
Cash from Investing Activities					
Capital Expenditures	(1,125,200)	(1,400,000)	(1,650,000)	(1,650,000)	(1,650,000)
Insurance Recoveries	-	-	-	-	-
Proceeds from Disposition of Assets	9,400	2,200	-	-	-
Restricted Cash Deposits (Borrowings)	42,300	75,900	-	-	-
Contributions to Equity Investments	(6,400)	(7,600)	-	-	-
Other Investing Activities	(69,400)	(19,900)	-	-	-
Net cash from investing activities	(1,149,300)	(1,349,400)	(1,650,000)	(1,650,000)	(1,650,000)
Cash from Financing Activities					
Issuance of Long-Term Debt	890,000	991,400	1,000,000	750,000	500,000
Retirement/Repurchase of Long-Term Debt	(286,900)	(11,200)	-	-	-
Change in Short-Term Borrowings, Net	(23,100)	(340,724)	-	-	-
Issuance of Common Stock	24,400	150,000	50,000	50,000	250,000
Acquisition of Treasury Stock	(3,100)	(10,000)	-	-	-
Dividends Paid - Common Stock	(257,800)	(266,475)	(285,084)	(298,479)	(320,568)
Other	(62,100)	-	-	-	-
Net cash from financing activities	281,400	513,000	764,916	501,521	429,432
Net change in cash	2,300	154,920	86,158	(56,261)	(76,098)
Cash at beginning of period	9,200	11,500	166,420	252,578	196,317
Cash at end of period	11,500	166,420	252,578	196,317	120,219

Source: Company data, Morgan Stanley Research

Exhibit 5

NI Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$5,541	\$19
Gas Transmission & Storage	5831	\$21
Electric Utility	3801	\$13
Utica	900	\$3
Value	\$16,072	\$57
Net Debt	(7,830)	(28)
Net Equity Value	\$8,243	\$29
Shares Outstanding (in m)		284

GAS DISTRIBUTION

Forward EBITDA (2013E)	\$652
Forward multiple	8.5x
Enterprise value	\$5,541

GAS TRANSMISSION & STORAGE

Forward EBITDA (2013E)	\$648
Forward multiple	9.0x
Enterprise value	\$5,831

ELECTRIC UTILITY

Forward EBITDA (2013E)	\$475
Forward multiple	8.0x
Enterprise value	\$3,801

Potential Utica Value

Acres	150,000
estimated \$/acre	\$6,000
Enterprise value	\$900

Source: Company data, Morgan Stanley Research

September 13, 2012
NiSource, Inc.

Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of August 31, 2012)

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	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1108	37%	445	41%	40%
Equal-weight/Hold	1283	43%	499	46%	39%
Not-Rated/Hold	109	4%	34	3%	31%
Underweight/Sell	469	16%	115	11%	25%
Total	2,969		1093		

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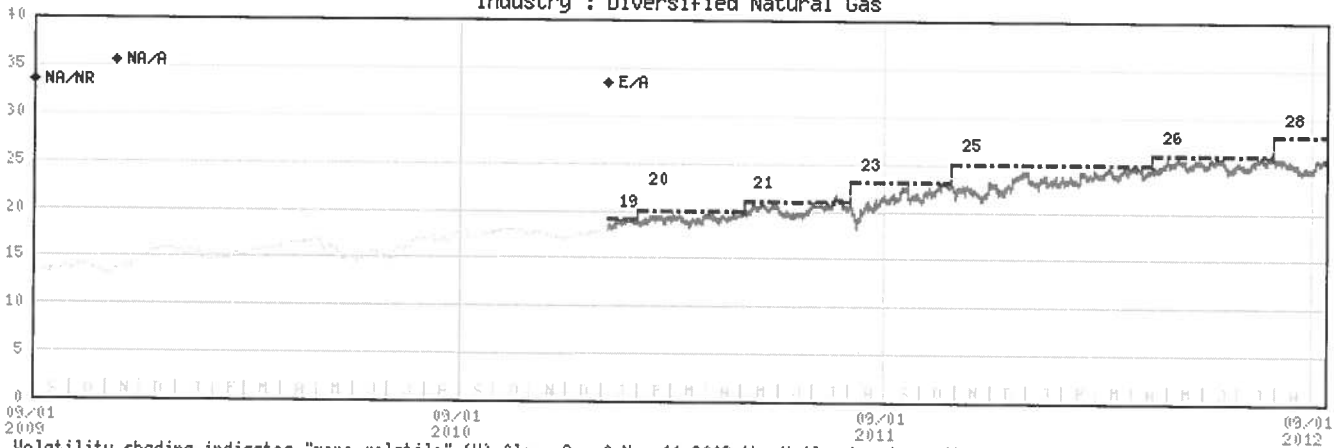
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Stock Price, Price Target and Rating History (See Rating Definitions)

NiSource, Inc. (NI.N) - As of 9/13/12 in USD
Industry : Diversified Natural Gas



Stock Rating History: 9/1/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (09/12/2012)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$20.7
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$22.44
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$52.99
NiSource, Inc. (NI.N)	E (01/06/2011)	\$25.35
Oneok Inc. (OKE.N)	O (11/15/2011)	\$46.31
Questar Corp. (STR.N)	U (10/29/2010)	\$19.92
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$28.49
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$33.97

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Stock Rating
Equal-weight
Industry View
Attractive

July 9, 2012

NiSource, Inc. Strong Step Forward in Utica

Formation of upstream (potentially 100,000 acres) and associated midstream joint ventures position NI well to fully unlock value in the Utica Shale.

Long-anticipated Utica JV is complete, an important step forward. As indicated, NI had been in advanced discussions with a producer to create a joint venture and contribute acreage where NI could participate in future development and benefit from infrastructure build-out. We believe today's news will help investors better frame the potential value creation available to NI in the play. We maintain our Equal-weight and \$26 price target, but continue to believe NI remains an underappreciated sum-of-parts story. NI currently trades at 9.0x 2012 EV/EBITDA and 17.1x P/E, (peer at 8.3x, 22.8x).

What's New: NI enters into Utica / Point Pleasant Shale upstream/midstream joint ventures. NI and Hilcorp Energy Company, a private exploration & development company, will each contribute their respective leasehold acreage in the play in northeast Ohio and western Pennsylvania to an upstream JV to be operated by Hilcorp (NI will hold a non-operating working interest). The two parties will also form a midstream JV, Pennant Midstream LLC, that will initially construct 50 miles of wet natural gas gathering pipeline (400 MMcf/d capacity), a cryogenic processing facility (200 MMcf/d) and a residue gas line by 3Q 2013 to serve the upstream JV and other parties. NI will operate the midstream JV (\$300mm of initial capital investment in the first phase this year), which is also reviewing potential fractionation development.

What's Next: Midstream execution, possible dividend raise in 2H12. In addition to its existing upstream acreage position, NI controls an attractive midstream footprint in the Northeast through its Columbia Gas and Columbia Gulf pipelines. We believe the opportunity to create a separate vehicle (i.e., an MLP) to capture value and fund growth capital may emerge in focus in the coming quarters as NI's midstream scope widens. With over \$500mm+ of pipeline and storage EBITDA, we believe management will continue to closely evaluate this possibility.

Morgan Stanley & Co. LLC

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Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$26.00
Shr price, close (Jul 6, 2012)	\$24.75
Mkt cap, curr (mm)	\$7,020
52-Week Range	\$25.79-17.96

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	1.33	1.42	1.51	1.57
Prior ModelWare EPS (\$)	-	-	-	-
P/E	17.9	17.5	16.4	15.8
Consensus EPS (\$) [§]	1.35	1.44	1.53	1.62
EBITDA (\$mm)**	1,499	1,629	1,701	1,797
EV/EBITDA**	9.6	9.4	9.4	9.1
Div yld (%)	3.9	3.8	3.9	4.0
Div per shr (\$)	0.92	0.93	0.96	0.99
Shrs out, diluted, avg (mm)	281	295	295	295

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

[§] = Consensus data is provided by Thomson Reuters Estimates.

** = Based on consensus methodology
e = Morgan Stanley Research estimates

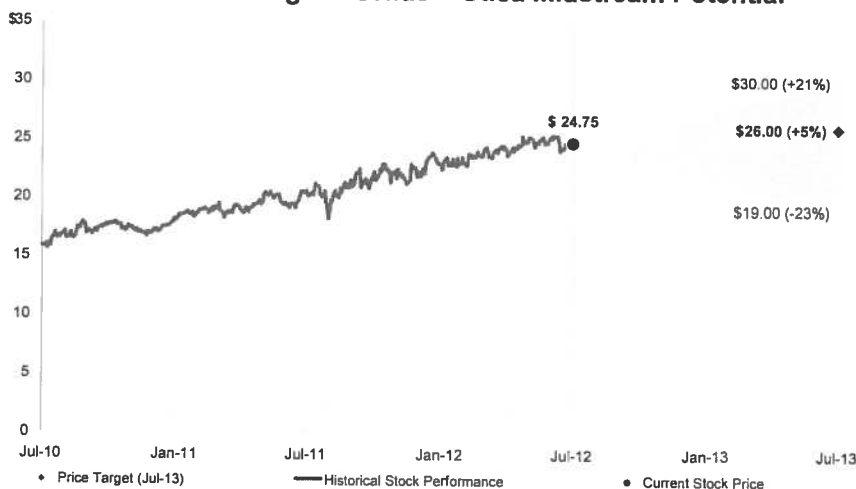
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For analyst certification and other important disclosures, refer to the Disclosure Section, located at the end of this report.

July 9, 2012
 NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Why Equal-weight?

- Restoring earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget
- Execution on its regulatory agenda (e.g., filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential growth in 2H12.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.
- Decision to create an MLP.

Where We Could Be

Wrong/Risks to our Price Target

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Source: FactSet; Morgan Stanley Research

Price Target \$26	Derived from base case average of four valuation methodologies	
Bull Case \$30	11x GT&S '12e EBITDA, 9x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$26	10.x GT&S '12e EBITDA, 8.5x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover, coupled with fair rate case outcomes.
Bear Case \$19	8x GT&S '12e EBITDA, 7x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions. Utility rate case outcomes prove unfavorable.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$5,073	\$18
Gas Transmission & Storage	5,708	20
Electric Utility	3,759	13
Utica	600	2
Value per Share	\$15,140	\$54
Net Debt	(7,374)	(26)
Net Equity Value	\$7,766	\$28
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

July 9, 2012
NiSource, Inc.

Exhibit 1

NI Income Statement

(amounts in thousands, except per unit data)

	2010	2011E	2012E	2013E	2014E	2015E
Net Revenues						
Gas Distribution	3,103,100	2,927,700	2,982,895	3,553,579	3,669,849	3,808,682
Gas Transportation and Storage	1,261,300	1,297,400	1,169,673	1,118,452	1,192,316	1,245,240
Electric	1,374,900	1,477,800	1,496,385	1,577,814	1,649,455	1,724,351
Other	78,600	99,700	24,800	-	-	-
Total Net Revenues	5,817,900	5,802,600	5,673,753	6,249,846	6,511,620	6,778,273
Operating Costs						
Cost of Sales	2,379,200	2,336,700	2,087,316	2,438,232	2,490,825	2,600,176
Operation and maintenance	1,655,700	1,688,100	1,702,521	1,826,013	1,926,578	1,993,255
Depreciation and amortization	596,300	542,800	572,132	588,568	632,096	645,162
Other taxes	284,400	293,300	285,990	304,830	317,657	330,875
Total Operating Costs	4,915,600	4,860,900	4,647,959	5,157,643	5,367,155	5,569,469
Equity Earnings (Loss) in Uncon. Affiliates	15,000	14,600	31,032	20,151	20,659	21,180
EBIT	917,300	956,300	1,056,825	1,112,354	1,165,124	1,229,984
EBITDA	1,513,600	1,499,100	1,628,957	1,700,922	1,797,219	1,875,147
Other income						
Interest expense, net	(392,200)	(376,800)	(417,193)	(430,420)	(452,616)	(471,234)
Other income	3,800	(7,300)	4,000	-	-	-
Inc. from continuing operations bef inc. taxes	528,900	572,200	643,633	681,934	712,508	758,750
Income tax (provision)	189,300	197,500	225,554	236,903	249,131	264,252
Operating Net income (Loss)	339,600	374,700	418,079	445,031	463,376	494,498
Net Income per Share (Operating)	\$1.20	\$1.33	\$1.42	\$1.51	\$1.57	\$1.68
Net Income per Share (GAAP)	\$1.04	\$1.31	\$1.35	\$1.51	\$1.57	\$1.68
Weighted Avg Diluted Units Outstanding	282,600	281,400	295,021	295,021	295,021	295,021
Dividends per share	0.92	0.92	0.93	0.96	0.99	1.02

Source: Company data, Morgan Stanley Research

July 9, 2012
NiSource, Inc.

Exhibit 2

NI Operating Data

	2010	2011E	2012E	2013E	2014E	2015E
GAS DISTRIBUTION						
Sales and Transportation (MMDth):						
Residential	258.1	254.5	223.8	228.3	231.7	235.2
Commercial	166.8	168.6	152.8	155.8	159.0	162.1
Industrial	386.0	431.7	459.7	468.9	478.3	487.9
Off System	71.9	62.5	58.5	58.5	58.5	58.5
Other	0.9	0.5	0.4	0.4	0.4	0.4
Total Sales and Transports	883.7	917.8	895.2	912.0	927.9	944.1
Weather Adjustment	5.2	(5.6)	65.4	-	-	-
Sales and Transport Vols — Excluding Weather	888.9	912.2	960.6	912.0	927.9	944.1
<i>y/y change</i>	6.8%	2.6%	5.3%	-5.1%	1.7%	1.7%
Sales Price (\$ / Dth)	\$4.14	\$3.85	\$3.31	\$3.90	\$3.96	\$4.03
<i>y/y change</i>	-11.7%	-7.0%	-14.0%	17.8%	1.5%	2.0%
COGS Price (\$ / Dth)	\$2.32	\$2.10	\$1.65	\$2.03	\$2.02	\$2.08
<i>y/y change</i>	-15.6%	-9.5%	-21.5%	22.8%	-0.5%	3.0%
Gross Margin (\$ / Dth)	\$1.81	\$1.74	\$1.66	\$1.87	\$1.94	\$1.96
<i>y/y change</i>	-6.1%	-3.8%	-4.9%	12.7%	3.7%	0.9%
GAS TRANSMISSION & STORAGE						
Throughput (MMDth):						
Columbia Transmission	1,092.4	1,117.5	1,094.6	1,198.9	1,258.8	1,321.8
Columbia Gulf	848.4	1,048.0	1,112.6	1,185.6	1,244.9	1,269.8
Crossroads Gas Pipeline	25.4	18.7	17.9	19.1	19.5	19.8
Total throughput	1,966.2	2,184.2	2,225.1	2,403.6	2,523.2	2,611.4
Intrasegment eliminations	(568.7)	(548.5)	(591.9)	(655.1)	(671.2)	(697.7)
Total third-party throughput	1,397.5	1,635.7	1,633.2	1,748.5	1,852.0	1,913.7
<i>y/y change</i>	0.4%	17.0%	-0.2%	7.1%	5.9%	3.3%
Tariff (\$ / Dth)	\$0.52	\$0.47	\$0.50	\$0.51	\$0.52	\$0.53
<i>y/y change</i>	0.1%	-8.9%	4.6%	2.8%	2.0%	1.9%
ELECTRIC OPERATIONS						
Sales (Gigawatt Hours):						
Residential	3,625.6	3,526.5	3,489.6	3,653.3	3,744.7	3,838.3
Commercial	3,919.9	3,886.5	3,909.7	4,025.0	4,125.6	4,228.7
Industrial	8,459.0	9,257.6	9,312.4	9,604.1	9,844.2	10,090.3
Wholesale	817.1	651.6	613.1	677.7	694.7	712.0
Other	186.4	165.5	154.8	169.3	171.8	174.4
Total sales	17,008.0	17,487.7	17,479.6	18,129.4	18,580.9	19,043.7
Weather Adjustment	(500.2)	(101.1)	81.8	-	-	-
Total sales volumes — Adj. for weather impacts	16,507.8	17,386.6	17,561.4	18,129.4	18,580.9	19,043.7
<i>y/y change</i>	4.0%	5.3%	1.0%	3.2%	2.5%	2.5%
Revenue (\$ / Gigawatt hour)	\$83.78	\$82.19	\$85.32	\$87.03	\$88.77	\$90.55
<i>y/y change</i>	6.1%	-1.9%	3.8%	2.0%	2.0%	2.0%
COGS (\$ / Gigawatt hour)	\$30.80	\$31.56	\$30.84	\$32.49	\$33.31	\$33.49
<i>y/y change</i>	7.1%	2.5%	-2.3%	5.4%	2.5%	0.6%
Gross Margin (\$ / Gigawatt hour)	\$52.99	\$50.63	\$54.49	\$54.54	\$55.46	\$57.05
<i>y/y change</i>	5.6%	-4.5%	7.6%	0.1%	1.7%	2.9%

Source: Company data, Morgan Stanley Research

Exhibit 3

NI Balance Sheet

(amounts in thousands, except per unit data)

	2010	2011E	2012E	2013E	2014E	2015E
ASSETS						
Cash and cash equivalents	9,200	11,500	130,867	10,000	30,725	96,869
Restricted cash	202,900	160,600	160,600	160,600	160,600	160,600
Accounts receivable	1,079,300	854,800	902,079	963,410	973,029	1,025,852
Income tax receivable	99,000	900	900	900	900	900
Gas inventory	298,200	427,600	324,676	293,027	323,830	334,826
Regulatory assets	151,800	169,700	169,700	169,700	169,700	169,700
Other	120,800	261,800	261,800	261,800	261,800	261,800
Total Current Assets	2,448,900	2,248,200	2,311,922	2,220,737	2,281,884	2,411,846
Net Property, Plant and Equipment	11,097,000	11,800,100	12,627,968	13,299,400	13,867,305	14,222,142
Unconsolidated affiliates	200,900	204,700	204,700	204,700	204,700	204,700
Other investments	139,700	150,900	150,900	150,900	150,900	150,900
Price risk management assets	240,300	188,700	188,700	188,700	188,700	188,700
Regulatory assets	1,650,400	1,978,200	1,978,200	1,978,200	1,978,200	1,978,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	308,600	297,600	297,600	297,600	297,600	297,600
Deferred charges, Postretirement, other	167,800	162,400	162,400	162,400	162,400	162,400
TOTAL ASSETS	19,938,800	20,708,300	21,599,890	22,180,137	22,809,189	23,293,989
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current portion of long-term debt	34,200	327,300	327,300	327,300	327,300	327,300
Short-term borrowings	1,382,500	1,359,400	1,359,400	1,794,797	2,229,783	2,497,783
Accounts payable	581,800	434,800	497,790	481,365	504,322	527,661
Dividends payable	100	-	-	-	-	-
Customer deposits and credits	318,100	313,600	313,600	313,600	313,600	313,600
Taxes accrued	221,100	220,900	220,900	220,900	220,900	220,900
Interest accrued	114,400	111,900	111,900	111,900	111,900	111,900
Price risk management liabilities	173,900	167,800	167,800	167,800	167,800	167,800
Exchange gas payable	266,100	168,200	168,200	168,200	168,200	168,200
Deferred revenue	6,800	10,100	10,100	10,100	10,100	10,100
Regulatory liabilities	92,900	112,000	112,000	112,000	112,000	112,000
Acc liab for post-retirement / -employment benefits	23,300	26,600	26,600	26,600	26,600	26,600
Other accruals	336,400	301,000	301,000	301,000	301,000	301,000
Total Current Liabilities	3,649,400	3,646,400	3,709,390	4,128,362	4,586,306	4,877,644
Long-term debt, excl amounts due within one year	5,936,100	6,267,100	6,767,100	6,767,100	6,767,100	6,767,100
Price risk management liabilities	181,600	138,900	138,900	138,900	138,900	138,900
Deferred income taxes	2,209,700	2,541,900	2,541,900	2,541,900	2,541,900	2,541,900
Deferred inc. taxes, credits, other	102,600	107,900	107,900	107,900	107,900	107,900
Acc liability for post-retirement/-employment benefits	1,039,600	953,800	953,800	953,800	953,800	953,800
Regulatory liabilities and other removal costs	1,595,800	1,663,900	1,663,900	1,663,900	1,663,900	1,663,900
Asset retirement obligations	138,800	146,400	146,400	146,400	146,400	146,400
Other noncurrent liabilities	162,000	244,700	244,700	244,700	244,700	244,700
Total Other Liabilities and Deferred Credits	11,366,200	12,064,600	12,564,600	12,564,600	12,564,600	12,564,600
Common stock	2,800	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,103,900	4,167,700	4,367,700	4,367,700	4,367,700	4,367,700
Retained earnings	901,800	917,000	1,045,600	1,206,875	1,377,983	1,571,445
Treasury stock	(57,900)	(30,500)	(30,500)	(30,500)	(30,500)	(30,500)
Accumulated other comprehensive loss	(27,400)	(59,700)	(59,700)	(59,700)	(59,700)	(59,700)
Total Common Stockholders' Equity	4,923,200	4,997,300	5,325,900	5,487,175	5,658,283	5,851,745
TOTAL CAPITALIZATION & LIABILITIES	19,938,800	20,708,300	21,599,890	22,180,137	22,809,189	23,293,989
CONSOLIDATED DEBT METRICS						
Average Total Debt	7,070,100	7,653,300	8,203,800	8,671,498	9,106,690	9,458,183
Average Net Debt	7,057,300	7,642,950	8,132,616	8,601,065	9,086,327	9,394,386
Net Debt/ Total Book Capitalization	59.1%	60.6%	61.2%	61.4%	62.0%	62.0%
Average Debt/ EBITDA	4.7x	5.1x	5.0x	5.1x	5.1x	5.0x
Average Interest Rate	5.5%	4.9%	5.1%	5.0%	5.0%	5.0%

Source: Company data, Morgan Stanley Research

July 9, 2012
NiSource, Inc.

Exhibit 4

NI Cash Flow Statement

(amounts in thousands, except per unit data)

	2010	2011E	2012E	2013E	2014E	2015E
Cash from Operating Activities						
Net Income	292,000	299,100	397,079	445,031	463,376	494,498
Debt: Gain Early Extinguishment / Amort Disc.+Premium	107,000	53,900	-	-	-	-
Depreciation and Amortization	596,300	538,200	572,132	588,568	632,096	645,162
Net Changes in Price Risk Mgmt A / L	(5,500)	38,100	-	-	-	-
Deferred: Inc. Tax/Credits; Revenues	179,700	180,900	-	-	-	-
Stock Compensation Expense	30,900	39,200	-	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	2,000	16,800	-	-	-	-
Income from Unconsolidated Affiliates	(14,800)	(13,700)	-	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	2,600	4,700	-	-	-	-
AFUDC Equity	(6,100)	(2,400)	-	-	-	-
Dist. of Earnings Received from Equity Investee	12,900	18,800	-	-	-	-
Other	(55,000)	8,900	-	-	-	-
Changes in Assets and Liabilities:	(419,800)	(312,300)	118,636	(46,107)	(17,464)	(40,480)
Net cash from operating activities	722,200	870,200	1,087,847	987,491	1,078,007	1,099,180
Cash from Investing Activities						
Capital Expenditures	(803,800)	(1,125,200)	(1,400,000)	(1,260,000)	(1,200,000)	(1,000,000)
Insurance Recoveries	5,000	-	-	-	-	-
Proceeds from Disposition of Assets	500	9,400	-	-	-	-
Restricted Cash Deposits (Borrowings)	(28,200)	42,300	-	-	-	-
Contributions to Equity Investments	(64,100)	(6,400)	-	-	-	-
Other Investing Activities	(53,100)	(69,400)	-	-	-	-
Net cash from investing activities	(943,700)	(1,149,300)	(1,400,000)	(1,260,000)	(1,200,000)	(1,000,000)
Cash from Financing Activities						
Issuance of Long-Term Debt	250,000	890,000	500,000	-	-	-
Retirement/Repurchase of Long-Term Debt	(977,700)	(286,900)	-	-	-	-
Change in Short-Term Borrowings, Net	1,279,500	(23,100)	-	435,397	434,986	268,000
Issuance of Common Stock	14,400	24,400	200,000	-	-	-
Acquisition of Treasury Stock	(1,400)	(3,100)	-	-	-	-
Dividends Paid - Common Stock	(255,600)	(257,800)	(268,479)	(283,756)	(292,268)	(301,036)
Other	(94,900)	(62,100)	-	-	-	-
Net cash from financing activities	214,300	281,400	431,521	151,641	142,718	(33,036)
Net change in cash	(7,200)	2,300	119,367	(120,867)	20,725	66,143
Cash at beginning of period	16,400	9,200	11,500	130,867	10,000	30,725
Cash at end of period	9,200	11,500	130,867	10,000	30,725	96,869

Source: Company data, Morgan Stanley Research

July 9, 2012
NiSource, Inc.

Exhibit 5

NI Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$5,073	\$18
Gas Transmission & Storage	5708	\$20
Electric Utility	3759	\$13
Utica	600	\$2
Value	\$15,140	\$54
Net Debt	(7,374)	(26)
Net Equity Value	\$7,766	\$28
Shares Outstanding (in m)		280

GAS DISTRIBUTION

Forward EBITDA (2012E)	\$597
Forward multiple	8.5x
Enterprise value	\$5,073

GAS TRANSMISSION & STORAGE


Forward EBITDA (2012E)	\$571
Forward multiple	10.0x
Enterprise value	\$5,708

ELECTRIC UTILITY

Forward EBITDA (2012E)	\$442
Forward multiple	8.5x
Enterprise value	\$3,759

Source: Company data, Morgan Stanley Research ■

July 9, 2012
NiSource, Inc.

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(as of June 30, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1139	39%	474	43%	42%
Equal-weight/Hold	1252	42%	478	43%	38%
Not-Rated/Hold	108	4%	33	3%	31%
Underweight/Sell	458	15%	119	11%	26%
Total	2,957		1104		

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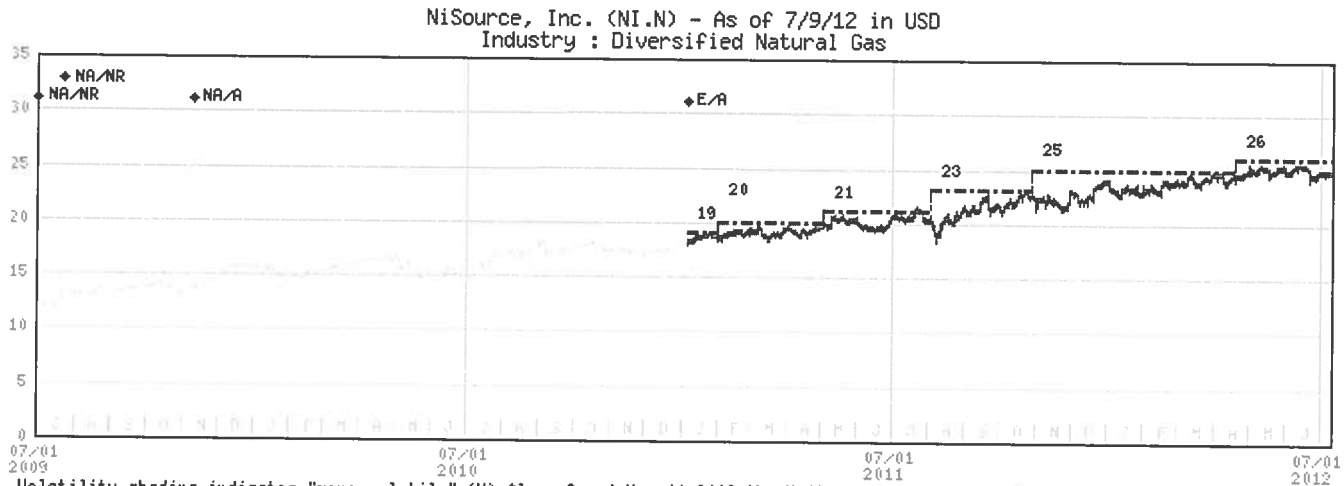
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Stock Rating History: 7/1/09 : NA/NR; 7/23/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target —• No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

July 9, 2012
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July 9, 2012
NiSource, Inc.

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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/06/2012)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$20.57
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$21.98
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$47.3
NiSource, Inc. (NI.N)	E (01/06/2011)	\$24.75
Oneok Inc. (OKE.N)	O (11/15/2011)	\$42.78
Questar Corp. (STR.N)	U (10/29/2010)	\$21.07
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$29.13
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$28.94

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Stock Rating
Equal-weight

Industry View
Attractive

April 30, 2013

NiSource, Inc.

Strong Execution Priced More into Stock

NI reported 1Q13 results that were fairly in line with MS and consensus (\$0.01/\$0.03 below on EPS).

1Q13 results: NI reported operating earnings of \$0.69 vs. MS / Consensus estimates of \$0.70/\$0.72.

After solid share performance in 2012 (+31%) and 2013 YTD (+25%), we believe NI is largely discounting a solid outlook underpinned by reaffirmed 5 – 7% EPS growth and 3 – 5% dividend growth. Notably, NI continues to capitalize on its well-positioned midstream asset base and much improved utility profile. However, we see less ways NI can surprise to the upside and valuation remains full (MSe sum of the parts value is \$29.39, see p. 8). While NI could continue to see a bid given its low-risk attributes within a universe that has seen strong performance in 1Q, we would look for a better entry point. NI maintained 2013 EPS guidance of \$1.50 – 1.60 (MSe at \$1.54) and a capital budget of \$1.8b. Upcoming drivers for the stock will be execution of midstream and infrastructure opportunities along with its upstream Utica JV initiatives. With NI trading at 10.2x 2013 EV/EBITDA and 20.3x P/E, we remain Equal-weight rated with a \$30 price target.

Somewhat mixed segment results. *Electric Operations EBIT* increased to \$65m vs. \$49m y/y due to increased revenues and lower costs. *Gas Distribution Operations EBIT* decreased to \$233m from \$245m in 2012 due to higher costs. *Columbia Pipeline Group EBIT* decreased to \$133m from \$139m y/y due to lower revenues and higher costs. Equity earnings decreased \$0.6m from Millennium Pipeline.

Still positively levered to the northeast build out; no material change to project backlog. Pipeline modernization (\$300m / year), Marcellus/Utica infrastructure (\$1 – 2b currently), and a self funded Utica minerals arrangement are just some examples of the fuel that should support a multi-year 5 – 7% earnings growth rate (MSe at ~7% CAGR through 2015). We look for further project identification and more Utica drilling results before revisiting our risk-reward.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$30.00
Shr price, close (Apr 29, 2013)	\$31.15
Mkt cap, curr (mm)	\$9,753
52-Week Range	\$31.38-23.15

Fiscal Year ending	12/12	12/13e	12/14e	12/15e
ModelWare EPS (\$)	1.44	1.54	1.65	1.77
Prior ModelWare EPS (\$)	-	1.54	1.64	1.74
P/E	17.3	20.3	18.8	17.6
Consensus EPS (\$)§	1.45	1.56	1.67	1.78
Div yld (%)	3.8	3.2	3.3	3.5
Div per shr (\$)	0.95	0.99	1.03	1.08
EBITDA (\$mm)	1,645	1,682	1,830	1,940
EV/EBITDA	10.3	11.6	11.2	10.9
Shrs out, diluted, avg (mm)	300	312	312	312

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

e = Morgan Stanley Research estimates

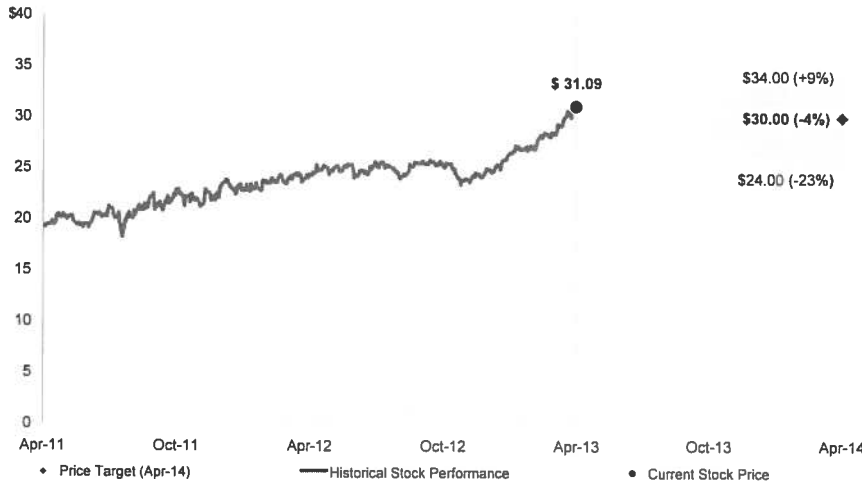
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April 30, 2013
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target \$30	Derived from base case average of four valuation methodologies	
Bull Case \$34	11x GT&S '13e EBITDA, 9.0x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$30	10.0x GT&S '13e EBITDA, 9.0x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case \$24	9x GT&S '13e EBITDA, 8x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$ 5,996	\$ 19.21
Gas Transmission & Storage	5,901	18.91
Electric Utility	4,417	14.15
Utica	938	3.00
Value per Share	\$ 17,251	\$ 55.27
Net Debt	(7,995)	(25.62)
Net Equity Value	\$ 9,256	\$ 29.66
Shares Outstanding (in mm)		312.1

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments.
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples and a sum of the parts (SOTP) basis.

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget.
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 3 – 5% annual growth.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Risks to Our Price Target

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Unfavorable outcomes in the northeast due to legislation, slower drilling, more competition.

April 30, 2013
NiSource, Inc.

Exhibit 1

NI: Earnings Results and Preview

(amounts in 000s, except per unit)

	Actual 1Q12	Actual 1Q13	A / A % chg	MS 1Q13E	A / E % chg	MS 2Q13E
Operating Revenues						
Gas Distribution	908,200	891,500	-1.8%	1,015,203	-12.2%	486,063
Gas Transportation and Storage	409,200	468,500	14.5%	302,318	55.0%	274,484
Electric	358,000	377,100	5.3%	400,118	-5.8%	411,826
Other	24,800	44,200		-		-
Total operating revenues	1,700,200	1,781,300	4.8%	1,717,639	3.7%	1,172,373
Operating Expenses						
Cost of Sales	633,000	675,900	6.8%	457,778	47.6%	303,281
Operation and maintenance	406,700	454,400	11.7%	582,419	-22.0%	435,117
Depreciation and amortization	146,100	143,500	-1.8%	140,621	2.0%	138,087
Other taxes	86,600	86,700	0.1%	104,139	-16.7%	70,232
Total operating expenses	1,272,400	1,360,500	6.9%	1,284,958	5.9%	946,716
Equity Earnings (Loss) in Uncon. Affiliates	7,700	7,100	-7.8%	8,000	-11.3%	8,000
EBIT	435,500	427,900	-1.7%	440,681	-2.9%	233,657
EBITDA	581,600	571,400	-1.8%	581,302	-1.7%	371,744
Interest expense, net	(103,300)	(98,600)	-4.5%	(104,456)	-5.6%	(98,600)
Other income	1,000	4,100		-		4,100
Total other income and expenses	(102,300)	(94,500)	-7.6%	(104,456)	-9.5%	(94,500)
Earnings From Cont. Oper. Bef. Inc. Taxes	333,200	333,400	0.1%	336,224	-0.8%	139,157
Income tax (provision)	118,700	118,100	-0.5%	117,725	0.3%	47,207
Net Income (Operating)	214,500	215,300	0.4%	218,499	-1.5%	91,950
Average # of Shares Outstanding	293,100	312,100	6.5%	311,300	0.3%	312,100
Net Income per Share (Operating)	\$ 0.73	\$ 0.69		\$ 0.70		\$ 0.29
Net Income per Share (GAAP)	\$ 0.66	\$ 0.69		\$ 0.70		\$ 0.29
Segment Data						
Gas Distribution (MMDth)						
Residential	102.9	132.0	28.3%	102.9	28.3%	32.5
Commercial	61.2	75.3	23.0%	61.2	23.0%	27.7
Industrial	131.3	133.3	1.5%	131.3	1.5%	117.5
Off System	13.5	21.7	60.7%	13.5	60.7%	20.6
Other	0.1	0.2	na	0.1	na	0.2
Gas Transmission & Storage (MMDth)						
Columbia Transmission	379.4	435.8	14.9%	439.4	-0.8%	231.4
Columbia Gulf	227.5	190.2	-16.4%	219.6	-13.4%	248.2
Crossroads Gas Pipeline	4.3	5.0	16.3%	4.8	3.2%	4.1
Intrasegment eliminations	(105.7)	(93.9)	-11.2%	(139.6)	-32.8%	(155.7)
Electric Operations (Gigawatt Hours)						
Residential	781.2	864.1	10.6%	881.5	-2.0%	887.0
Commercial	907.8	921.2	1.5%	943.4	-2.4%	991.0
Industrial	2,385.0	2,319.6	-2.7%	2,515.7	-7.8%	2,402.0
Wholesale	19.0	61.3	222.6%	68.4	-10.4%	57.1
Other	32.5	33.2	2.2%	44.5	-25.4%	26.4

NI confirmed 2013 EPS
guidance of \$1.50-
\$1.60

April 30, 2013
NiSource, Inc.

Exhibit 2

NI Income Statement Income Statement

(amounts in thousands, except per unit data)

	2012	2013E	2014E	2015E	2016E
Net Revenues					
Gas Distribution	2,006,400	2,576,655	2,999,938	3,180,706	3,372,378
Gas Transportation and Storage	1,462,400	1,258,254	1,204,013	1,316,956	1,410,471
Electric	1,497,500	1,631,887	1,722,263	1,789,883	1,860,165
Other	133,600	44,200	-	-	-
Total Net Revenues	5,099,900	5,510,997	5,926,214	6,287,544	6,643,014
Operating Costs					
Cost of Sales	1,525,200	1,763,786	1,838,465	1,961,316	2,054,690
Operation and maintenance	1,674,600	1,805,791	1,976,205	2,088,427	2,220,506
Depreciation and amortization	563,900	559,836	601,096	614,473	629,469
Other taxes	287,800	290,734	314,198	331,189	351,975
Total Operating Costs	4,051,500	4,420,147	4,729,964	4,995,406	5,256,640
Equity Earnings (Loss) in Uncon. Affiliates	32,200	31,100	32,241	33,054	33,888
EBIT	1,080,600	1,121,950	1,228,490	1,325,193	1,420,261
EBITDA	1,644,500	1,681,786	1,829,586	1,939,666	2,049,730
Other income					
Interest expense, net	(418,300)	(402,845)	(451,990)	(494,117)	(535,492)
Other income	2,400	16,400	16,400	16,400	16,400
Inc. from continuing operations bef inc. taxes	664,700	735,504	792,900	847,476	901,169
Income tax (provision)	231,800	256,405	276,773	295,804	314,516
Operating Net income (Loss)	432,900	479,100	516,126	551,672	586,653
Net Income per Share (Operating)	\$1.44	\$1.54	\$1.65	\$1.77	\$1.88
Net Income per Share (GAAP)	\$1.38	\$1.54	\$1.65	\$1.77	\$1.88
Weighted Avg Diluted Units Outstanding	300,400	312,100	312,100	312,100	312,100
Dividends per share	0.95	0.99	1.03	1.08	1.13

Source: Company data, Morgan Stanley Research

April 30, 2013
NiSource, Inc.

Exhibit 3

NI Operating Data

Operating Data

	2012	2013E	2014E	2015E	2016E
GAS.DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	226.5	259.8	267.6	275.7	283.9
Commercial	156.2	172.8	178.0	183.3	188.8
Industrial	478.2	488.3	502.9	518.0	533.6
Off System	61.5	73.9	75.4	76.9	78.5
Other	0.3	0.8	0.8	0.8	0.8
Total Sales and Transports	922.7	995.7	1,024.8	1,054.8	1,085.6
Weather Adjustment	58.8	(4.0)	(4.0)	(4.0)	(4.0)
Sales and Transport Vols — Excluding Weather	981.5	991.7	1,020.8	1,050.8	1,081.6
<i>y/y change</i>	7.6%	1.0%	2.9%	2.9%	2.9%
Sales Price (\$ / Dth)	\$2.79	\$2.85	\$2.94	\$3.03	\$3.12
<i>y/y change</i>	-27.5%	2.4%	3.0%	3.0%	3.0%
COGS Price (\$ / Dth)	\$1.19	\$1.24	\$1.20	\$1.27	\$1.29
<i>y/y change</i>	-43.2%	3.7%	-3.1%	6.3%	1.4%
Gross Margin (\$ / Dth)	\$1.59	\$1.62	\$1.74	\$1.75	\$1.83
<i>y/y change</i>	-8.6%	1.4%	7.7%	0.8%	4.1%
COLUMBIA PIPELINE GROUP					
Throughput (MMDth):					
Columbia Transmission	1,107.7	1,211.0	1,283.7	1,347.9	1,388.3
Columbia Gulf	883.0	878.5	931.2	973.1	1,002.3
Crossroads Gas Pipeline	15.8	16.5	17.0	17.5	18.0
Total throughput	2,006.5	2,106.0	2,231.9	2,338.5	2,408.6
Intrasegment eliminations	(422.6)	(499.6)	(529.1)	(534.2)	(564.2)
Total third-party throughput	1,583.9	1,606.4	1,702.7	1,804.2	1,844.4
<i>y/y change</i>	-3.2%	1.4%	6.0%	6.0%	2.2%
Tariff (\$ / Dth)	\$0.46	\$0.45	\$0.46	\$0.48	\$0.49
<i>y/y change</i>	-4.0%	-2.1%	4.2%	3.0%	3.0%
ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,524.3	3,689.5	3,763.3	3,838.5	3,915.3
Commercial	3,863.1	3,920.8	3,979.6	4,039.3	4,099.9
Industrial	9,251.0	9,391.6	9,673.3	9,866.8	10,064.1
Wholesale	250.7	297.6	303.6	309.7	315.9
Other	119.1	121.5	124.0	126.4	129.0
Total sales	17,008.2	17,421.1	17,843.8	18,180.8	18,524.2
Weather Adjustment	(146.0)	(3.4)	-	-	-
Total sales volumes — Adj. for weather impacts	16,862.2	17,417.7	17,843.8	18,180.8	18,524.2
<i>y/y change</i>	-3.0%	3.3%	2.4%	1.9%	1.9%
Revenue (\$ / Gigawatt hour)	\$89.18	\$93.71	\$96.52	\$98.45	\$100.42
<i>y/y change</i>	8.5%	5.1%	3.0%	2.0%	2.0%
COGS (\$ / Gigawatt hour)	\$29.58	\$33.28	\$34.46	\$34.26	\$35.49
<i>y/y change</i>	-6.3%	12.5%	3.5%	-0.6%	3.6%
Gross Margin (\$ / Gigawatt hour)	\$59.60	\$60.43	\$62.06	\$64.19	\$64.93
<i>y/y change</i>	17.7%	1.4%	2.7%	3.4%	1.2%

Source: Company data, Morgan Stanley Research

April 30, 2013
NiSource, Inc.

Exhibit 4

NI Balance Sheet**Balance Sheet**

(amounts in thousands, except per unit data)

	2012	2013E	2014E	2015E	2016E
ASSETS					
Cash and cash equivalents	36,300	20,000	20,000	20,000	20,000
Restricted cash	46,800	23,100	23,100	23,100	23,100
Accounts receivable	907,300	866,606	908,583	891,001	1,000,396
Income tax receivable	130,900	80,500	80,500	80,500	80,500
Gas inventory	326,600	378,491	399,711	418,745	444,111
Regulatory assets	162,800	141,700	141,700	141,700	141,700
Other	383,900	228,100	228,100	228,100	228,100
Total Current Assets	2,352,400	2,054,897	2,118,094	2,119,545	2,254,307
Net Property, Plant and Equipment	12,915,900	14,133,264	15,232,168	16,217,695	17,188,226
Unconsolidated affiliates	243,300	260,800	260,800	260,800	260,800
Other investments	194,400	190,400	190,400	190,400	190,400
Price risk management assets	56,000	36,100	36,100	36,100	36,100
Regulatory assets	2,024,400	1,954,200	1,954,200	1,954,200	1,954,200
Goodwill	3,677,300	3,666,200	3,666,200	3,666,200	3,666,200
Intangible assets	286,600	283,900	283,900	283,900	283,900
Deferred charges, Postretirement, other	94,400	94,100	94,100	94,100	94,100
TOTAL ASSETS	21,844,700	22,673,861	23,835,962	24,822,941	25,928,234
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	507,200	89,300	89,300	89,300	89,300
Short-term borrowings	776,900	2,042,221	2,976,021	3,716,795	4,545,100
Accounts payable	538,900	624,522	659,535	690,942	732,797
Dividends payable	-	74,800	74,800	74,800	74,800
Customer deposits and credits	269,600	167,600	167,600	167,600	167,600
Taxes accrued	235,500	258,200	258,200	258,200	258,200
Interest accrued	133,700	68,200	68,200	68,200	68,200
Price risk management liabilities	95,200	52,700	52,700	52,700	52,700
Exchange gas payable	146,200	76,000	76,000	76,000	76,000
Deferred revenue	42,800	42,400	42,400	42,400	42,400
Regulatory liabilities	171,600	106,500	106,500	106,500	106,500
Acc liab for post-retirement / -employment benefits	6,100	6,100	6,100	6,100	6,100
Other accruals	309,700	269,700	269,700	269,700	269,700
Total Current Liabilities	3,301,600	3,982,543	4,951,356	5,723,537	6,593,697
Long-term debt, excl amounts due within one year	6,819,100	6,803,900	6,803,900	6,803,900	6,803,900
Price risk management liabilities	20,300	6,900	6,900	6,900	6,900
Deferred income taxes	2,953,300	2,980,100	2,980,100	2,980,100	2,980,100
Deferred inc. taxes, credits, other	108,900	112,100	112,100	112,100	112,100
Acc liability for post-retirement/-employment benefits	1,107,300	1,066,600	1,066,600	1,066,600	1,066,600
Regulatory liabilities and other removal costs	1,593,300	1,611,400	1,611,400	1,611,400	1,611,400
Asset retirement obligations	160,400	165,300	165,300	165,300	165,300
Other noncurrent liabilities	226,200	225,000	225,000	225,000	225,000
Total Other Liabilities and Deferred Credits	12,988,800	12,971,300	12,971,300	12,971,300	12,971,300
Common stock	3,100	3,100	3,100	3,100	3,100
Additional paid-in capital	4,597,600	4,627,500	4,627,500	4,627,500	4,627,500
Retained earnings	1,059,600	1,199,818	1,393,106	1,607,904	1,843,037
Treasury stock	(65,500)	(62,300)	(62,300)	(62,300)	(62,300)
Accumulated other comprehensive loss	(40,500)	(48,100)	(48,100)	(48,100)	(48,100)
Total Common Stockholders' Equity	5,554,300	5,720,018	5,913,306	6,128,104	6,363,237
TOTAL CAPITALIZATION & LIABILITIES	21,844,700	22,673,861	23,835,962	24,822,941	25,928,234

Source: Company data, Morgan Stanley Research

April 30, 2013
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)

	2012	2013E	2014E	2015E	2016E
Cash from Operating Activities					
Net Income	416,100	524,300	516,126	551,672	586,653
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,700	-	-	-	-
Depreciation and Amortization	561,900	559,936	601,096	614,473	629,469
Net Changes in Price Risk Mgmt A / L	(18,500)	1,400	-	-	-
Deferred: Inc. Tax/Credits; Revenues	301,200	116,100	-	-	-
Stock Compensation Expense	45,000	10,600	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(3,800)	(200)	-	-	-
Income from Unconsolidated Affiliates	(30,900)	(7,300)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	5,700	(33,300)	-	-	-
AFUDC Equity	(10,600)	(3,500)	-	-	-
Dist. of Earnings Received from Equity Investee	34,900	7,000	-	-	-
Other	-	2,300	-	-	-
Changes in Assets and Liabilities:	(35,200)	(55,475)	(28,184)	29,955	(92,907)
Net cash from operating activities	1,275,500	1,121,861	1,089,038	1,196,100	1,123,215
Cash from Investing Activities					
Capital Expenditures	(1,498,800)	(1,800,000)	(1,700,000)	(1,600,000)	(1,600,000)
Insurance Recoveries	6,500	-	-	-	-
Proceeds from Disposition of Assets	25,600	500	-	-	-
Restricted Cash Deposits (Borrowings)	114,200	23,600	-	-	-
Contributions to Equity Investments	(20,400)	(17,100)	-	-	-
Other Investing Activities	(52,300)	116,200	-	-	-
Net cash from investing activities	(1,425,200)	(1,676,800)	(1,700,000)	(1,600,000)	(1,600,000)
Cash from Financing Activities					
Issuance of Long-Term Debt	991,400	(427,100)	-	-	-
Retirement/Repurchase of Long-Term Debt	(331,600)	-	-	-	-
Change in Short-Term Borrowings, Net	(582,200)	1,265,321	933,799	740,774	828,305
Issuance of Common Stock	383,500	17,200	-	-	-
Acquisition of Treasury Stock	(10,000)	(7,600)	-	-	-
Dividends Paid - Common Stock	(273,200)	(309,182)	(322,838)	(336,874)	(351,521)
Other	(3,400)	-	-	-	-
Net cash from financing activities	174,500	538,639	610,962	403,900	476,785
Net change in cash	24,800	(16,300)	-	-	-
Cash at beginning of period	11,500	36,300	20,000	20,000	20,000
Cash at end of period	36,300	20,000	20,000	20,000	20,000

Source: Company data, Morgan Stanley Research

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$ 5,996	\$ 19.21
Gas Transmission & Storage	5,901	18.91
Electric Utility	4,417	14.15
Utica	938	3.00
Value	\$ 17,251	\$ 55.27

Net Debt (7,995) (25.62)

Net Equity Value \$ 9,256 \$ 29.66
Shares Outstanding (in m) 312.1

GAS DISTRIBUTION

Forward EBITDA (2014E)	\$ 705
Forward multiple	8.5x
Enterprise value	\$ 5,996

GAS TRANSMISSION & STORAGE

Forward EBITDA (2014E)	\$ 590
Forward multiple	10.0x
Enterprise value	\$ 5,901

ELECTRIC UTILITY

Forward EBITDA (2014E)	\$ 520
Forward multiple	8.5x
Enterprise value	\$ 4,417

Estimated Utica 'Value' Credit

Acres	125,000
\$/acre	\$ 7,500
Enterprise value	\$ 938

Source: Company data, Morgan Stanley Research.

April 30, 2013
NiSource, Inc.

Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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Global Stock Ratings Distribution

(as of March 31, 2013)

For disclosure purposes only (in accordance with NASD and NYSE requirements), we include the category headings of Buy, Hold, and Sell alongside our ratings of Overweight, Equal-weight, Not-Rated and Underweight. Morgan Stanley does not assign ratings of Buy, Hold or Sell to the stocks we cover. Overweight, Equal-weight, Not-Rated and Underweight are not the equivalent of buy, hold, and sell but represent recommended relative weightings (see definitions below). To satisfy regulatory requirements, we correspond Overweight, our most positive stock rating, with a buy recommendation; we correspond Equal-weight and Not-Rated to hold and Underweight to sell recommendations, respectively.

April 30, 2013
NiSource, Inc.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1031	36%	402	39%	39%
Equal-weight/Hold	1250	44%	480	47%	38%
Not-Rated/Hold	105	4%	27	3%	26%
Underweight/Sell	467	16%	113	11%	24%
Total	2,853		1022		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

Analyst Stock Ratings

Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Equal-weight (E). The stock's total return is expected to be in line with the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Not-Rated (NR). Currently the analyst does not have adequate conviction about the stock's total return relative to the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Underweight (U). The stock's total return is expected to be below the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

Analyst Industry Views

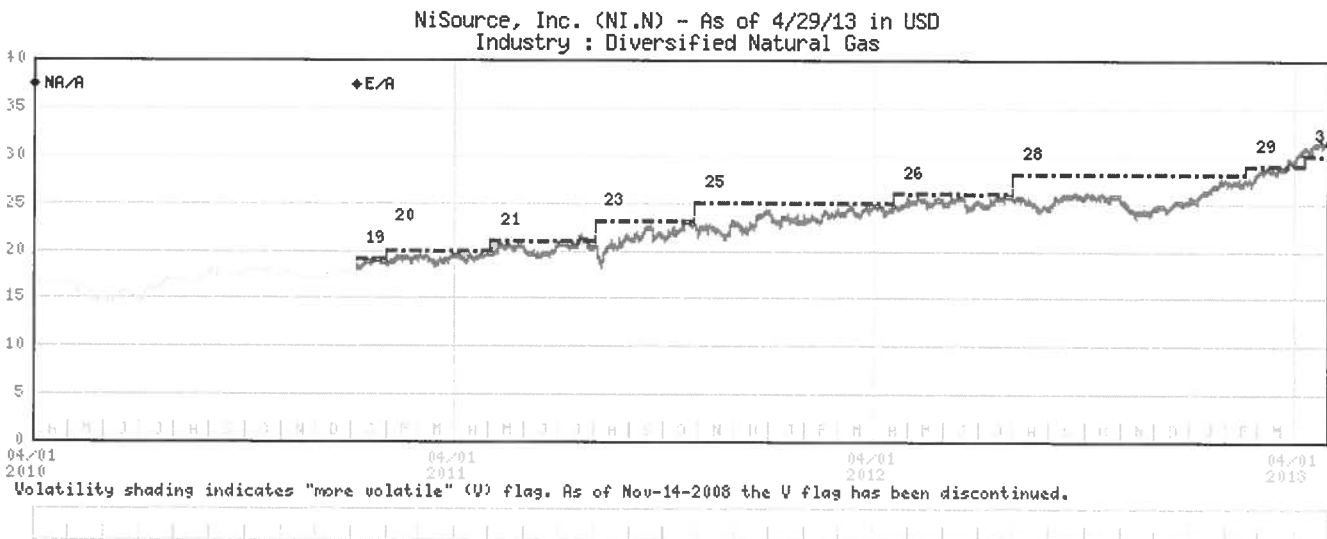
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 4/1/10 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25;
4/18/12 : 26; 7/31/12 : 28; 2/19/13 : 29; 4/10/13 : 30

Source: Morgan Stanley Research Date Format: MM/DD/YY Price Target — No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) —
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

April 30, 2013
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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (04/29/2013)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$24.52
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$24.4
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$62.56
NiSource, Inc. (NI.N)	E (01/06/2011)	\$31.15
Oneok Inc. (OKE.N)	O (11/15/2011)	\$51.19
Questar Corp. (STR.N)	E (02/11/2013)	\$25.25
SemGroup Corp (SEMG.N)	O (04/10/2013)	\$51.91
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$31.36
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$38.22

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May 1, 2012

NiSource, Inc. Utica JV Nears the Goal Line

NI 1Q results were in-line with our estimates (above consensus) and company guidance was reaffirmed at \$1.40-1.50 (MS at \$1.45). NI remains on track for its 2012 capital investment program of \$1.4b and importantly has made strides with its midstream build out.

1Q12 results: NI reported operating earnings of \$0.76 vs. MS / Consensus estimates of \$0.75 / \$0.71.

We maintain our Equal-weight rating on NI (in the context of our Attractive view on the Diversified Gas sector). We estimate earnings growth of 9% 2012 and 7% in 2013 and implied Utica project value of \$2 per share. Our price target is \$26 (with Bull case at \$30). Upcoming drivers for the stock will be Utica joint venture announcement, which is possible within a month, and execution on its \$1.4b capital investment plan. NI currently trades at ~9.4x 2012e EV/EBITDA and 17.8x P/E, compared to peers at 8.2x and 18.1x.

Gas business performs despite mild winter. *Electric Operations EBIT* declined to \$48.5m vs. \$49.3 in 2011. *Gas Distribution Operations EBIT* increased to \$246.5m from \$237.0 in 2011. Despite an unusually warm winter, new revenues increased by \$11.4m, excluding the impact of trackers. *Gas Transmission and Storage Operations EBIT* increased to \$138.6m from \$118.4m y/y. Please see variance exhibit on page 3 for details.

What's Next: Midstream execution in the northeast, possible dividend raise in 2H12. NI is in advanced discussions with a producer to create a joint venture and contribute acreage. The JV will likely encompass only a small portion of NI's Utica acreage (15k acres), and NI will participate in its development and benefit from infrastructure requirements. In addition to its upstream acreage position, NI controls a great midstream footprint in the Northeast through its Columbia Gas and Columbia Gulf Pipeline systems. We believe the opportunity of creating a separate vehicle (i.e., an MLP) to capture value and fund growth capital may increase in the coming quarters as NI's midstream scope widens. With over \$500+m of pipe & storage EBITDA, we believe management will continue to evaluate it closely.

Stock Rating
Equal-weight
Industry View
Attractive

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Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$26.00
Shr price, close (Apr 30, 2012)	\$24.65
Mkt cap, curr (mm)	\$6,992
52-Week Range	\$24.74-17.96

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	1.33	1.45	1.55	1.62
Prior ModelWare EPS (\$)	-	1.42	1.53	1.62
P/E	17.9	16.9	15.9	15.3
Consensus EPS (\$) [§]	1.35	1.44	1.52	1.61
EBITDA (\$mm)**	1,499	1,646	1,718	1,816
EV/EBITDA**	9.6	9.3	9.2	9.0
Div yld (%)	3.9	3.8	3.9	4.0
Div per shr (\$)	0.92	0.93	0.96	0.99
Shrs out, diluted, avg (mm)	281	295	295	295

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

[§] = Consensus data is provided by Thomson Reuters Estimates.

** = Based on consensus methodology
e = Morgan Stanley Research estimates

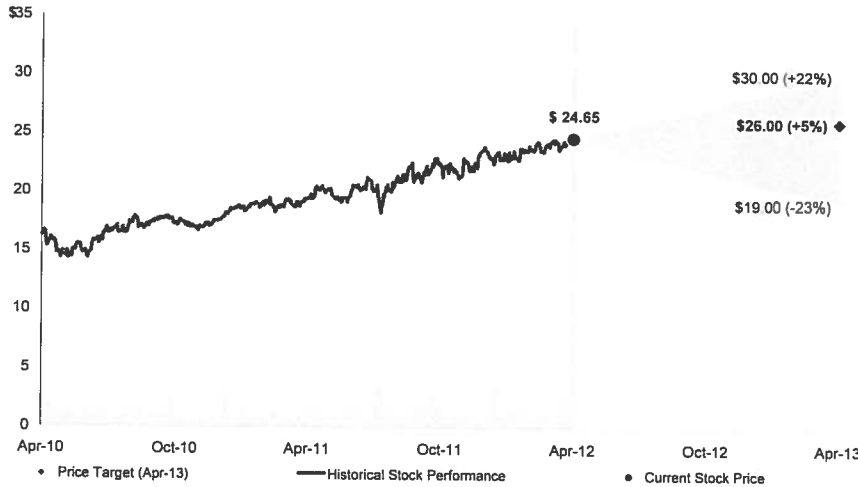
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May 1, 2012
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: FactSet; Morgan Stanley Research

Price Target \$26		Derived from base case average of four valuation methodologies
Bull Case \$30	11x GT&S '12e EBITDA, 9x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$26	10.x GT&S '12e EBITDA, 8.5x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover, coupled with fair rate case outcomes.
Bear Case \$19	8x GT&S '12e EBITDA, 7x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions. Utility rate case outcomes prove unfavorable.

Why Equal-weight?

- Restoring earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus midstream projects on time and below budget
- Execution on its regulatory agenda (e.g., filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential growth in 2H12.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.
- Decision to create an MLP.

Where We Could Be Wrong/Risks

- Regulatory risks associated with Marcellus drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$5,105	\$18
Gas Transmission & Storage	5,816	21
Electric Utility	3,780	14
Utica	600	2
Value per Share	\$15,301	\$55
Net Debt	(7,374)	(26)
Net Equity Value	\$7,926	\$28
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

May 1, 2012
NiSource, Inc.

Exhibit 1
1Q12 Earnings Results and 2Q12E Preview
NiSource Inc.

(amounts in 000s, except per unit)

	Actual 1Q11	Actual 1Q12	A / A % chg	MS 1Q12E	A / E % chg	MS 2Q12E
Operating Revenues						
Gas Distribution	1,367,600	908,200	-33.6%	1,692,470	-46.3%	728,414
Gas Transportation and Storage	345,800	409,200	18.3%	281,649	45.3%	241,725
Electric	402,900	358,000	-11.1%	375,583	-4.7%	377,355
Other	30,800	24,800	-	-	-	-
Total operating revenues	2,147,100	1,700,200	-20.8%	2,349,702	-27.6%	1,347,495
Operating Expenses						
Cost of Sales	1,088,400	633,000	-41.8%	1,190,726	-46.8%	489,614
Operation and maintenance	431,100	406,700	-5.7%	490,792	-17.1%	441,541
Depreciation and amortization	138,900	146,100	5.2%	130,088	12.3%	141,303
Other taxes	92,500	86,600	-6.4%	105,769	-18.1%	71,410
Total operating expenses	1,750,900	1,272,400	-27.3%	1,917,375	-33.6%	1,143,868
Equity Earnings (Loss) in Uncon. Affiliates	3,000	7,700	156.7%	5,858	31.4%	7,739
EBIT	399,200	435,500	9.1%	438,185	-0.6%	211,366
EBITDA	538,100	581,600	8.1%	568,273	2.3%	352,669
Interest expense, net	(89,800)	(103,300)	15.0%	(99,423)	3.9%	(102,548)
Other income	3,300	1,000	(12,800)	1,000		
Total other income and expenses	(86,500)	(102,300)	18.3%	(112,223)	-8.8%	(101,548)
Earnings From Cont. Oper. Bef. Inc. Taxes	312,700	333,200	6.6%	325,962	2.2%	109,818
Income tax (provision)	107,900	118,700	10.0%	114,559	3.6%	38,304
Net Income (Operating)	204,800	214,500	4.7%	211,404	1.5%	71,514
Average # of Shares Outstanding	285,000	282,900	-0.7%	281,400	0.5%	282,900
Net Income per Share (Operating)	\$ 0.72	\$ 0.76		\$ 0.75		\$ 0.25
Net Income per Share (GAAP)	\$ 0.71	\$ 0.68		\$ 0.75		\$ 0.25
Segment Data						
Gas Distribution (MMDth)						
Residential	134.5	102.9	-23.5%	137.2	-25.0%	34.3
Commercial	77.6	61.2	-21.1%	79.2	-22.7%	27.2
Industrial	118.9	131.3	10.4%	124.8	5.2%	105.8
Off System	17.5	13.5	-22.9%	17.5	-22.9%	20.4
Other	0.3	0.1	na	- na	0.1	
Gas Transmission & Storage (MMDth)						
Columbia Transmission	426.6	379.4	-11.1%	447.9	-15.3%	215.1
Columbia Gulf	244.0	227.5	-6.8%	280.6	-18.9%	302.6
Crossroads Gas Pipeline	5.1	4.3	-15.7%	5.1	-15.7%	5.6
Intrasegment eliminations	(152.6)	(105.7)	-30.7%	(173.4)	-39.0%	(185.5)
Electric Operations (Gigawatt Hours)						
Residential	855.8	781.2	-8.7%	877.2	-10.9%	800.1
Commercial	924.9	907.8	-1.8%	948.0	-4.2%	965.5
Industrial	2,442.4	2,385.0	-2.4%	2,503.5	-4.7%	2,383.8
Wholesale	67.1	19.0	-71.7%	68.8	-72.4%	205.2
Other	44.5	32.5	-27.0%	45.2	-28.0%	37.7

NIPSO electric rate case was settled win December without modification by the IURC. The proposal represents a 4.45% increase.

The 2012 capital program for NG&T is 43% higher than 2011 reflecting significant expansion projects in supply regions. NI has a \$150m pipeline project, which is expected to be finalized in the quarter and placed into service Dec 2012

Source: Company data, Morgan Stanley Research

May 1, 2012
 NiSource, Inc.

Exhibit 2

NI Income Statement

(amounts in thousands, except per unit data)

	2010	2011E	2012E	2013E	2014E	2015E
Net Revenues						
Gas Distribution	3,103,100	2,927,700	3,006,305	3,576,364	3,693,370	3,833,085
Gas Transportation and Storage	1,261,300	1,297,400	1,190,993	1,141,658	1,217,535	1,271,298
Electric	1,374,900	1,477,800	1,504,833	1,586,646	1,658,688	1,734,003
Other	78,600	99,700	24,800	-	-	-
Total Net Revenues	5,817,900	5,802,600	5,726,930	6,304,667	6,569,593	6,838,386
Operating Costs						
Cost of Sales	2,379,200	2,336,700	2,101,337	2,452,639	2,505,484	2,615,535
Operation and maintenance	1,655,700	1,688,100	1,721,587	1,845,807	1,947,723	2,015,013
Depreciation and amortization	596,300	542,800	572,132	588,568	632,096	645,162
Other taxes	284,400	293,300	289,098	308,046	321,046	334,396
Total Operating Costs	4,915,600	4,860,900	4,684,154	5,195,059	5,406,349	5,610,105
Equity Earnings (Loss) in Uncon. Affiliates	15,000	14,600	31,032	20,151	20,659	21,180
EBIT	917,300	956,300	1,073,808	1,129,759	1,183,903	1,249,461
EBITDA	1,513,600	1,499,100	1,645,940	1,718,326	1,815,998	1,894,623
Other income						
Interest expense, net	(392,200)	(376,800)	(417,193)	(429,965)	(451,411)	(469,120)
Other income	3,800	(7,300)	4,000	-	-	-
Inc. from continuing operations bef inc. taxes	528,900	572,200	660,616	699,794	732,492	780,341
Income tax (provision)	189,300	197,500	231,471	242,981	256,014	271,639
Operating Net income (Loss)	339,600	374,700	429,145	456,812	476,478	508,702
Net Income per Share (Operating)	\$1.20	\$1.33	\$1.45	\$1.55	\$1.62	\$1.72
Net Income per Share (GAAP)	\$1.04	\$1.31	\$1.38	\$1.55	\$1.62	\$1.72
Weighted Avg Diluted Units Outstanding	282,600	281,400	295,021	295,021	295,021	295,021
Dividends per share	0.92	0.92	0.93	0.96	0.99	1.02

Source: Company data, Morgan Stanley Research

May 1, 2012
NiSource, Inc.

Exhibit 3

NI Operating Data

	2010	2011E	2012E	2013E	2014E	2015E
GAS DISTRIBUTION						
Sales and Transportation (MMDth):						
Residential	258.1	254.5	225.3	229.8	233.3	236.8
Commercial	166.8	168.6	154.0	157.1	160.2	163.4
Industrial	386.0	431.7	459.7	468.9	478.3	487.9
Off System	71.9	62.5	58.5	58.5	58.5	58.5
Other	0.9	0.5	0.4	0.4	0.4	0.4
Total Sales and Transports	883.7	917.8	898.0	914.7	930.7	947.0
Weather Adjustment	5.2	(5.6)	65.4	-	-	-
Sales and Transport Vols — Excluding Weather	888.9	912.2	963.4	914.7	930.7	947.0
<i>y/y change</i>	6.8%	2.6%	5.6%	-5.0%	1.7%	1.7%
Sales Price (\$ / Dth)	\$4.14	\$3.85	\$3.32	\$3.91	\$3.97	\$4.05
<i>y/y change</i>	-11.7%	-7.0%	-13.6%	17.6%	1.5%	2.0%
COGS Price (\$ / Dth)	\$2.32	\$2.10	\$1.66	\$2.03	\$2.02	\$2.08
<i>y/y change</i>	-15.6%	-9.5%	-21.2%	22.7%	-0.5%	3.0%
Gross Margin (\$ / Dth)	\$1.81	\$1.74	\$1.67	\$1.88	\$1.95	\$1.96
<i>y/y change</i>	-6.1%	-3.8%	-4.4%	12.6%	3.7%	0.9%
GAS TRANSMISSION & STORAGE						
Throughput (MMDth):						
Columbia Transmission	1,092.4	1,117.5	1,104.8	1,209.6	1,270.1	1,333.6
Columbia Gulf	848.4	1,048.0	1,152.1	1,227.0	1,288.4	1,314.1
Crossroads Gas Pipeline	25.4	18.7	17.9	19.1	19.5	19.8
Total throughput	1,966.2	2,184.2	2,274.8	2,455.8	2,578.0	2,667.6
Intrasegment eliminations	(568.7)	(548.5)	(609.5)	(673.3)	(689.7)	(717.2)
Total third-party throughput	1,397.5	1,635.7	1,665.3	1,782.5	1,888.2	1,950.4
<i>y/y change</i>	0.4%	17.0%	1.8%	7.0%	5.9%	3.3%
Tariff (\$ / Dth)	\$0.52	\$0.47	\$0.50	\$0.51	\$0.52	\$0.53
<i>y/y change</i>	0.1%	-8.9%	5.2%	2.8%	2.0%	1.9%
ELECTRIC OPERATIONS						
Sales (Gigawatt Hours):						
Residential	3,625.6	3,526.5	3,505.3	3,669.4	3,761.1	3,855.2
Commercial	3,919.9	3,886.5	3,928.6	4,044.4	4,145.5	4,249.1
Industrial	8,459.0	9,257.6	9,370.6	9,663.7	9,905.3	10,152.9
Wholesale	817.1	651.6	618.1	682.9	699.9	717.4
Other	186.4	165.5	155.3	169.8	172.4	175.0
Total sales	17,008.0	17,487.7	17,578.0	18,230.2	18,684.2	19,149.6
Weather Adjustment	(500.2)	(101.1)	81.8	-	-	-
Total sales volumes — Adj. for weather impacts	16,507.8	17,386.6	17,659.8	18,230.2	18,684.2	19,149.6
<i>y/y change</i>	4.0%	5.3%	1.6%	3.2%	2.5%	2.5%
Revenue (\$ / Gigawatt hour)	\$83.78	\$82.19	\$85.33	\$87.03	\$88.77	\$90.55
<i>y/y change</i>	6.1%	-1.9%	3.8%	2.0%	2.0%	2.0%
COGS (\$ / Gigawatt hour)	\$30.80	\$31.56	\$30.85	\$32.50	\$33.31	\$33.50
<i>y/y change</i>	7.1%	2.5%	-2.3%	5.4%	2.5%	0.6%
Gross Margin (\$ / Gigawatt hour)	\$52.99	\$50.63	\$54.48	\$54.54	\$55.46	\$57.05
<i>y/y change</i>	5.6%	-4.5%	7.6%	0.1%	1.7%	2.9%

Source: Company data, Morgan Stanley Research

May 1, 2012
NiSource, Inc.

Exhibit 4

NI Balance Sheet

(amounts in thousands, except per unit data)

	2010	2011E	2012E	2013E	2014E	2015E
ASSETS						
Cash and cash equivalents	9,200	11,500	143,857	10,000	31,757	38,041
Restricted cash	202,900	160,600	160,600	160,600	160,600	160,600
Accounts receivable	1,079,300	854,800	899,483	960,658	970,272	1,022,957
Income tax receivable	99,000	900	900	900	900	900
Gas inventory	298,200	427,600	323,416	291,904	322,591	333,547
Regulatory assets	151,800	169,700	169,700	169,700	169,700	169,700
Other	120,800	261,800	261,800	261,800	261,800	261,800
Total Current Assets	2,448,900	2,248,200	2,321,056	2,216,862	2,278,920	2,408,845
Net Property, Plant and Equipment	11,097,000	11,800,100	12,627,968	13,299,400	13,867,305	14,222,142
Unconsolidated affiliates	200,900	204,700	204,700	204,700	204,700	204,700
Other investments	139,700	150,900	150,900	150,900	150,900	150,900
Price risk management assets	240,300	188,700	188,700	188,700	188,700	188,700
Regulatory assets	1,650,400	1,978,200	1,978,200	1,978,200	1,978,200	1,978,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	308,600	297,600	297,600	297,600	297,600	297,600
Deferred charges, Postretirement, other	167,800	162,400	162,400	162,400	162,400	162,400
TOTAL ASSETS	19,938,800	20,708,300	21,609,024	22,176,262	22,806,225	23,290,988
LIABILITIES AND STOCKHOLDERS' EQUITY						
Current portion of long-term debt	34,200	327,300	327,300	327,300	327,300	327,300
Short-term borrowings	1,382,500	1,359,400	1,359,400	1,769,920	2,192,799	2,446,644
Accounts payable	581,800	434,800	495,859	479,520	502,394	525,646
Dividends payable	100	-	-	-	-	-
Customer deposits and credits	318,100	313,600	313,600	313,600	313,600	313,600
Taxes accrued	221,100	220,900	220,900	220,900	220,900	220,900
Interest accrued	114,400	111,900	111,900	111,900	111,900	111,900
Price risk management liabilities	173,900	167,800	167,800	167,800	167,800	167,800
Exchange gas payable	266,100	168,200	168,200	168,200	168,200	168,200
Deferred revenue	6,800	10,100	10,100	10,100	10,100	10,100
Regulatory liabilities	92,900	112,000	112,000	112,000	112,000	112,000
Acc liab for post-retirement / -employment benefits	23,300	26,600	26,600	26,600	26,600	26,600
Other accruals	336,400	301,000	301,000	301,000	301,000	301,000
Total Current Liabilities	3,649,400	3,646,400	3,707,459	4,101,640	4,547,393	4,824,490
Long-term debt, excl amounts due within one year	5,936,100	6,267,100	6,767,100	6,767,100	6,767,100	6,767,100
Price risk management liabilities	181,600	138,900	138,900	138,900	138,900	138,900
Deferred income taxes	2,209,700	2,541,900	2,541,900	2,541,900	2,541,900	2,541,900
Deferred inc. taxes, credits, other	102,600	107,900	107,900	107,900	107,900	107,900
Acc liability for post-retirement/-employment benefits	1,039,600	953,800	953,800	953,800	953,800	953,800
Regulatory liabilities and other removal costs	1,595,800	1,663,900	1,663,900	1,663,900	1,663,900	1,663,900
Asset retirement obligations	138,800	146,400	146,400	146,400	146,400	146,400
Other noncurrent liabilities	162,000	244,700	244,700	244,700	244,700	244,700
Total Other Liabilities and Deferred Credits	11,366,200	12,064,600	12,564,600	12,564,600	12,564,600	12,564,600
Common stock	2,800	2,800	2,800	2,800	2,800	2,800
Additional paid-in capital	4,103,900	4,167,700	4,367,700	4,367,700	4,367,700	4,367,700
Retained earnings	901,800	917,000	1,056,665	1,229,722	1,413,932	1,621,598
Treasury stock	(57,900)	(30,500)	(30,500)	(30,500)	(30,500)	(30,500)
Accumulated other comprehensive loss	(27,400)	(59,700)	(59,700)	(59,700)	(59,700)	(59,700)
Total Common Stockholders' Equity	4,923,200	4,997,300	5,336,965	5,510,022	5,694,232	5,901,898
TOTAL CAPITALIZATION & LIABILITIES	19,938,800	20,708,300	21,609,024	22,176,262	22,806,225	23,290,988
CONSOLIDATED DEBT METRICS						
Average Total Debt	7,070,100	7,653,300	8,203,800	8,659,060	9,075,760	9,414,122
Average Net Debt	7,057,300	7,642,950	8,126,122	8,582,132	9,054,881	9,349,223
Net Debt/ Total Book Capitalization	59.1%	60.6%	61.1%	61.3%	61.8%	61.7%
Average Debt/ EBITDA	4.7x	5.1x	5.0x	5.0x	5.0x	5.0x
Average Interest Rate	5.5%	4.9%	5.1%	5.0%	5.0%	5.0%

Source: Company data, Morgan Stanley Research

Exhibit 5

NI Cash Flow Statement

(amounts in thousands, except per unit data)

	2010	2011E	2012E	2013E	2014E	2015E
Cash from Operating Activities						
Net Income	292,000	299,100	408,145	456,812	476,478	508,702
Debt: Gain Early Extinguishment / Amort Disc. +Premium	107,000	53,900	-	-	-	-
Depreciation and Amortization	596,300	538,200	572,132	588,568	632,096	645,162
Net Changes in Price Risk Mgmt A / L	(5,500)	38,100	-	-	-	-
Deferred: Inc. Tax/Credits; Revenues	179,700	180,900	-	-	-	-
Stock Compensation Expense	30,900	39,200	-	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	2,000	16,800	-	-	-	-
Income from Unconsolidated Affiliates	(14,800)	(13,700)	-	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	2,600	4,700	-	-	-	-
AFUDC Equity	(6,100)	(2,400)	-	-	-	-
Dist. of Earnings Received from Equity Investee	12,900	18,800	-	-	-	-
Other	(55,000)	8,900	-	-	-	-
Changes in Assets and Liabilities:	(419,800)	(312,300)	120,559	(46,001)	(17,428)	(40,389)
Net cash from operating activities	722,200	870,200	1,100,836	999,379	1,091,146	1,113,475
Cash from Investing Activities						
Capital Expenditures	(803,800)	(1,125,200)	(1,400,000)	(1,260,000)	(1,200,000)	(1,000,000)
Insurance Recoveries	5,000	-	-	-	-	-
Proceeds from Disposition of Assets	500	9,400	-	-	-	-
Restricted Cash Deposits (Borrowings)	(28,200)	42,300	-	-	-	-
Contributions to Equity Investments	(64,100)	(6,400)	-	-	-	-
Other Investing Activities	(53,100)	(69,400)	-	-	-	-
Net cash from investing activities	(943,700)	(1,149,300)	(1,400,000)	(1,260,000)	(1,200,000)	(1,000,000)
Cash from Financing Activities						
Issuance of Long-Term Debt	250,000	890,000	500,000	-	-	-
Retirement/Repurchase of Long-Term Debt	(977,700)	(286,900)	-	-	-	-
Change in Short-Term Borrowings, Net	1,279,500	(23,100)	-	410,520	422,880	253,845
Issuance of Common Stock	14,400	24,400	200,000	-	-	-
Acquisition of Treasury Stock	(1,400)	(3,100)	-	-	-	-
Dividends Paid - Common Stock	(255,600)	(257,800)	(268,479)	(283,756)	(292,268)	(301,036)
Other	(94,900)	(62,100)	-	-	-	-
Net cash from financing activities	214,300	281,400	431,521	126,764	130,611	(47,191)
Net change in cash	(7,200)	2,300	132,357	(133,857)	21,757	66,284
Cash at beginning of period	16,400	9,200	11,500	143,857	10,000	31,757
Cash at end of period	9,200	11,500	143,857	10,000	31,757	98,041

Source: Company data, Morgan Stanley Research

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$5,105	\$18
Gas Transmission & Storage	5816	\$21
Electric Utility	3780	\$14
Utica	600	\$2
Value	\$15,301	\$55
Net Debt	(7,374)	(26)
Net Equity Value	\$7,926	\$28
Shares Outstanding (in m)		280

GAS DISTRIBUTION

Forward EBITDA (2012E)	\$601
Forward multiple	8.5x
Enterprise value	\$5,105

GAS TRANSMISSION & STORAGE

Forward EBITDA (2012E)	\$582
Forward multiple	10.0x
Enterprise value	\$5,816

ELECTRIC UTILITY

Forward EBITDA (2012E)	\$445
Forward multiple	8.5x
Enterprise value	\$3,780

Source: Company data, Morgan Stanley Research ■

May 1, 2012
NiSource, Inc.

Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.

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(as of April 30, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	Total IBC	% of Rating Category
Overweight/Buy	1115	38%	459	42%	41%
Equal-weight/Hold	1254	43%	474	44%	38%
Not-Rated/Hold	100	3%	25	2%	25%
Underweight/Sell	471	16%	124	11%	26%
Total	2,940		1082		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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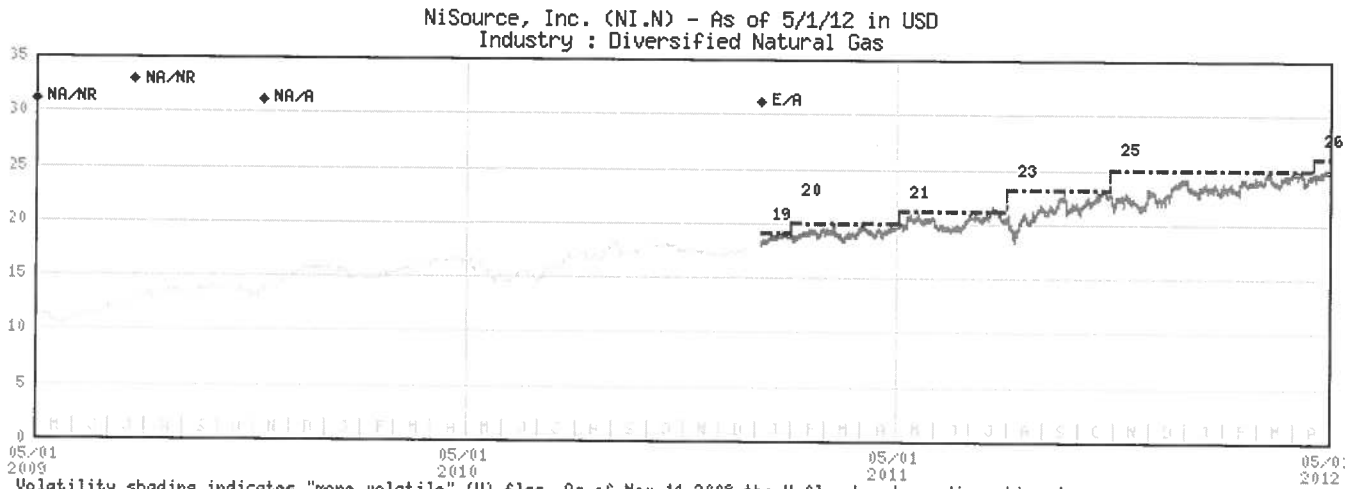
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

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Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 5/1/09 : NA/NR; 7/23/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target == No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ==
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
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May 1, 2012
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May 1, 2012
NiSource, Inc.

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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (04/30/2012)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$20.21
El Paso Corp. (EP.N)	E (03/28/2012)	\$29.67
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$22.94
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$47.32
NiSource, Inc. (NI.N)	E (01/06/2011)	\$24.65
Oneok Inc. (OKE.N)	O (11/15/2011)	\$85.89
Questar Corp. (STR.N)	U (10/29/2010)	\$19.75
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$30.74
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$34.03

Stock Ratings are subject to change. Please see latest research for each company.
* Historical prices are not split adjusted.

Stock Rating
Equal-weight
Industry View
Attractive

July 31, 2012

NiSource, Inc. Utica Potential Rises

NI's 2Q was above estimates and company EPS guidance was reaffirmed at \$1.40 – 1.50 (MS at \$1.44, up from \$1.42). NI remains on track for 2012 investments of \$1.4b and continues to make new strides with its midstream build out. We remain Equal-weight (within our Attractive industry view).

2Q12 results: NI reported operating earnings of \$0.23 vs. MS / Consensus estimates of \$0.21 / \$0.20.

Going forward, we estimate earnings growth of 7% in 2013 and 2014 and implied Utica project value of \$2 per share. We are raising our price target to \$28 from \$26 based on growth capex visibility in the Utica (\$1+b of potential capex). Upcoming drivers for the stock will be execution on its midstream/upstream Utica joint venture initiatives and its \$1.4b capital investment plan. NI recently raised its dividend to \$0.96/shr., a 4.3 y/y increase, and now trades at a current yield of 3.7% vs. the group at 3.7%. On a multiple basis, NI trades at ~9.2x 2012 EV/EBITDA and 17.8x P/E, compared to peers (excluding general partners) at 8.7x and 19.0x.

Gas business performs despite mild winter. *Electric Operations EBIT* increased to \$59.8m vs. \$37.8 in 2011 due to increased margins. *Gas Distribution Operations EBIT* increased to \$54.6m from \$48.9 in 2011. Net revenues increased by \$8.0m, excluding the impact of trackers, due to the impact of new rates. *Gas Transmission and Storage Operations EBIT* increased to \$91.6m from \$84.6m y/y, primarily due to a \$6.2m increase in equity earnings from Millennium Pipeline. Please see variance table page 3 for details.

Clarity on Utica and Midstream execution in the Northeast; a growth story gaining traction. We expect additional clarity to emerge on NI's Utica initiatives at the company's analyst day on September 12 (NYC). Already, management commented that its Pennant Midstream JV could see growth capex >\$1b based on its 14k acreage dedication from its upstream JV. Additional upstream acreage outside of the JV plus an expansive midstream footprint in the Northeast through its Columbia Gas and Columbia Gulf Pipeline systems may give NI additional organic growth.

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Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$28.00
Shr price, close (Jul 30, 2012)	\$25.63
Mkt cap, curr (mm)	\$7,270
52-Week Range	\$25.79-17.96

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	1.33	1.44	1.57	1.68
Prior ModelWare EPS (\$)	-	1.42	1.51	1.57
P/E	17.9	17.8	16.4	15.2
Consensus EPS (\$)§	1.35	1.45	1.54	1.64
EBITDA (\$mm)**	1,499	1,641	1,745	1,854
EV/EBITDA**	9.6	9.6	9.3	9.0
Div yld (%)	3.9	3.7	3.8	3.9
Div per shr (\$)	0.92	0.94	0.97	1.00
Shrs out, diluted, avg (mm)	281	292	292	292

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

** = Based on consensus methodology

e = Morgan Stanley Research estimates

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July 31, 2012
NiSource, Inc.

NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target \$28 Derived from base case average of four valuation methodologies

Bull Case \$32	11x GT&S '12e EBITDA, 9x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$28	10.x GT&S '12e EBITDA, 8.5x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover, coupled with fair rate case outcomes.
Bear Case \$22	8x GT&S '12e EBITDA, 7x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions. Utility rate case outcomes prove unfavorable.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$4,910	\$18
Gas Transmission & Storage	5,844	21
Electric Utility	3,885	14
Utica	600	2
Value per Share	\$15,239	\$54
Net Debt	(7,374)	(26)
Net Equity Value	\$7,865	\$28
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 4+% annual growth.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.
- Decision to create an MLP.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Exhibit 1
2Q12 Earnings Results and 3Q12E Preview
NiSource Inc.

(amounts in 000s, except per unit)

	Actual 2Q11	Actual 2Q12	A / A % chg	MS 2Q12E	A / E % chg	MS 3Q12E
Operating Revenues						
Gas Distribution	502,700	290,200	-42.3%	699,629	-58.5%	446,695
Gas Transportation and Storage	307,300	356,300	15.9%	220,405	61.7%	256,450
Electric	346,600	366,400	5.7%	368,908	-0.7%	433,225
Other	24,400	25,200		-		-
Total operating revenues	1,181,000	1,038,100	-12.1%	1,288,942	-19.5%	1,136,371
Operating Expenses						
Cost of Sales	417,700	236,400	-43.4%	472,739	-50.0%	340,401
Operation and maintenance	401,400	393,500	-2.0%	421,026	-6.5%	423,888
Depreciation and amortization	134,500	148,000	10.0%	141,303	4.7%	143,313
Other taxes	67,500	66,600	-1.3%	68,045	-2.1%	62,154
Total operating expenses	1,021,100	844,500	-17.3%	1,103,113	-23.4%	969,755
Equity Earnings (Loss) in Uncon. Affiliates	2,300	8,500	269.6%	7,739	9.8%	8,568
EBIT	162,200	202,100	24.6%	193,567	4.4%	175,183
EBITDA	296,700	350,100	18.0%	334,870	4.5%	318,496
Interest expense, net	(94,400)	(103,200)	9.3%	(102,548)	0.6%	(106,803)
Other income	600	2,800		1,000		2,800
Total other income and expenses	(93,800)	(100,400)	7.0%	(101,548)	-1.1%	(104,003)
Earnings From Cont. Oper. Bef. Inc. Taxes	68,400	101,700	48.7%	92,020	10.5%	71,180
Income tax (provision)	22,800	35,100	53.9%	32,096	9.4%	21,130
Net Income (Operating)	45,600	66,600	46.1%	59,924	11.1%	50,050
Average # of Shares Outstanding	280,200	284,400	1.5%	282,900	0.5%	288,302
Net Income per Share (Operating)	\$ 0.16	\$ 0.23		\$ 0.21		\$ 0.17
Net Income per Share (GAAP)	\$ 0.14	\$ 0.25		\$ 0.21		\$ 0.17
Segment Data						
Gas Distribution (MMDth)						
Residential	33.6	28.3	-15.8%	31.9	-11.3%	12.4
Commercial	26.7	25.2	-5.6%	25.4	-0.7%	18.0
Industrial	100.8	114.1	13.2%	105.8	7.8%	115.3
Off System	20.4	17.2	-15.7%	20.4	-15.7%	13.0
Other	0.2	0.1	na	0.1	na	0.1
Gas Transmission & Storage (MMDth)						
Columbia Transmission	204.9	210.4	2.7%	204.9	2.7%	198.4
Columbia Gulf	263.1	236.4	-10.1%	263.1	-10.1%	256.8
Crossroads Gas Pipeline	5.6	4.1	-26.8%	5.6	-26.8%	4.0
Intrasegment eliminations	(147.7)	(122.8)	-16.9%	(167.8)	-26.8%	(142.2)
Electric Operations (Gigawatt Hours)						
Residential	784.4	861.2	9.8%	784.4	9.8%	1,232.8
Commercial	946.6	976.4	3.1%	946.6	3.1%	1,116.2
Industrial	2,325.7	2,332.0	0.3%	2,325.7	0.3%	2,286.8
Wholesale	200.2	56.0	-72.0%	200.2	-72.0%	72.0
Other	37.1	25.9	-30.2%	37.1	-30.2%	29.8

During 1H 2012, NiSource placed into service three separate Marcellus Shale-related growth projects

NiSource reaffirmed its 2012 outlook of \$1.40-\$1.50/share

Source: Company data, Morgan Stanley Research

Exhibit 2

NI Income Statement

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
Net Revenues					
Gas Distribution	2,927,700	2,512,966	3,312,592	3,444,803	3,600,198
Gas Transportation and Storage	1,297,400	1,320,176	1,201,364	1,263,704	1,313,236
Electric	1,477,800	1,487,982	1,594,248	1,672,445	1,755,160
Other	99,700	50,000	-	-	-
Total Net Revenues	5,802,600	5,371,123	6,108,205	6,380,952	6,668,594
Operating Costs					
Cost of Sales	2,336,700	1,814,968	2,283,519	2,323,269	2,448,841
Operation and maintenance	1,688,100	1,666,094	1,814,697	1,927,352	1,995,622
Depreciation and amortization	542,800	581,443	594,073	637,898	651,111
Other taxes	293,300	282,547	301,205	316,741	329,783
Total Operating Costs	4,860,900	4,345,051	4,993,494	5,205,260	5,425,357
Equity Earnings (Loss) in Uncon. Affiliates	14,600	33,379	36,271	40,301	41,318
EBIT	956,300	1,059,451	1,150,981	1,215,992	1,284,555
EBITDA	1,499,100	1,640,894	1,745,055	1,853,890	1,935,666
Other income					
Interest expense, net	(376,800)	(423,369)	(449,622)	(461,434)	(479,266)
Other income	(7,300)	9,400	-	-	-
Inc. from continuing operations bef inc. taxes	572,200	645,482	701,359	754,558	805,289
Income tax (provision)	197,500	225,522	243,379	263,411	280,010
Operating Net income (Loss)	374,700	419,961	457,980	491,148	525,280
Net Income per Share (Operating)	\$1.33	\$1.44	\$1.57	\$1.68	\$1.80
Net Income per Share (GAAP)	\$1.31	\$1.38	\$1.57	\$1.68	\$1.80
Weighted Avg Diluted Units Outstanding	281,400	292,203	292,203	292,203	292,203
Dividends per share	0.92	0.94	0.97	1.00	1.03

Source: Company data, Morgan Stanley Research

July 31, 2012
NiSource, Inc.

Exhibit 3

NI Operating Data

	2011	2012E	2013E	2014E	2015E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	254.5	212.6	216.8	220.1	223.4
Commercial	168.6	151.1	155.6	160.3	165.1
Industrial	431.7	483.9	498.4	513.4	528.8
Off System	62.5	53.4	53.4	53.4	53.4
Other	0.5	0.4	0.4	0.4	0.4
Total Sales and Transports	917.8	901.3	924.6	947.5	971.0
Weather Adjustment	(5.6)	60.8	-	-	-
Sales and Transport Vols — Excluding Weather	912.2	962.1	924.6	947.5	971.0
<i>y/y change</i>	2.6%	5.5%	-3.9%	2.5%	2.5%
Sales Price (\$ / Dth)	\$3.85	\$2.99	\$3.58	\$3.64	\$3.71
<i>y/y change</i>	-7.0%	-22.2%	19.8%	1.5%	2.0%
COGS Price (\$ / Dth)	\$2.10	\$1.42	\$1.83	\$1.80	\$1.86
<i>y/y change</i>	-9.5%	-32.6%	29.4%	-1.9%	3.7%
Gross Margin (\$ / Dth)	\$1.74	\$1.58	\$1.75	\$1.84	\$1.84
<i>y/y change</i>	-3.8%	-9.6%	11.1%	5.0%	0.3%
 GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,117.5	1,089.6	1,193.7	1,229.5	1,266.4
Columbia Gulf	1,048.0	977.8	1,044.0	1,075.3	1,096.8
Crossroads Gas Pipeline	18.7	16.4	17.5	17.9	18.3
Total throughput	2,184.2	2,083.8	2,255.2	2,322.7	2,381.4
Intrasegment eliminations	(548.5)	(513.9)	(599.4)	(597.5)	(609.1)
Total third-party throughput	1,635.7	1,569.9	1,655.8	1,725.1	1,772.3
<i>y/y change</i>	17.0%	-4.0%	5.5%	4.2%	2.7%
Tariff (\$ / Dth)	\$0.47	\$0.53	\$0.58	\$0.59	\$0.60
<i>y/y change</i>	-8.9%	11.5%	8.9%	2.1%	1.9%
 ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,526.5	3,717.3	3,905.7	3,983.8	4,063.5
Commercial	3,886.5	3,959.7	4,056.3	4,137.4	4,220.2
Industrial	9,257.6	9,296.3	9,540.8	9,731.6	9,926.2
Wholesale	651.6	190.3	243.2	248.0	253.0
Other	165.5	121.3	100.0	75.0	56.2
Total sales	17,487.7	17,284.9	17,845.9	18,175.8	18,519.1
Weather Adjustment	(101.1)	81.8	-	-	-
Total sales volumes — Adj. for weather impacts	17,386.6	17,366.7	17,845.9	18,175.8	18,519.1
<i>y/y change</i>	5.3%	-0.1%	2.8%	1.8%	1.9%
Revenue (\$ / Gigawatt hour)	\$82.19	\$85.90	\$89.33	\$92.01	\$94.78
<i>y/y change</i>	-1.9%	4.5%	4.0%	3.0%	3.0%
COGS (\$ / Gigawatt hour)	\$31.56	\$30.16	\$33.05	\$34.11	\$34.48
<i>y/y change</i>	2.5%	-4.4%	9.6%	3.2%	1.1%
Gross Margin (\$ / Gigawatt hour)	\$50.63	\$55.74	\$56.29	\$57.91	\$60.29
<i>y/y change</i>	-4.5%	10.1%	1.0%	2.9%	4.1%

Source: Company data, Morgan Stanley Research

July 31, 2012
NiSource, Inc.

Exhibit 4

NI Balance Sheet

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
ASSETS					
Cash and cash equivalents	11,500	67,909	10,000	46,535	115,956
Restricted cash	160,600	85,000	85,000	85,000	85,000
Accounts receivable	854,800	868,751	943,178	954,260	1,009,338
Income tax receivable	900	700	700	700	700
Gas inventory	427,600	306,921	280,616	312,046	324,682
Regulatory assets	169,700	192,900	192,900	192,900	192,900
Other	261,800	274,200	274,200	274,200	274,200
Total Current Assets	2,248,200	2,136,182	2,126,394	2,205,441	2,342,575
Net Property, Plant and Equipment	11,800,100	12,642,157	13,308,084	13,870,186	14,219,075
Unconsolidated affiliates	204,700	211,500	211,500	211,500	211,500
Other investments	150,900	156,800	156,800	156,800	156,800
Price risk management assets	188,700	90,300	90,300	90,300	90,300
Regulatory assets	1,978,200	1,899,200	1,899,200	1,899,200	1,899,200
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	297,600	292,100	292,100	292,100	292,100
Deferred charges, Postretirement, other	162,400	181,400	181,400	181,400	181,400
TOTAL ASSETS	20,708,300	21,287,139	21,943,278	22,584,427	23,070,450
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	327,300	766,900	766,900	766,900	766,900
Short-term borrowings	1,359,400	825,532	1,317,337	1,734,922	1,971,315
Accounts payable	434,800	470,568	460,977	485,970	511,675
Dividends payable	-	68,300	68,300	68,300	68,300
Customer deposits and credits	313,600	201,800	201,800	201,800	201,800
Taxes accrued	220,900	185,500	185,500	185,500	185,500
Interest accrued	111,900	116,600	116,600	116,600	116,600
Price risk management liabilities	167,800	132,700	132,700	132,700	132,700
Exchange gas payable	168,200	101,400	101,400	101,400	101,400
Deferred revenue	10,100	10,000	10,000	10,000	10,000
Regulatory liabilities	112,000	93,300	93,300	93,300	93,300
Acc liab for post-retirement / -employment benefits	26,600	26,600	26,600	26,600	26,600
Other accruals	301,000	219,800	219,800	219,800	219,800
Total Current Liabilities	3,646,400	3,338,700	3,820,914	4,263,492	4,525,589
Long-term debt, excl amounts due within one year	6,267,100	6,806,900	6,806,900	6,806,900	6,806,900
Price risk management liabilities	138,900	45,600	45,600	45,600	45,600
Deferred income taxes	2,541,900	2,730,500	2,730,500	2,730,500	2,730,500
Deferred inc. taxes, credits, other	107,900	111,900	111,900	111,900	111,900
Acc liability for post-retirement/-employment benefits	953,800	939,400	939,400	939,400	939,400
Regulatory liabilities and other removal costs	1,663,900	1,615,700	1,615,700	1,615,700	1,615,700
Asset retirement obligations	146,400	149,700	149,700	149,700	149,700
Other noncurrent liabilities	244,700	242,100	242,100	242,100	242,100
Total Other Liabilities and Deferred Credits	12,064,600	12,641,800	12,641,800	12,641,800	12,641,800
Common stock	2,800	2,900	2,900	2,900	2,900
Additional paid-in capital	4,167,700	4,421,000	4,421,000	4,421,000	4,421,000
Retained earnings	917,000	982,239	1,156,164	1,354,735	1,578,660
Treasury stock	(30,500)	(59,000)	(59,000)	(59,000)	(59,000)
Accumulated other comprehensive loss	(59,700)	(40,500)	(40,500)	(40,500)	(40,500)
Total Common Stockholders' Equity	4,997,300	5,306,639	5,480,564	5,679,135	5,903,060
TOTAL CAPITALIZATION & LIABILITIES	20,708,300	21,287,139	21,943,278	22,584,427	23,070,450
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,653,300	8,176,566	8,645,234	9,099,929	9,426,918
Average Net Debt	7,642,950	8,136,861	8,606,280	9,071,662	9,345,673
Net Debt/ Total Book Capitalization	60.6%	61.2%	61.5%	61.9%	61.7%
Average Debt/ EBITDA	5.1x	5.0x	5.0x	4.9x	4.9x
Average Interest Rate	4.9%	5.2%	5.2%	5.1%	5.1%

Source: Company data, Morgan Stanley Research

July 31, 2012
NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
Cash from Operating Activities					
Net Income	299,100	401,661	457,980	491,148	525,280
Debt: Gain Early Extinguishment / Amort Disc.+Premium	53,900	2,300	-	-	-
Depreciation and Amortization	538,200	579,143	594,073	637,898	651,111
Net Changes in Price Risk Mgmt A / L	38,100	(20,100)	-	-	-
Deferred: Inc. Tax/Credits; Revenues	180,900	128,900	-	-	-
Stock Compensation Expense	39,200	19,700	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	16,800	(3,100)	-	-	-
Income from Unconsolidated Affiliates	(13,700)	(14,900)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	4,700	1,200	-	-	-
AFUDC Equity	(2,400)	(3,000)	-	-	-
Dist. of Earnings Received from Equity Investee	18,800	21,900	-	-	-
Other	8,900	-	-	-	-
Changes in Assets and Liabilities:	(312,300)	(106,704)	(57,713)	(17,519)	(42,009)
Net cash from operating activities	870,200	1,006,999	994,341	1,111,527	1,134,382
Cash from Investing Activities					
Capital Expenditures	(1,125,200)	(1,400,000)	(1,260,000)	(1,200,000)	(1,000,000)
Insurance Recoveries	-	-	-	-	-
Proceeds from Disposition of Assets	9,400	2,200	-	-	-
Restricted Cash Deposits (Borrowings)	42,300	75,900	-	-	-
Contributions to Equity Investments	(6,400)	(7,600)	-	-	-
Other Investing Activities	(69,400)	(19,900)	-	-	-
Net cash from investing activities	(1,149,300)	(1,349,400)	(1,260,000)	(1,200,000)	(1,000,000)
Cash from Financing Activities					
Issuance of Long-Term Debt	890,000	991,400	-	-	-
Retirement/Repurchase of Long-Term Debt	(286,900)	(11,200)	-	-	-
Change in Short-Term Borrowings, Net	(23,100)	(533,468)	491,805	417,585	236,393
Issuance of Common Stock	24,400	230,000	-	-	-
Acquisition of Treasury Stock	(3,100)	(10,000)	-	-	-
Dividends Paid - Common Stock	(257,800)	(267,922)	(284,055)	(292,577)	(301,354)
Other	(62,100)	-	-	-	-
Net cash from financing activities	281,400	398,810	207,750	125,008	(64,961)
Net change in cash	2,300	56,409	(57,909)	36,535	69,421
Cash at beginning of period	9,200	11,500	67,909	10,000	46,535
Cash at end of period	11,500	67,909	10,000	46,535	115,956

Source: Company data, Morgan Stanley Research

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$4,910	\$18
Gas Transmission & Storage	5844	\$21
Electric Utility	3885	\$14
Utica	600	\$2
Value	\$15,239	\$54
Net Debt	(7,374)	(26)
Net Equity Value	\$7,865	\$28
Shares Outstanding (in m)		280

GAS DISTRIBUTION

Forward EBITDA (2012E)	\$578
Forward multiple	8.5x
Enterprise value	\$4,910

GAS TRANSMISSION & STORAGE

Forward EBITDA (2012E)	\$584
Forward multiple	10.0x
Enterprise value	\$5,844


ELECTRIC UTILITY

Forward EBITDA (2012E)	\$457
Forward multiple	8.5x
Enterprise value	\$3,885

Utica

Acres	\$150,000
\$/acre	4,000
Enterprise value	\$600

Source: Company data, Morgan Stanley Research ■

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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Equal-weight/Hold	1252	42%	478	43%	38%
Not-Rated/Hold	108	4%	33	3%	31%
Underweight/Sell	458	15%	119	11%	26%
Total	2,957		1104		

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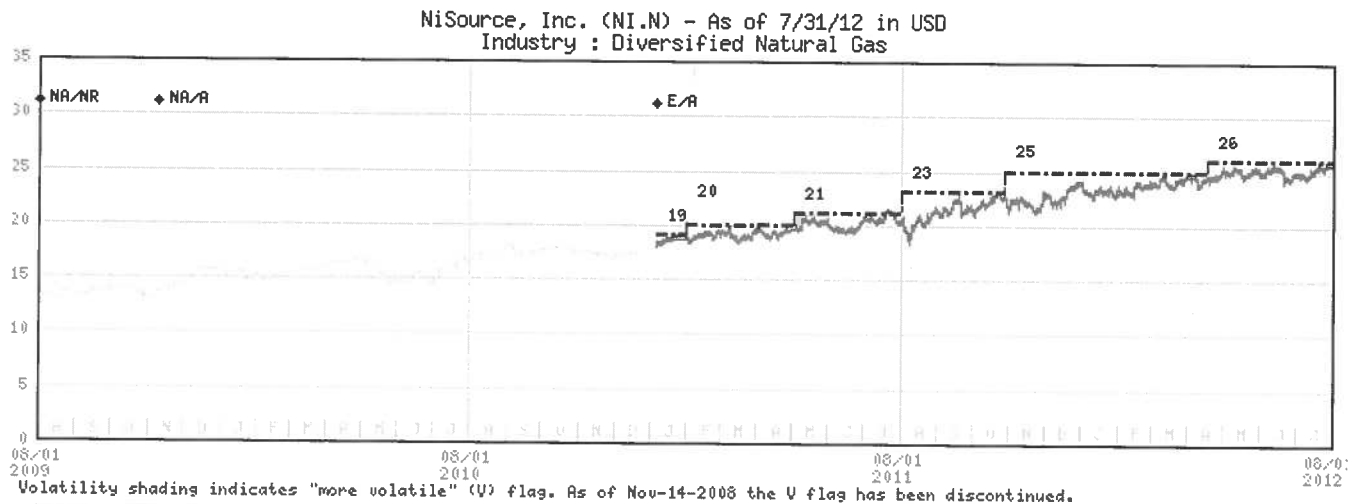
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Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target == No Price Target Assigned (NA)
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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (07/30/2012)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$21.19
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$22.56
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$49.45
NiSource, Inc. (NI.N)	E (01/06/2011)	\$25.63
Oneok Inc. (OKE.N)	O (11/15/2011)	\$45.35
Questar Corp. (STR.N)	U (10/29/2010)	\$20.62
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$30.84
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$31.76

Stock Ratings are subject to change. Please see latest research for each company.
 * Historical prices are not split adjusted.

November 2, 2012

NiSource, Inc.

Making Infrastructure Inroads

NI's 3Q was in line with estimates and 2012 EPS guidance was reaffirmed at \$1.40 – 1.50 (MS at \$1.43). We retain our Equal-weight rating and \$28 target on NI shares and believe the stock has an attractive risk/reward profile.

3Q12 results: NI reported operating earnings of \$0.05 vs. MS / Consensus estimates of \$0.04 / \$0.04.

Going forward, we estimate earnings growth of 8-9% in 2013 and 2014 and implied Utica project value of \$2 – 4 / share. Upcoming drivers for the stock will be execution on its plethora of midstream and infrastructure opportunities along with its upstream Utica joint venture initiatives (\$1.5 – 1.8b in total annual capital investment plan). NI maintained its dividend at \$0.96/shr, a 4.3% y/y increase (we expect 4 – 5% increases annually), and now trades at an attractive current yield of 3.8% vs. our diversified gas group at 3.5%. On a multiples basis, NI trades at 10.0x 2013 EV/EBITDA and 16.6x P/E, compared to peers, (excluding general partners) at 8.1x and 17.4x.

Solid segment results. Electric Operations EBIT increased to \$77.7m vs. \$72.9m in 2011 due to increased margins. Gas Distribution Operations EBIT increased to \$15.5m from \$8.0m in 2011. Net revenues increased by \$12.5m due to the impact of increased service programs and new rates. Gas Transmission and Storage Operations EBIT decreased to \$38.8m from \$68.2m y/y, primarily due to the impact of the Columbia Gas Transmission customer settlement (one time event). Equity earnings increased \$4.5m from Millennium Pipeline. *Please see variance table page 3.*

Positively levered to the northeast build out. Pipeline modernization (\$300m / year), Marcellus/Utica infrastructure (\$1 – 2b in total currently), and a self funded Utica minerals arrangement are just some examples of the fuel that should support a multi-year 5 – 7% earnings growth rate (MSe at 8-9% in 2013 and 2014). We look for further project identification and more Utica drilling results to keep the wind at NI's back for 2013.

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Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$28.00
Shr price, close (Nov 1, 2012)	\$25.45
Mkt cap, curr (mm)	\$8,143
52-Week Range	\$26.15-21.17

Fiscal Year ending	12/11	12/12e	12/13e	12/14e
ModelWare EPS (\$)	1.29	1.43	1.56	1.69
Prior ModelWare EPS (\$)	1.33	1.42	1.62	1.70
P/E	18.5	17.8	16.3	15.1
Consensus EPS (\$)§	1.35	1.45	1.57	1.67
EBITDA (\$mm)**	1,495	1,636	1,709	1,830
EV/EBITDA**	9.8	9.9	10.1	9.9
Div yld (%)	3.9	3.7	3.9	4.1
Div per shr (\$)	0.92	0.95	0.99	1.03
Shrs out, diluted, avg (mm)	289	306	312	312

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

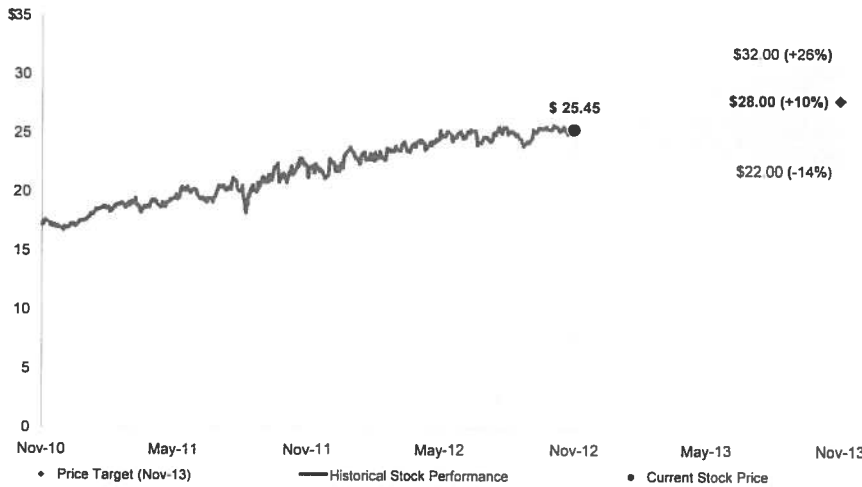
** = Based on consensus methodology
e = Morgan Stanley Research estimates

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NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target \$28		Derived from base case average of four valuation methodologies
Bull Case \$32	10x GT&S '13e EBITDA, 8.5x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$28	9.0x GT&S '13e EBITDA, 8.0x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case \$22	8x GT&S '13e EBITDA, 7x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$5,378	\$19
Gas Transmission & Storage	4,624	17
Electric Utility	4,307	15
Utica	800	3
Value per Share	\$15,108	\$54
Net Debt	(7,374)	(26)
Net Equity Value	\$7,734	\$28
Shares Outstanding (in mm)		280

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 3-5% annual growth.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong (Risks to Our Price Target)

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Exhibit 1
Earnings Results and Preview
NiSource Inc.

(amounts in 000s, except per unit)

	Actual 3Q11	Actual 3Q12	A / A % chg	MS 3Q12E	A / E % chg	MS 4Q12E
Operating Revenues						
Gas Distribution	326,500	225,800	-30.8%	458,396	-50.7%	782,129
Gas Transportation and Storage	283,300	278,200	-1.8%	239,232	16.3%	219,529
Electric	398,700	412,100	3.4%	433,225	-4.9%	346,199
Other	15,300	45,800		-		-
Total operating revenues	1,023,800	961,900	-6.0%	1,130,853	-14.9%	1,347,856
Operating Expenses						
Cost of Sales	285,000	229,300	-19.5%	332,197	-31.0%	359,934
Operation and maintenance	406,300	422,400	4.0%	480,767	-12.1%	467,574
Depreciation and amortization	134,900	125,900	-6.7%	143,313	-12.2%	121,002
Other taxes	59,100	62,200	5.2%	63,430	-1.9%	79,877
Total operating expenses	885,300	839,800	-5.1%	1,019,707	-17.6%	1,028,387
Equity Earnings (Loss) in Uncon. Affiliates	3,500	8,000	128.6%	8,925	-10.4%	8,040
EBIT	142,000	130,100	-8.4%	120,072	8.4%	327,509
EBITDA	276,900	256,000	-7.5%	263,385	-2.8%	448,511
Interest expense, net	(95,700)	(107,900)	12.7%	(108,136)	-0.2%	(109,242)
Other income	1,600	2,200		2,800		3,000
Total other income and expenses	(94,100)	(105,700)	12.3%	(105,336)	0.3%	(106,242)
Earnings From Cont. Oper. Bef. Inc. Taxes	47,900	24,400	-49.1%	14,736	65.6%	221,267
Income tax (provision)	14,800	8,600	-41.9%	4,374	96.6%	80,302
Net Income (Operating)	33,100	15,800	-52.3%	10,362	52.5%	140,965
Average # of Shares Outstanding	289,000	300,000	3.8%	284,977	5.3%	305,882
Net Income per Share (Operating)	\$ 0.11	\$ 0.05		\$ 0.04		\$ 0.46
Net Income per Share (GAAP)	\$ 0.12	\$ 0.07		\$ 0.04		\$ 0.46
Segment Data						
Gas Distribution (MMDth)						
Residential	13.8	15.4	11.6%	13.1	17.5%	69.7
Commercial	17.6	19.7	11.9%	17.6	11.9%	46.7
Industrial	102.5	119.2	16.3%	115.3	3.4%	127.3
Off System	14.4	16.0	11.1%	13.0	23.5%	9.7
Other	-	-	na	0.1	na	-
Gas Transmission & Storage (MMDth)						
Columbia Transmission	184.6	189.1	2.4%	193.8	-2.4%	301.4
Columbia Gulf	270.3	205.9	-23.8%	250.0	-17.6%	206.1
Crossroads Gas Pipeline	4.0	3.3	-17.5%	4.2	-21.4%	3.3
Intrasegment eliminations	(124.2)	(86.1)	-30.7%	(138.7)	-37.9%	(130.1)
Electric Operations (Gigawatt Hours)						
Residential	1,120.7	1,118.7	-0.2%	1,232.8	-9.3%	764.2
Commercial	1,083.7	1,071.1	-1.2%	1,116.2	-4.0%	920.5
Industrial	2,242.0	2,247.9	0.3%	2,286.8	-1.7%	2,292.5
Wholesale	239.9	157.9	-34.2%	72.0	119.4%	95.0
Other	39.7	26.7	-32.7%	29.8	-10.3%	29.7

Net revenues declined, primarily attributable to the Columbia Gas Transmission customer settlement, partially offset by higher demand margin revenue as a result of growth projects placed in service.

Ni reaffirmed its 2012 EPS guidance of \$1.40-\$1.50

Source: Company data, Morgan Stanley Research

November 2, 2012

NiSource, Inc.

Exhibit 2

NI Income Statement

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
Net Revenues					
Gas Distribution	2,927,700	2,206,329	2,688,528	2,767,173	2,897,460
Gas Transportation and Storage	1,297,400	1,263,229	1,028,189	1,114,946	1,203,626
Electric	1,477,800	1,482,699	1,613,015	1,675,433	1,741,236
Other	92,800	95,800	-	-	-
Total Net Revenues	5,795,700	5,048,056	5,329,732	5,557,553	5,842,323
Operating Costs					
Cost of Sales	2,334,100	1,458,634	1,422,207	1,461,741	1,517,356
Operation and maintenance	1,688,100	1,690,174	1,918,384	1,979,389	2,109,388
Depreciation and amortization	542,800	541,002	500,384	542,744	555,930
Other taxes	293,300	295,277	316,356	326,401	345,711
Total Operating Costs	4,858,300	3,985,087	4,157,331	4,310,274	4,528,385
Equity Earnings (Loss) in Uncon. Affiliates	14,600	32,240	36,271	40,301	41,318
EBIT	952,000	1,095,209	1,208,672	1,287,580	1,355,256
EBITDA	1,494,800	1,636,211	1,709,056	1,830,323	1,911,186
Other income					
Interest expense, net	(376,800)	(423,642)	(458,900)	(472,977)	(517,564)
Other income	(7,300)	9,000	-	-	-
Inc. from continuing operations bef inc. taxes	567,900	680,567	749,772	814,603	837,691
Income tax (provision)	195,700	242,702	262,906	287,914	295,050
Operating Net income (Loss)	372,200	437,865	486,866	526,689	542,641
Net Income per Share (Operating)	\$1.29	\$1.43	\$1.56	\$1.69	\$1.74
Net Income per Share (GAAP)	\$1.03	\$1.39	\$1.56	\$1.69	\$1.74
Weighted Avg Diluted Units Outstanding	288,500	305,882	311,765	311,765	311,765
Dividends per share	0.92	0.95	0.99	1.03	1.08

Source: Company data, Morgan Stanley Research

Exhibit 3

NI Operating Data

	2011	2012E	2013E	2014E	2015E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	254.5	216.3	220.6	222.8	227.3
Commercial	168.6	152.8	157.4	162.1	167.0
Industrial	431.7	491.9	496.9	501.8	506.8
Off System	62.5	56.4	56.4	57.5	58.7
Other	0.5	0.2	-	-	-
Total Sales and Transports	917.8	917.6	931.3	944.3	959.8
Weather Adjustment	(5.6)	52.3	-	-	-
Sales and Transport Vols — Excluding Weather	912.2	969.9	931.3	944.3	959.8
<i>y/y change</i>	2.6%	6.3%	-4.0%	1.4%	1.6%
Sales Price (\$ / Dth)	\$3.85	\$2.82	\$2.89	\$2.93	\$3.02
<i>y/y change</i>	-7.0%	-26.7%	2.4%	1.5%	3.0%
COGS Price (\$ / Dth)	\$2.10	\$1.08	\$0.89	\$0.90	\$0.93
<i>y/y change</i>	-9.5%	-48.5%	-17.3%	0.8%	3.4%
Gross Margin (\$ / Dth)	\$1.74	\$1.74	\$1.99	\$2.03	\$2.09
<i>y/y change</i>	-3.8%	-0.4%	14.6%	1.8%	2.9%
 GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,117.5	1,080.3	1,183.9	1,243.1	1,305.2
Columbia Gulf	1,048.0	875.9	937.0	983.9	1,033.1
Crossroads Gas Pipeline	18.7	15.0	16.1	16.4	16.8
Total throughput	2,184.2	1,971.2	2,137.0	2,243.4	2,355.1
Intrasegment eliminations	(548.5)	(444.7)	(553.0)	(556.5)	(573.7)
Total third-party throughput	1,635.7	1,526.5	1,584.0	1,686.9	1,781.4
<i>y/y change</i>	17.0%	-6.7%	3.8%	6.5%	5.6%
Tariff (\$ / Dth)	\$0.47	\$0.42	\$0.45	\$0.47	\$0.50
<i>y/y change</i>	-8.9%	-10.7%	5.9%	5.1%	5.0%
 ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,526.5	3,525.3	3,707.9	3,782.1	3,857.7
Commercial	3,886.5	3,875.8	3,970.7	4,050.1	4,131.1
Industrial	9,257.6	9,257.4	9,501.0	9,691.1	9,884.9
Wholesale	651.6	327.9	383.6	391.2	399.1
Other	165.5	114.8	85.3	57.4	38.6
Total sales	17,487.7	17,101.2	17,648.6	17,971.9	18,311.4
Weather Adjustment	(101.1)	(160.8)	-	-	-
Total sales volumes — Adj. for weather impacts	17,386.6	16,940.4	17,648.6	17,971.9	18,311.4
<i>y/y change</i>	5.3%	-2.6%	4.2%	1.8%	1.9%
Revenue (\$ / Gigawatt hour)	\$82.19	\$87.86	\$91.40	\$93.23	\$95.09
<i>y/y change</i>	-1.9%	6.9%	4.0%	2.0%	2.0%
COGS (\$ / Gigawatt hour)	\$31.56	\$30.16	\$33.36	\$33.94	\$33.99
<i>y/y change</i>	2.5%	-4.5%	10.6%	1.7%	0.1%
Gross Margin (\$ / Gigawatt hour)	\$50.63	\$57.70	\$58.04	\$59.28	\$61.10
<i>y/y change</i>	-4.5%	14.0%	0.6%	2.1%	3.1%

Source: Company data, Morgan Stanley Research

Exhibit 4

NI Balance Sheet

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
ASSETS					
Cash and cash equivalents	11,500	10,000	10,000	10,000	10,000
Restricted cash	160,600	65,100	65,100	65,100	65,100
Accounts receivable	854,800	797,455	861,208	875,863	923,147
Income tax receivable	900	56,000	56,000	56,000	56,000
Gas inventory	427,600	220,493	229,682	261,475	257,813
Regulatory assets	169,700	190,600	190,600	190,600	190,600
Other	261,800	280,800	280,800	280,800	280,800
Total Current Assets	2,248,200	1,942,947	2,015,890	2,062,339	2,105,960
Net Property, Plant and Equipment	11,800,100	12,826,498	13,926,114	14,983,370	16,027,440
Unconsolidated affiliates	204,700	215,700	215,700	215,700	215,700
Other investments	150,900	196,000	196,000	196,000	196,000
Price risk management assets	188,700	72,100	72,100	72,100	72,100
Regulatory assets	1,978,200	1,870,300	1,870,300	1,870,300	1,870,300
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	297,600	289,400	289,400	289,400	289,400
Deferred charges, Postretirement, other	162,400	136,200	136,200	136,200	136,200
TOTAL ASSETS	20,708,300	21,226,645	22,399,204	23,502,909	24,590,600
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	327,300	823,300	823,300	823,300	823,300
Short-term borrowings	1,359,400	454,534	1,335,741	2,225,457	3,091,309
Accounts payable	434,800	291,358	304,897	314,687	330,398
Dividends payable	-	74,300	74,300	74,300	74,300
Customer deposits and credits	313,600	263,600	263,600	263,600	263,600
Taxes accrued	220,900	172,000	172,000	172,000	172,000
Interest accrued	111,900	82,900	82,900	82,900	82,900
Price risk management liabilities	167,800	110,200	110,200	110,200	110,200
Exchange gas payable	168,200	124,700	124,700	124,700	124,700
Deferred revenue	10,100	30,900	30,900	30,900	30,900
Regulatory liabilities	112,000	171,100	171,100	171,100	171,100
Acc liab for post-retirement / -employment benefits	26,600	26,600	26,600	26,600	26,600
Other accruals	301,000	232,700	232,700	232,700	232,700
Total Current Liabilities	3,646,400	2,947,592	3,842,338	4,741,845	5,623,407
Long-term debt, excl amounts due within one year	6,267,100	6,819,700	6,819,700	6,819,700	6,819,700
Price risk management liabilities	138,900	32,900	32,900	32,900	32,900
Deferred income taxes	2,541,900	2,758,500	2,758,500	2,758,500	2,758,500
Deferred inc. taxes, credits, other	107,900	111,800	111,800	111,800	111,800
Acc liability for post-retirement/-employment benefits	953,800	939,700	939,700	939,700	939,700
Regulatory liabilities and other removal costs	1,663,900	1,617,100	1,617,100	1,617,100	1,617,100
Asset retirement obligations	146,400	152,000	152,000	152,000	152,000
Other noncurrent liabilities	244,700	269,000	269,000	269,000	269,000
Total Other Liabilities and Deferred Credits	12,064,600	12,700,700	12,700,700	12,700,700	12,700,700
Common stock	2,800	3,100	3,100	3,100	3,100
Additional paid-in capital	4,167,700	4,679,300	4,779,300	4,779,300	4,779,300
Retained earnings	917,000	993,253	1,171,066	1,375,264	1,581,393
Treasury stock	(30,500)	(40,500)	(40,500)	(40,500)	(40,500)
Accumulated other comprehensive loss	(59,700)	(56,800)	(56,800)	(56,800)	(56,800)
Total Common Stockholders' Equity	4,997,300	5,578,353	5,856,166	6,060,364	6,266,493
TOTAL CAPITALIZATION & LIABILITIES	20,708,300	21,226,645	22,399,204	23,502,909	24,590,600
CONSOLIDATED DEBT METRICS					
Average Total Debt	7,653,300	8,025,667	8,538,138	9,423,599	10,301,383
Average Net Debt	7,642,950	8,014,917	8,528,138	9,413,599	10,291,383
Net Debt/ Total Book Capitalization	60.6%	60.3%	59.9%	61.2%	62.5%
Average Debt/ EBITDA	5.1x	4.9x	5.0x	5.1x	5.4x
Average Interest Rate	4.9%	5.3%	5.4%	5.0%	5.0%

Source: Company data, Morgan Stanley Research

November 2, 2012

NiSource, Inc.

Exhibit 5

NI Cash Flow Statement

(amounts in thousands, except per unit data)

	2011	2012E	2013E	2014E	2015E
Cash from Operating Activities					
Net Income	299,100	423,065	486,866	526,689	542,641
Debt: Gain Early Extinguishment / Amort Disc.+Premium	53,900	-	-	-	-
Depreciation and Amortization	538,200	541,102	500,384	542,744	555,930
Net Changes in Price Risk Mgmt A / L	38,100	(19,400)	-	-	-
Deferred: Inc. Tax/Credits; Revenues	180,900	140,100	-	-	-
Stock Compensation Expense	39,200	33,000	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	16,800	(3,800)	-	-	-
Income from Unconsolidated Affiliates	(13,700)	(22,900)	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	4,700	(200)	-	-	-
AFUDC Equity	(2,400)	(4,700)	-	-	-
Dist. of Earnings Received from Equity Investee	18,800	25,100	-	-	-
Other	8,900	9,400	-	-	-
Changes in Assets and Liabilities:	(312,300)	(32,289)	(59,404)	(36,658)	(27,911)
Net cash from operating activities	870,200	1,088,478	927,847	1,032,775	1,070,660
Cash from Investing Activities					
Capital Expenditures	(1,125,200)	(1,429,100)	(1,600,000)	(1,600,000)	(1,600,000)
Insurance Recoveries	-	3,000	-	-	-
Proceeds from Disposition of Assets	9,400	23,600	-	-	-
Restricted Cash Deposits (Borrowings)	42,300	95,800	-	-	-
Contributions to Equity Investments	(6,400)	(11,300)	-	-	-
Other Investing Activities	(69,400)	(38,100)	-	-	-
Net cash from investing activities	(1,149,300)	(1,356,100)	(1,600,000)	(1,600,000)	(1,600,000)
Cash from Financing Activities					
Issuance of Long-Term Debt	890,000	991,400	-	-	-
Retirement/Repurchase of Long-Term Debt	(286,900)	(11,600)	-	-	-
Change in Short-Term Borrowings, Net	(23,100)	(904,466)	881,207	889,716	865,852
Issuance of Common Stock	24,400	476,400	100,000	-	-
Acquisition of Treasury Stock	(3,100)	(10,000)	-	-	-
Dividends Paid - Common Stock	(257,800)	(272,212)	(309,054)	(322,491)	(336,512)
Other	(62,100)	(3,400)	-	-	-
Net cash from financing activities	281,400	266,122	672,153	567,225	529,340
Net change in cash	2,300	(1,500)	-	-	-
Cash at beginning of period	9,200	11,500	10,000	10,000	10,000
Cash at end of period	11,500	10,000	10,000	10,000	10,000

Source: Company data, Morgan Stanley Research

Exhibit 6

NI Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$5,378	\$19
Gas Transmission & Storage	4624	\$17
Electric Utility	4307	\$15
Utica	800	\$3
Value	\$15,108	\$54
Net Debt	(7,374)	(26)
Net Equity Value	\$7,734	\$28
Shares Outstanding (in m)		280

GAS DISTRIBUTION

Forward EBITDA (2013E)	\$672
Forward multiple	8.0x
Enterprise value	\$5,378

GAS TRANSMISSION & STORAGE

Forward EBITDA (2013E)	\$544
Forward multiple	8.5x
Enterprise value	\$4,624

ELECTRIC UTILITY


Forward EBITDA (2013E)	\$479
Forward multiple	9.0x
Enterprise value	\$4,307

Utica

Acres	\$100,000
\$/acre	8,000
Enterprise value	\$800

Source: Company data, Morgan Stanley Research ■

November 2, 2012
 NiSource, Inc.

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of October 31, 2012)

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Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1085	37%	446	40%	41%
Equal-weight/Hold	1288	43%	504	46%	39%
Not-Rated/Hold	109	4%	31	3%	28%
Underweight/Sell	481	16%	121	11%	25%
Total	2,963		1102		

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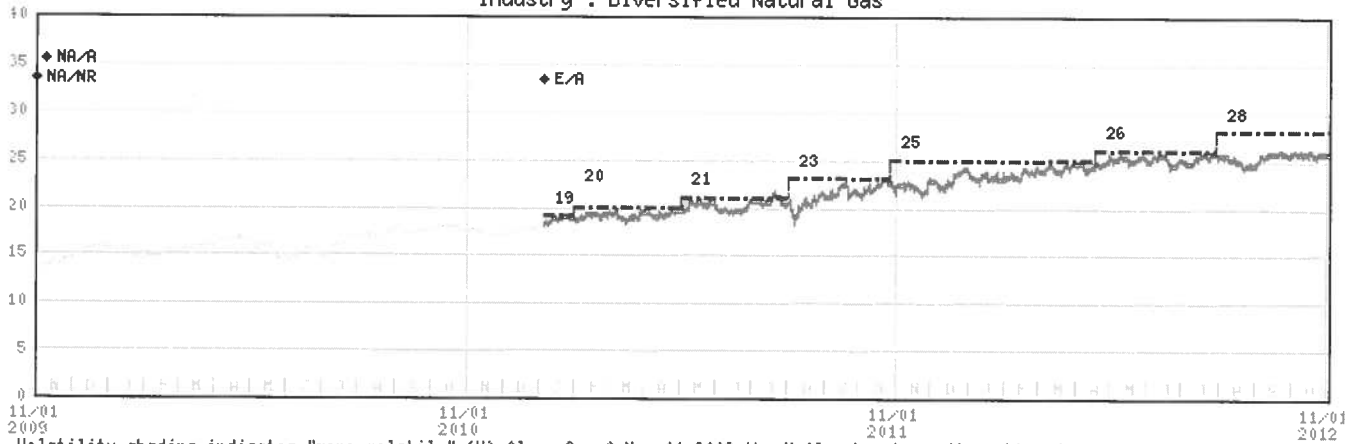
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Stock Price, Price Target and Rating History (See Rating Definitions)

NiSource, Inc. (NI.N) - As of 11/2/12 in USD
Industry : Diversified Natural Gas



Stock Rating History: 11/1/09 : NA/NR; 11/10/09 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
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November 2, 2012

NiSource, Inc.

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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (11/01/2012)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$21.74
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$21.72
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$53.79
NiSource, Inc. (NI.N)	E (01/06/2011)	\$25.45
Oneok Inc. (OKE.N)	O (11/15/2011)	\$46.77
Questar Corp. (STR.N)	U (10/29/2010)	\$20.42
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$28.65
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$33.69

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 * Historical prices are not split adjusted.

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Stock Rating
Equal-weight
Industry View
Attractive

February 19, 2013

NiSource, Inc. Dependable Growth Getting Priced into Stock

NI's 4Q was in line with estimates and new 2013 EPS guidance of \$1.50-1.60 (MSe prior \$1.56) was consistent with previous 5-7% EPS growth guidance. We retain our Equal-weight rating (\$29 target; up from \$28, \$32 Bull case).

4Q12 results: NI reported operating earnings of \$0.44 vs. MS / Consensus estimates of \$0.46 / \$0.43. After solid share performance in 2012 (+13%) and 2013 (+10%), we believe the market is pricing in more of NI's opportunity set and we would look to get more aggressive on price pullbacks. 4Q demonstrated expected solid execution as NI continues to capitalize on its well positioned midstream asset base and improved utility profile. However, we expect share price appreciation to be a slower grind from here with NI largely in execution mode. NI initiated 2013 EPS guidance of \$1.50-1.60 (MSe at \$1.56 now) and a capital budget of \$1.8b. Upcoming drivers for the stock will be execution of midstream and infrastructure opportunities along with its upstream Utica JV initiatives. NI does not trade cheaply at 10.2x 2013 EV/EBITDA and 17.2x P/E (MSe sum of the parts value is \$29).

Solid segment results. Electric Operations EBIT increased to \$51.6m vs. \$42.9m yoy due to increased margins. Gas Distribution Operations EBIT decreased to \$133.6m from \$141.4m in 2011 due to higher costs. Gas Transmission and Storage Operations EBIT increased to \$128.8m from \$89.0m y/y as the Columbia customer settlement and lower midstream revenues were offset by lower costs. Equity earnings increased \$2.2m from Millennium Pipeline.

Positively levered to the northeast build out. Pipeline modernization (\$300m / year), Marcellus/Utica infrastructure (\$1-2b in total currently), and a self funded Utica minerals arrangement are just some examples of the fuel that should support a multi-year 5 – 7% earnings growth rate (MSe at ~7% CAGR through 2015). We look for further project identification and more Utica drilling results before revisiting our risk-reward.

Key Ratios and Statistics

Reuters: NI.N Bloomberg: NI US
Diversified Natural Gas / United States of America

Price target	\$29.00
Shr price, close (Feb 15, 2013)	\$26.78
Mkt cap, curr (mm)	\$8,551
52-Week Range	\$27.31-22.71

Fiscal Year ending	12/12	12/13e	12/14e	12/15e
ModelWare EPS (\$)	1.44	1.56	1.67	1.79
Prior ModelWare EPS (\$)	1.43	1.56	1.68	1.80
P/E	17.3	17.2	16.0	15.0
Consensus EPS (\$)	1.45	1.55	1.67	1.75
EBITDA (\$mm)**	1,645	1,739	1,868	1,977
EV/EBITDA**	9.7	10.1	9.9	9.7
Div yld (%)	3.8	3.7	3.9	4.0
Div per shr (\$)	0.95	0.99	1.03	1.08
Shrs out, diluted, avg (mm)	300	311	311	311

Unless otherwise noted, all metrics are based on Morgan Stanley ModelWare framework (please see explanation later in this note).

§ = Consensus data is provided by Thomson Reuters Estimates.

** = Based on consensus methodology

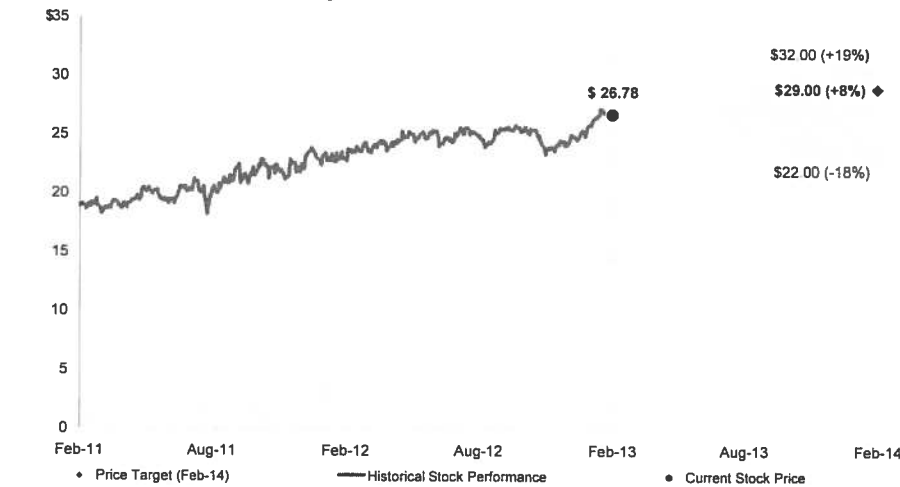
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NiSource (NI, Equal-weight)

Risk-Reward View: Strong Marcellus + Utica Midstream Potential



Source: ThomsonOne; Morgan Stanley Research

Price Target \$29 Derived from base case average of four valuation methodologies

Bull Case \$32	11x GT&S '13e EBITDA, 9.0x Electric EBITDA	Increasing Marcellus/Utica market share and utilities outperform. NI gains larger Appalachian market share than anticipated from new production, fostering additional capital spend in the GT&S segment. Utica potential exceeds expectations.
Base Case \$29	10.0x GT&S '13e EBITDA, 9.0x Electric EBITDA	Executing on Marcellus opportunities with a modest recovery in utility segments. NI places Marcellus growth projects on budget and on time. Industrial electric generation deliveries continue to stabilize/slightly recover.
Bear Case \$22	9x GT&S '13e EBITDA, 8x Electric EBITDA	Marcellus opportunities fail to materialize. Marcellus regulation issues persist, prolonging development. The required infrastructure projects are delayed causing NI to push back expansions.

Sum-of-the-Parts Breakdown (one part of price target methodology)

NiSource Inc.	Value (\$ m)	\$/Share
Gas Distribution	\$5,956	\$19
Gas Transmission & Storage	5,669	18
Electric Utility	4,475	14
Utica	750	2
Value per Share	\$16,850	\$54
Net Debt	(7,961)	(26)
Net Equity Value	\$8,889	\$29
Shares Outstanding (in mm)		311

Source: Morgan Stanley Research

Why Equal-weight?

- Restored earnings power at regulated utilities segments
- Numerous midstream opportunities surrounding its existing pipeline systems in the Marcellus + Utica provide exceptional long-term value, but also come with it increased capex and possibly heated competition.
- Stock trades closer to fair value on multiples basis (excluding potential uplift from Utica acreage).

Key Value Drivers

- Executing Marcellus + Utica midstream projects on time and below budget
- Execution on its regulatory agenda (e.g., infrastructure modernization plan, filing rate cases, implementing trackers / cost recovery mechanisms).
- Stable dividend with potential 3-5% annual growth.

Potential Catalysts

- Updates related to rate case settlements approval by regulatory bodies.
- Announcement of additional Marcellus or Utica project or acquisition beyond those included in guidance.

Where We Could Be Wrong

- Regulatory risks associated with Marcellus and/or Utica drilling puts a hold on midstream project expansions.
- Economic recovery remains prolonged, negatively affecting electric deliveries (especially to industrial customers).
- Rate cases return with unfavorable outcomes.

Exhibit 1

NI: Earnings Results and Preview

(amounts in 000s, except per unit)

	Actual 4Q11	Actual 4Q12	A / A % chg	MS 4Q12E	A / E % chg	MS 1Q13E
Operating Revenues						
Gas Distribution	730,900	582,200	-20.3%	782,129	-25.6%	1,022,506
Gas Transportation and Storage	361,000	418,700	16.0%	219,529	90.7%	326,345
Electric	329,600	361,000	9.5%	346,199	4.3%	400,118
Other	29,200	37,800		-		-
Total operating revenues	1,450,700	1,399,700	-3.5%	1,347,856	3.8%	1,748,970
Operating Expenses						
Cost of Sales	545,600	426,500	-21.8%	359,934	18.5%	460,043
Operation and maintenance	449,300	452,000	0.6%	467,574	-3.3%	593,571
Depreciation and amortization	134,500	143,900	7.0%	121,002	18.9%	140,621
Other taxes	74,200	72,400	-2.4%	79,877	-9.4%	105,963
Total operating expenses	1,203,600	1,094,800	-9.0%	1,028,387	6.5%	1,300,198
Equity Earnings (Loss) in Uncon. Affiliates	5,800	8,000	37.9%	8,040	-0.5%	9,500
EBIT	252,900	312,900	23.7%	327,509	-4.5%	458,272
EBITDA	387,400	456,800	17.9%	448,511	1.8%	598,893
Interest expense, net	(96,900)	(103,900)	7.2%	(109,242)	-4.9%	(104,575)
Other income	(12,800)	(3,600)		3,000		-
Total other income and expenses	(109,700)	(107,500)	-2.0%	(106,242)	1.2%	(104,575)
Earnings From Cont. Oper. Bef. Inc. Taxes	143,200	205,400	43.4%	221,267	-7.2%	353,697
Income tax (provision)	52,000	69,400	33.5%	80,302	-13.6%	123,843
Net Income (Operating)	91,200	136,000	49.1%	140,965	-3.5%	229,854
Average # of Shares Outstanding	281,400	311,300	10.6%	305,882	1.8%	311,300
Net Income per Share (Operating)	\$ 0.32	\$ 0.44		\$ 0.46		\$ 0.74
Net Income per Share (GAAP)	\$ 0.07	\$ 0.42		\$ 0.46		\$ 0.74
Segment Data						
Gas Distribution (MMDth)						
Residential	72.6	79.9	10.1%	69.7	14.6%	102.9
Commercial	46.7	50.1	7.3%	46.7	7.3%	61.2
Industrial	109.5	113.6	3.7%	127.3	-10.8%	131.3
Off System	10.2	14.8	45.1%	9.7	52.7%	13.5
Other	-	0.1	na	-	na	0.1
Gas Transmission & Storage (MMDth)						
Columbia Transmission	301.4	328.8	9.1%	301.4	9.1%	447.9
Columbia Gulf	270.6	213.2	-21.2%	206.1	3.4%	256.2
Crossroads Gas Pipeline	4.0	4.1	2.5%	3.3	24.2%	5.1
Intrasegment eliminations	(124.0)	(108.0)	-12.9%	(130.1)	-17.0%	(149.2)
Electric Operations (Gigawatt Hours)						
Residential	765.6	763.2	-0.3%	764.2	-0.1%	881.5
Commercial	931.3	907.8	-2.5%	920.5	-1.4%	943.4
Industrial	2,247.5	2,286.1	1.7%	2,292.5	-0.3%	2,515.7
Wholesale	144.4	17.8	-87.7%	95.0	-81.3%	68.4
Other	44.2	34.0	-23.1%	29.7	14.4%	44.5

NI initiated 2013 EPS guidance of \$1.50-\$1.60

Exhibit 2

NI Income Statement Income Statement

(amounts in thousands, except per unit data)

	2012	2013E	2014E	2015E	2016E
Net Revenues					
Gas Distribution	2,006,400	2,710,451	2,830,056	3,020,003	3,191,831
Gas Transportation and Storage	1,462,400	1,074,329	1,165,908	1,261,201	1,308,909
Electric	1,497,500	1,656,144	1,748,931	1,819,331	1,892,570
Other	133,600	-	-	-	-
Total Net Revenues	5,099,900	5,440,924	5,744,895	6,100,535	6,393,311
Operating Costs					
Cost of Sales	1,525,200	1,438,374	1,563,933	1,605,499	1,714,657
Operation and maintenance	1,674,600	1,981,997	2,025,311	2,204,738	2,276,133
Depreciation and amortization	563,900	566,717	614,778	628,501	643,851
Other taxes	287,800	320,325	327,553	354,568	369,296
Total Operating Costs	4,051,500	4,307,412	4,531,575	4,793,307	5,003,935
Equity Earnings (Loss) in Uncon. Affiliates	32,200	38,286	40,301	41,318	42,360
EBIT	1,080,600	1,171,798	1,253,621	1,348,546	1,431,735
EBITDA	1,644,500	1,738,515	1,868,399	1,977,047	2,075,586
Other income					
Interest expense, net	(418,300)	(428,280)	(453,807)	(496,034)	(536,571)
Other income	2,400	-	-	-	-
Inc. from continuing operations bef inc. taxes	664,700	743,518	799,814	852,512	895,164
Income tax (provision)	231,800	258,367	278,789	296,776	311,795
Operating Net income (Loss)	432,900	485,151	521,025	555,736	583,369
Net Income per Share (Operating)	\$1.44	\$1.56	\$1.67	\$1.79	\$1.87
Net Income per Share (GAAP)	\$1.38	\$1.56	\$1.67	\$1.79	\$1.87
Weighted Avg Diluted Units Outstanding	300,400	311,300	311,300	311,300	311,300
Dividends per share	0.95	0.99	1.03	1.08	1.13

Source: Company data, Morgan Stanley Research

Exhibit 3

NI Operating Data Operating Data

	2012	2013E	2014E	2015E	2016E
GAS DISTRIBUTION					
Sales and Transportation (MMDth):					
Residential	226.5	226.5	233.3	238.0	242.7
Commercial	156.2	156.2	160.9	165.7	170.7
Industrial	478.2	481.7	491.3	506.0	521.2
Off System	61.5	61.5	62.7	64.0	65.3
Other	0.3	0.4	0.4	0.4	0.4
Total Sales and Transports	922.7	926.3	948.6	974.1	1,000.3
Weather Adjustment	58.8	26.0	26.0	26.0	26.0
Sales and Transport Vols — Excluding Weather	981.5	952.3	974.6	1,000.1	1,026.3
<i>y/y change</i>	7.6%	-3.0%	2.3%	2.6%	2.6%
Sales Price (\$ / Dth)	\$2.79	\$2.85	\$2.90	\$3.02	\$3.11
<i>y/y change</i>	-27.5%	2.1%	2.0%	4.0%	3.0%
COGS Price (\$ / Dth)	\$1.19	\$0.88	\$0.96	\$0.97	\$1.01
<i>y/y change</i>	-43.2%	-26.1%	8.9%	0.7%	4.7%
Gross Margin (\$ / Dth)	\$1.59	\$1.96	\$1.94	\$2.05	\$2.10
<i>y/y change</i>	-8.6%	23.2%	-1.1%	5.6%	2.2%
 GAS TRANSMISSION & STORAGE					
Throughput (MMDth):					
Columbia Transmission	1,107.7	1,212.6	1,285.4	1,362.5	1,403.4
Columbia Gulf	883.0	944.5	1,001.1	1,061.2	1,093.0
Crossroads Gas Pipeline	15.8	16.6	17.1	17.6	18.1
Total throughput	2,006.5	2,173.7	2,303.6	2,441.4	2,514.6
Intrasegment eliminations	(422.6)	(551.5)	(556.3)	(573.4)	(612.0)
Total third-party throughput	1,583.9	1,622.2	1,747.3	1,867.9	1,902.6
<i>y/y change</i>	-3.2%	2.4%	7.7%	6.9%	1.9%
Tariff (\$ / Dth)	\$0.46	\$0.46	\$0.48	\$0.50	\$0.51
<i>y/y change</i>	-4.0%	0.9%	4.0%	4.0%	3.0%
 ELECTRIC OPERATIONS					
Sales (Gigawatt Hours):					
Residential	3,524.3	3,706.9	3,781.0	3,856.6	3,933.8
Commercial	3,863.1	3,957.8	4,037.0	4,117.7	4,200.1
Industrial	9,251.0	9,587.7	9,875.3	10,072.8	10,274.2
Wholesale	250.7	304.8	310.9	317.1	323.4
Other	119.1	131.1	131.1	131.1	131.1
Total sales	17,008.2	17,688.2	18,135.2	18,495.3	18,862.6
Weather Adjustment	(146.0)	-	-	-	-
Total sales volumes — Adj. for weather impacts	16,862.2	17,688.2	18,135.2	18,495.3	18,862.6
<i>y/y change</i>	-3.0%	4.9%	2.5%	2.0%	2.0%
Revenue (\$ / Gigawatt hour)	\$89.18	\$93.63	\$96.44	\$98.37	\$100.33
<i>y/y change</i>	8.5%	5.0%	3.0%	2.0%	2.0%
COGS (\$ / Gigawatt hour)	\$29.58	\$33.82	\$34.62	\$34.49	\$35.81
<i>y/y change</i>	-6.3%	14.3%	2.4%	-0.4%	3.8%
Gross Margin (\$ / Gigawatt hour)	\$59.60	\$59.81	\$61.82	\$63.87	\$64.52
<i>y/y change</i>	17.7%	0.4%	3.3%	3.3%	1.0%

Source: Company data, Morgan Stanley Research

Exhibit 4
NI Balance Sheet

Balance Sheet

(amounts in thousands, except per unit data)

	2012	2013E	2014E	2015E	2016E
ASSETS					
Cash and cash equivalents	36,300	20,000	20,000	20,000	20,000
Restricted cash	46,800	46,800	46,800	46,800	46,800
Accounts receivable	907,300	865,347	896,002	879,988	980,625
Income tax receivable	130,900	130,900	130,900	130,900	130,900
Gas inventory	326,600	293,407	353,169	346,211	379,491
Regulatory assets	162,800	162,800	162,800	162,800	162,800
Other	383,900	383,900	383,900	383,900	383,900
Total Current Assets	2,352,400	2,260,954	2,351,371	2,328,399	2,462,316
Net Property, Plant and Equipment	12,915,900	14,149,183	15,234,405	16,205,904	17,162,054
Unconsolidated affiliates	243,300	243,300	243,300	243,300	243,300
Other investments	194,400	194,400	194,400	194,400	194,400
Price risk management assets	56,000	56,000	56,000	56,000	56,000
Regulatory assets	2,024,400	2,024,400	2,024,400	2,024,400	2,024,400
Goodwill	3,677,300	3,677,300	3,677,300	3,677,300	3,677,300
Intangible assets	286,600	286,600	286,600	286,600	286,600
Deferred charges, Postretirement, other	94,400	94,400	94,400	94,400	94,400
TOTAL ASSETS	21,844,700	22,986,537	24,162,176	25,110,704	26,200,770
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current portion of long-term debt	507,200	507,200	507,200	507,200	507,200
Short-term borrowings	776,900	1,696,949	2,574,963	3,315,246	4,117,650
Accounts payable	538,900	484,131	582,740	571,259	626,172
Dividends payable	-	-	-	-	-
Customer deposits and credits	269,600	269,600	269,600	269,600	269,600
Taxes accrued	235,500	235,500	235,500	235,500	235,500
Interest accrued	133,700	133,700	133,700	133,700	133,700
Price risk management liabilities	95,200	95,200	95,200	95,200	95,200
Exchange gas payable	146,200	146,200	146,200	146,200	146,200
Deferred revenue	42,800	42,800	42,800	42,800	42,800
Regulatory liabilities	171,600	171,600	171,600	171,600	171,600
Acc liab for post-retirement / -employment benefits	6,100	6,100	6,100	6,100	6,100
Other accruals	309,700	309,700	309,700	309,700	309,700
Total Current Liabilities	3,301,600	4,166,879	5,143,503	5,872,305	6,729,622
Long-term debt, excl amounts due within one year	6,819,100	6,819,100	6,819,100	6,819,100	6,819,100
Price risk management liabilities	20,300	20,300	20,300	20,300	20,300
Deferred income taxes	2,953,300	2,953,300	2,953,300	2,953,300	2,953,300
Deferred inc. taxes, credits, other	108,900	108,900	108,900	108,900	108,900
Acc liability for post-retirement/-employment benefits	1,107,300	1,107,300	1,107,300	1,107,300	1,107,300
Regulatory liabilities and other removal costs	1,593,300	1,593,300	1,593,300	1,593,300	1,593,300
Asset retirement obligations	160,400	160,400	160,400	160,400	160,400
Other noncurrent liabilities	226,200	226,200	226,200	226,200	226,200
Total Other Liabilities and Deferred Credits	12,988,800	12,988,800	12,988,800	12,988,800	12,988,800
Common stock	3,100	3,100	3,100	3,100	3,100
Additional paid-in capital	4,597,600	4,697,600	4,697,600	4,697,600	4,697,600
Retained earnings	1,059,600	1,236,158	1,435,173	1,654,899	1,887,648
Treasury stock	(65,500)	(65,500)	(65,500)	(65,500)	(65,500)
Accumulated other comprehensive loss	(40,500)	(40,500)	(40,500)	(40,500)	(40,500)
Total Common Stockholders' Equity	5,554,300	5,830,858	6,029,873	6,249,599	6,482,348
TOTAL CAPITALIZATION & LIABILITIES	21,844,700	22,986,537	24,162,176	25,110,704	26,200,770

Source: Company data, Morgan Stanley Research
Exhibit 5

NI Cash Flow Statement

Cash Flow Statement

(amounts in thousands, except per unit data)

	2012	2013E	2014E	2015E	2016E
Cash from Operating Activities					
Net Income	416,100	485,151	521,025	555,736	583,369
Debt: Gain Early Extinguishment / Amort Disc.+Premium	9,700	-	-	-	-
Depreciation and Amortization	561,900	566,717	614,778	628,501	643,851
Net Changes in Price Risk Mgmt A / L	(18,500)	-	-	-	-
Deferred: Inc. Tax/Credits; Revenues	301,200	-	-	-	-
Stock Compensation Expense	45,000	-	-	-	-
Loss/(Gain) on Asset Sales / Impairments / Disc Opts	(3,800)	-	-	-	-
Income from Unconsolidated Affiliates	(30,900)	-	-	-	-
Disc. Operations: Loss/(Gain) on Disposition	5,700	-	-	-	-
AFUDC Equity	(10,600)	-	-	-	-
Dist. of Earnings Received from Equity Investee	34,900	-	-	-	-
Other	-	-	-	-	-
Changes in Assets and Liabilities:	(35,200)	20,377	8,192	11,490	(79,004)
Net cash from operating activities	1,275,500	1,072,245	1,143,996	1,195,727	1,148,216
Cash from Investing Activities					
Capital Expenditures	(1,498,800)	(1,800,000)	(1,700,000)	(1,600,000)	(1,600,000)
Insurance Recoveries	6,500	-	-	-	-
Proceeds from Disposition of Assets	25,600	-	-	-	-
Restricted Cash Deposits (Borrowings)	114,200	-	-	-	-
Contributions to Equity Investments	(20,400)	-	-	-	-
Other Investing Activities	(52,300)	-	-	-	-
Net cash from investing activities	(1,425,200)	(1,800,000)	(1,700,000)	(1,600,000)	(1,600,000)
Cash from Financing Activities					
Issuance of Long-Term Debt	991,400	-	-	-	-
Retirement/Repurchase of Long-Term Debt	(331,600)	-	-	-	-
Change in Short-Term Borrowings, Net	(582,200)	920,049	878,014	740,283	802,404
Issuance of Common Stock	383,500	100,000	-	-	-
Acquisition of Treasury Stock	(10,000)	-	-	-	-
Dividends Paid - Common Stock	(273,200)	(308,593)	(322,010)	(336,011)	(350,620)
Other	(3,400)	-	-	-	-
Net cash from financing activities	174,500	711,455	556,004	404,273	451,784
Net change in cash	24,800	(16,300)	-	-	-
Cash at beginning of period	11,500	36,300	20,000	20,000	20,000
Cash at end of period	36,300	20,000	20,000	20,000	20,000

Source: Company data, Morgan Stanley Research

Exhibit 6

Ni Sum of the Parts Valuation

NiSource Inc.	Value (\$m)	\$/Share
Gas Distribution	\$5,956	\$19
Gas Transmission & Storage	5669	\$18
Electric Utility	4475	\$14
Utica	750	\$2
Value	\$16,850	\$54
Net Debt	(7,961)	(26)
Net Equity Value	\$8,889	\$29
Shares Outstanding (in m)		311

GAS DISTRIBUTION

Forward EBITDA (2013E)	\$662
Forward multiple	9.0x
Enterprise value	\$5,956

GAS TRANSMISSION & STORAGE

Forward EBITDA (2013E)	\$567
Forward multiple	10.0x
Enterprise value	\$5,669


ELECTRIC UTILITY

Forward EBITDA (2013E)	\$497
Forward multiple	9.0x
Enterprise value	\$4,475

Utica

Acres	\$150,000
\$/acre	5,000
Enterprise value	\$750

Source: Company data, Morgan Stanley Research ■

	<p>Morgan Stanley ModelWare is a proprietary analytic framework that helps clients uncover value, adjusting for distortions and ambiguities created by local accounting regulations. For example, ModelWare EPS adjusts for one-time events, capitalizes operating leases (where their use is significant), and converts inventory from LIFO costing to a FIFO basis. ModelWare also emphasizes the separation of operating performance of a company from its financing for a more complete view of how a company generates earnings.</p>
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(as of January 31, 2013)

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February 19, 2013
 NiSource, Inc.

Stock Rating Category	Coverage Universe		Investment Banking Clients (IBC)		
	Count	% of Total	Count	% of Total IBC	% of Rating Category
Overweight/Buy	1040	36%	400	39%	38%
Equal-weight/Hold	1278	44%	483	47%	38%
Not-Rated/Hold	106	4%	27	3%	25%
Underweight/Sell	479	17%	108	11%	23%
Total	2,903		1018		

Data include common stock and ADRs currently assigned ratings. An investor's decision to buy or sell a stock should depend on individual circumstances (such as the investor's existing holdings) and other considerations. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months.

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Overweight (O). The stock's total return is expected to exceed the average total return of the analyst's industry (or industry team's) coverage universe, on a risk-adjusted basis, over the next 12-18 months.

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Unless otherwise specified, the time frame for price targets included in Morgan Stanley Research is 12 to 18 months.

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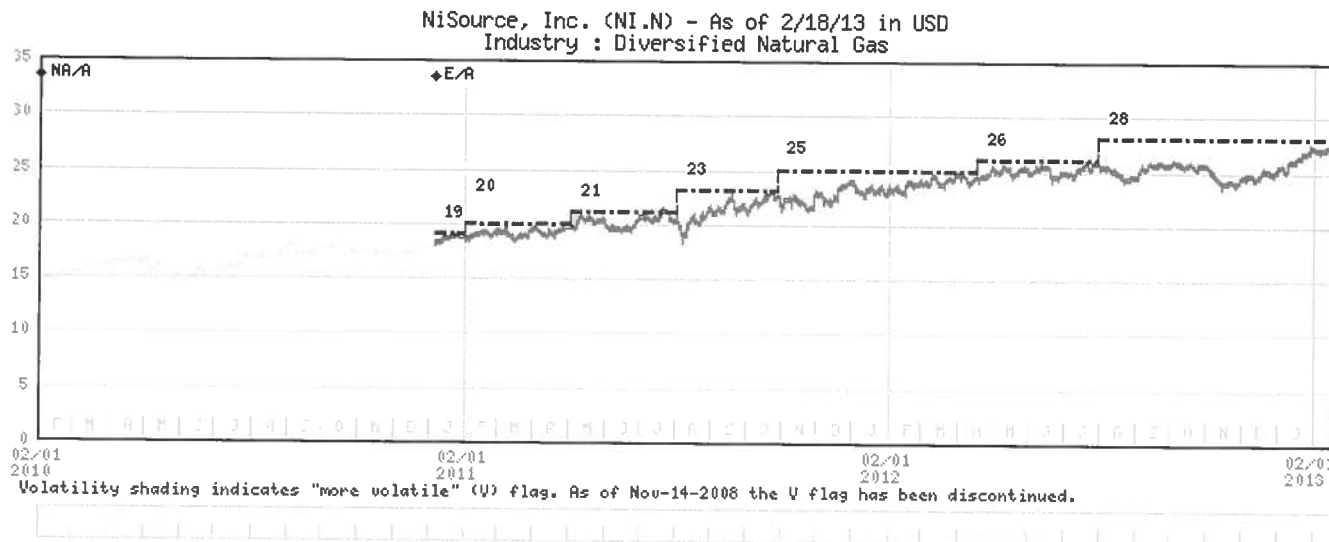
Attractive (A): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be attractive vs. the relevant broad market benchmark, as indicated below.

In-Line (I): The analyst expects the performance of his or her industry coverage universe over the next 12-18 months to be in line with the relevant broad market benchmark, as indicated below.

Cautious (C): The analyst views the performance of his or her industry coverage universe over the next 12-18 months with caution vs. the relevant broad market benchmark, as indicated below.

Benchmarks for each region are as follows: North America - S&P 500; Latin America - relevant MSCI country index or MSCI Latin America Index; Europe - MSCI Europe; Japan - TOPIX; Asia - relevant MSCI country index.

Stock Price, Price Target and Rating History (See Rating Definitions)



Stock Rating History: 2/1/10 : NA/A; 1/6/11 : E/A

Price Target History: 8/16/01 : NA; 1/6/11 : 19; 2/1/11 : 20; 5/3/11 : 21; 8/2/11 : 23; 10/28/11 : 25; 4/18/12 : 26; 7/31/12 : 28

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) Stock Price (Covered by Current Analyst) ■
 Stock and Industry Ratings (abbreviations below) appear as ♦ Stock Rating/Industry View
 Stock Ratings: Overweight (O) Equal-weight (E) Underweight (U) Not-Rated (NR) More Volatile (V) No Rating Available (NA)
 Industry View: Attractive (A) In-line (I) Cautious (C) No Rating (NR)

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February 19, 2013

NiSource, Inc.

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Industry Coverage: Diversified Natural Gas

Company (Ticker)	Rating (as of)	Price* (02/15/2013)
Stephen J. Maresca, CFA		
CenterPoint Energy, Inc (CNP.N)	E (11/15/2011)	\$20.41
MDU Resources Group, Inc. (MDU.N)	E (01/06/2011)	\$23.95
National Fuel Gas Co (NFG.N)	E (01/10/2012)	\$57.79
NiSource, Inc. (NI.N)	E (01/06/2011)	\$26.78
Oneok Inc. (OKE.N)	O (11/15/2011)	\$47.75
Questar Corp. (STR.N)	E (02/11/2013)	\$23.55
Spectra Energy Corp. (SE.N)	E (11/10/2009)	\$29.46
Williams Companies, Inc (WMB.N)	O (11/10/2009)	\$35.11

Stock Ratings are subject to change. Please see latest research for each company.
 * Historical prices are not split adjusted.

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Shale-gas infrastructure investment drives earnings growth.

Updated Forecasts and Estimates from 15 May 2012

Charles Fishman
 Stock Analyst
 charles.fishman@morningstar.com
 312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 16 May 2012
 Estimates as of 15 May 2012
 Pricing data through 15 May 2012
 Rating updated as of 15 May 2012

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst's Perspective 16 May 2012

NiSource's \$1 billion-plus annual capital spending program has good near-term visibility, and we estimate will provide 8% annual earnings growth during the next five years. NIPSCO, the company's regulated utility in northern Indiana, has commenced an \$850 million program to address environmental compliance at its coal-fired power plants. In 2012, the gas transmission and storage segment is planning more than \$200 million of growth projects. The system's footprint in the Marcellus and Utica shale-gas plays provides NiSource with a competitive advantage to deliver shale-produced gas to high-demand markets in the Mid-Atlantic. The majority of these investments are for gathering pipelines and infrastructure that are non-FERC jurisdiction, allowing the company to achieve returns above 15% on invested capital.

Key Investment Considerations

- ▶ NiSource shares trade at approximately 17.7 times our 2012 earnings estimate, a premium to the P/E multiple of 15 times for the diversified utility peer group.
- ▶ Annual capital expenditures are estimated to exceed \$1 billion during the next five years, resulting in estimated annual earnings growth of approximately 8%.
- ▶ NiSource announced its first annual dividend increase since 2001, to \$0.96 from \$0.92 per share, beginning in August 2012. We expect a low payout ratio and strong balance sheet will allow regular increases.

Vital Statistics

Market Cap (USD Mil)	7,128
52-Week High (USD)	25.79
52-Week Low (USD)	17.95
52-Week Total Return %	27.8
YTD Total Return %	7.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.0
5-Yr Forward EPS CAGR %	8.2
Price/Fair Value	1.09

Valuation Summary and Forecasts

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings		14.4	17.6	17.7	16.4
EV/EBITDA		8.1	10.1	9.6	8.7
EV/EBIT		13.5	16.1	14.7	13.3
Free Cash Flow Yield %		-0.5	-3.1	-0.7	-0.7
Dividend Yield %		5.2	3.9	3.8	4.3

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue		6,422	6,019	5,508	6,069
Revenue YoY %		-3.4	-6.3	-8.5	10.2
EBIT		908	907	1,013	1,123
EBIT YoY %		12.8	-0.1	11.7	10.9
Net Income, Adjusted		341	389	412	476
Net Income YoY %		15.4	14.0	5.9	15.7
Diluted EPS		1.22	1.35	1.42	1.53
Diluted EPS YoY %		13.7	10.7	5.2	7.7
Free Cash Flow		-27	-205	-50	-52
Free Cash Flow YoY %		-102.3	670.3	-75.8	5.0

Source for forecasts in the data tables above: Morningstar Estimates

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analysis

NiSource's pipeline footprint offers a competitive advantage to deliver shale-produced gas to Mid-Atlantic markets.

Thesis 16 May 2012

NiSource recently stepped up its capital spending program, driving what we think should be 8% annual earnings per share growth during the next five years. In 2012, the company plans to invest approximately \$1.4 billion, a 25% increase from 2011. Longer term, NiSource is discussing a \$4 billion modernization program with key stakeholders of its Columbia Gas Transmission system. Early discussions suggest it could be a 10- to 15-year project.

Due to pipeline expansion opportunities in shale-gas producing regions, we estimate operating earnings for the gas transmission and storage segment will grow fastest, increasing to an estimated 45% of operating earnings in 2016 from 40% projected in 2012. We expect its slower-growing gas distribution segment will contribute 42% of operating earnings in 2012, and its electric utility will contribute 18% of operating earnings in 2012.

In 2011, NIPSCO began an \$850 million project for environmental compliance at four of its coal-fired power plants. The majority of the new investment will be for flue gas desulfurization equipment, or scrubbers, on two units at the 1,780-MW Schahfer generating station. The entire project is expected to take six to eight years, and will position NIPSCO to comply with recently issued federal environmental standards.

Regulators have approved two of three phases of the project, and NIPSCO is negotiating approval for the third phase, which includes installing a scrubber at the Michigan City generating station, the smallest of NIPSCO's coal-fired plants. NIPSCO will be allowed timely rate increases for the investments based on a 10.2% return on equity, a level consistent with recent industry regulatory decisions. We estimate the rate increases associated with this investment will allow NIPSCO to increase operating earnings more than 25% from 2011.

NiSource's gas transmission and storage segment also plans to increase its investment more than \$100 million in 2012 from 2011 levels. The largest of this segment's growth projects currently under construction is the \$145 million Pennsylvania Marcellus Pipeline, a 90-mile pipeline expected to be completed in late 2012. This project is typical of the growth opportunities for NiSource, driven by drilling in shale-gas production regions in Appalachia. The pipeline is anchored by a major Marcellus shale gas producer expected to have an initial capacity of approximately 300,000 dekatherms (Dth) per day. We suspect the returns provided by this nonregulated investment are attractive, given its strategic location.

NiSource has several other smaller projects in Pennsylvania under construction, with expected in-service dates during 2012. These projects, totaling \$77 million, also spawn from its advantaged position near the Marcellus shale. NiSource will also invest \$35 million on an expansion project to provide up to 250,000 Dth per day of transportation capacity from the Columbia Pipeline to a new natural gas-fired power plant owned by Virginia Electric Power Company. The project is expected to be in-service in mid-2014.

In 2012, we estimate that the gas distribution segment will contribute \$468 million of operating earnings with capital investment that will be relatively flat with 2011. NiSource continues to invest approximately \$300 million per year on infrastructure replacement (replacing steel pipe with plastic) in Ohio, Kentucky, Pennsylvania, Virginia and Massachusetts. Return on these investments are by automatic tracker mechanisms, providing ROEs of approximately 10% and adjusting customer rates in less than one year after the investment.

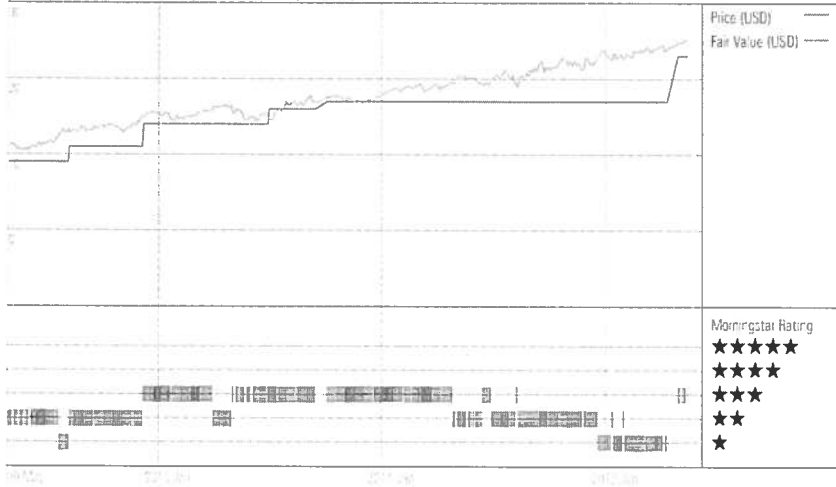
Valuation, Growth and Profitability 16 May 2012

We are reaffirming our \$23 per share fair value estimate. In April 2012, we raised our fair value estimate from \$17 per share due, in large part, to the increase in capital

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Price/Fair Value Morningstar data as of May 15, 2012



spending to \$5.4 billion between 2012 and 2016, and a lower cost of capital.

We estimate NiSource's growth capital and approved capital expenditures with minimal regulatory lag should drive near-term annual earnings growth to 8% during the next five years, reaching \$2.00EPS in 2016. In our base case, we assume nonregulated system expansion investments in the gas transmission and storage segment from 2013-16 average \$175 million per year and earn 15% return on invested capital.

NIPSCO's environmental investments, totaling approximately \$850 million, will be made during the next five years, with most of the investment in 2012-14. We expect NIPSCO will be allowed timely rate increases due to an Indiana Utility Regulatory Commission environmental tracker that adjusts rates on an annual basis. We assume these rate increases are based on a 10.2% return on equity, consistent with the 2011 base rate case for NIPSCO. Our fair value estimate is also based on continued investment of approximately \$300 million per year by NiSource's gas distribution companies. Rates for these investments are also by a tracker

mechanism, providing an average ROE of approximately 10% and adjusting customer rates in less than one year after the investment.

Since NIPSCO completed a major base rate case in late 2011, we conservatively assume that base rates are constant during the next five years. In addition, our earnings estimates include the benefit of the October 2011 base rate case decision for Columbia Gas of Pennsylvania. We assume that Columbia Gas of Massachusetts receives 48%, the average of the last seven rate cases, of the \$29 million rate increase it requested in March 2012. We also assume that NIPSCO files a gas base rate case in 2013, with a decision increasing rates by \$2 million in 2014.

We use a 7.6% cost of capital, including a 10.5% cost of equity and current market credit spreads.

Scenario Analysis

A material source of uncertainty in our fair value estimate is the growth in earnings due to investments above NiSource's cost of capital. Capital expenditures in the gas distribution and electric operations segments are, for the most part, subject to regulation, and have reduced uncertainty due to the preapproval process and monopoly status these businesses are afforded. However, investments in nonregulated pipelines and other infrastructure in the gas transmission and storage segment, although having higher potential returns, do not have this benefit.

If we assume the nonregulated investments in the gas transmission and storage segment from 2013-16 decline by \$50 million, to \$88 million per year, our five-year annual earnings growth rate would decline to 5%. This would reduce 2016 earnings to \$1.75 per share and reduce our fair value estimate \$2 per share.

Our fair value estimate also is sensitive to our cost of capital

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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estimate. A 50-basis-point change in our cost of equity assumption changes our fair value estimate by approximately \$2 per share.

Economic Moat

We believe the regulated nature of the majority of NiSource's operations provide the company with a narrow economic moat. In exchange for its monopoly position, state and federal regulators set returns at levels that aim to keep customer costs as low as possible while providing adequate returns for capital providers. This implicit agreement between regulators and utilities should, in the long run, allow NiSource to earn its cost of capital.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee a long-term change to the firm's business as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators in the states it serves. The majority of operating earnings are from FERC-regulated natural gas transmission pipelines, regulated natural gas distribution businesses, and a regulated electric utility. FERC provides transmission line owners return on equity levels that are usually superior to state commissions. In addition, FERC will not allow any new competing pipeline without a clear need for the capacity. As with all regulated utilities, we think regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.



NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Bulls Say/Bears Say

Bulls Say

- ▶ NiSource can add gathering and other nonregulated pipelines connecting to its main transmission system at returns on invested capital exceeding 15%, significantly higher than allowed returns from regulated assets.
- ▶ NiSource has leases for up to 200,000 acres in the Utica shale-gas formation. Originally leased for natural gas storage, the mineral rights for drilling will likely be sold or used in negotiating agreements for new gas gathering and transportation infrastructure.
- ▶ FERC regulation tends to be less influenced by political agendas versus state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed returns on equity.

Bears Say

- ▶ Almost 50% of NIPSCO's electric sales are to industrial customers, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- ▶ Continued weak natural gas prices could reduce shale-gas drilling activity in the Marcellus region, reducing opportunities for new gas gathering and transportation projects.
- ▶ Mild winter or summer weather negatively affects NiSource's earnings.

NiSource Inc NI (NYSE) ★★★

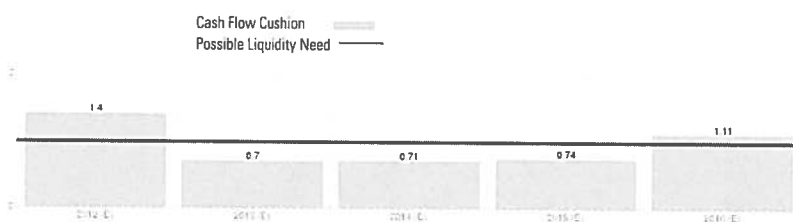
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	172	343	270	274	238
Adjusted Free Cash Flow	230	197	295	324	545
Total Cash Available before Debt Service	554	286	300	322	496
Principal Payments	—	—	—	—	—
Interest Payments	-395	-410	-425	-437	-446
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-395	-410	-425	-437	-446

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	172	8.2
Sum of 5-Year Adjusted Free Cash Flow	661	31.3
Sum of Cash and 5-Year Cash Generation	833	39.5
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	833	39.5
Sum of 5-Year Cash Commitments	-2,112	—

Credit Rating Pillars—Peer Group Comparison

	NI	Sector	Universe
Business Risk	6	5.0	5.3
Cash Flow Cushion	9	9.0	6.1
Solvency Score	9	6.0	5.1
Distance to Default	10	4.2	4.6
Credit Rating	BBB	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

On September 14, 2010, NiSource entered into an agreement for a forward sale of 24.3 million shares (27.4 shares with underwriter's overallotment) at a net price of \$14.72 per share (subject to adjustments). NiSource has stated that it will settle the forward agreement by delivering shares in the 2012 third quarter. The equity issuance has improved the company's credit metrics. Total debt to capitalization at 59% is still on the high end of the utility sector, but we think this is manageable considering the diversity and visibility of the company's earnings.

Capital Structure

With approximately \$6.7 billion in capital spending planned between 2012 and 2016, we expect NiSource to be a frequent debt issuer. NiSource has less than \$1 billion of debt coming due in 2012 and 2013, and we estimate will issue approximately \$300 million of additional debt during the next couple of years. Given NiSource's cash from operations, and improved balance sheet as a result of the recent equity issuance, we do not expect the firm to issue equity in the foreseeable future. In addition, we expect total debt/EBITDA to modestly improve to less than 4.5 times by 2016 year-end from our projected level of 5.1 times at the end of 2012.

Enterprise Risk

Regulatory risk remains the key uncertainty, as the majority of operating earnings are from businesses that are state- or FERC-regulated. That said, NiSource's regulatory exposure is diversified due to gas distribution operations in seven states and its federal-regulated transmission pipeline. FERC regulation tends to be less influenced by political agendas compared to state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed return on equity.

Another potential risk for NiSource's gas transmission and

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
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Credit Analysis

storage segment is continued depressed natural gas prices reducing drilling activity in the Marcellus and Utica shale-gas producing regions. We assume NiSource's infrastructure investments will produce strong earnings growth, and a decline in drilling activity would negatively affect the amount of this investment and earnings growth.

NIPSCO has started an \$850 million capital spending program, most of which has been approved by the Indiana Utility Regulatory Commission, to address environmental compliance at its four coal-fired power plants. However, environmental rules could become stricter, requiring additional capital investment or added operating cost that may have uncertain cost recovery. This is a risk facing all power plants, especially coal-fired ones.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
ROBERT C. SKAGGS, JR	CEO/President/Director, Director	947,145	05 Mar 2012	—
MR. GARY L. NEALE	Director	324,720	03 Jan 2007	—
JIMMY D. STATON	CEO, Divisional/Executive VP	302,108	31 Jan 2012	—
CHRISTOPHER A. HELMS		257,426	28 Jan 2011	—
STEPHEN P. SMITH	Executive VP/CFO	236,291	31 Jan 2012	—
CARRIE J. HIGHTMAN	Executive VP/Other Executive Officer	181,950	31 Jan 2012	—
MR. STEPHEN P. ADIK	Director	154,559	17 Apr 2005	—
MICHAEL W. O'DONNELL		148,562	19 Mar 2009	—
ROBERT D. CAMPBELL	Senior VP, Divisional	127,009	31 Jan 2012	—

*Report date represents the date on which the owner's common shares held was audited.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Equity Income	★★★★	3.53	1.02	—	31 Mar 2012
Utilities Select Sector SPDR	★★★	1.53	1.63	14	11 May 2012
Vanguard Mid Cap Index Ins	★★★★	1.25	0.28	189	31 Mar 2012
Vanguard US Total Market Shares (AU) ETF		1.21	0.04	84	31 Mar 2012
Munder Mid-Cap Core Growth Y	★★★★	1.18	1.80	113	31 Mar 2012
Concentrated Holders					
Flex Funds Utilities and Infrastructure	★★★	0.04	8.80	—	30 Apr 2012
Tortoise MLP & Pipeline Inst		0.07	5.82	163	29 Feb 2012
Reaves Utility Income	★★★	0.46	5.55	1,300	31 Mar 2012
EIC Energy Utility CHF I	★★★★	0.05	5.08	—	31 Mar 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Udry L&G Pen PMC Oversea Consensus Idx		0.68	0.02	1,920	31 Dec 2011
Udry L&G Pen PMC Glb Eq 70.30 Idx		0.68	0.01	1,916	31 Dec 2011
Udry L&G Pen PMC Glb Eq 60.40 Idx		0.68	0.01	1,907	31 Dec 2011
Udry L&G Pen PMC Consensus Idx		0.68	0.01	1,906	31 Dec 2011
Udry L&G Pen PMC Glb Eq 50.50 Idx		0.68	0.01	1,901	31 Dec 2011
Top 5 Sellers					
T. Rowe Price Mid-Cap Value	★★★★	1.16	0.92	-887	31 Mar 2012
RBC US Equity GIF	★★	0.19	0.45	-383	31 Jan 2012
T. Rowe Price Equity Income Port II	★★★	0.15	1.05	-177	31 Mar 2012
SSgA Russell Large Cap Index - Class I	★★★★	—	0.05	-154	30 Sep 2011
RBC Balanced GIF	★★	0.07	0.06	-142	31 Jan 2012

Stewardship: 16 May 2012

Robert Skaggs inherited a debt-heavy balance sheet and a shaky dividend when he became CEO in 2005. Since then, these problems have been addressed. In addition, management has reduced regulatory risk by achieving a favorable settlement for NIPSCO and several of its gas distribution companies. The company also appears to have a disciplined capital approval process for its nonregulated investments.

In 2011, Skaggs earned total compensation of approximately \$5 million. We believe this is a reasonable level of compensation considering NiSource's size and complexity. In addition, we think the significant portion of total compensation that is long-term and based on financial results and total shareholder return is aligned with shareholders' interests.

NiSource Inc NI (NYSE) ★★★

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Analyst Notes

NiSource's Infrastructure Investments Overshadow Solid First-Quarter Results 01 May 2012

On May 1, NiSource NI reported solid 2012 first-quarter earnings. However, the favorable results were overshadowed by management's announcement that they are very close to a joint venture agreement that would include a significant downstream infrastructure investment opportunity in the Utica play. In addition, NiSource announced two gas transmission and storage segment projects totaling \$370 million.

The JV and the two projects provide further confidence that the company will sustain the recent higher level of capital spending exceeding \$1.4 billion in 2012, which we estimate will drive 8% annual EPS growth during the next five years. NiSource reiterated 2012 operating earnings guidance of \$1.40 to \$1.50 per share. Our 2012 EPS estimate of \$1.42 is unchanged. We are also reaffirming our \$23 per share fair value estimate.

First-quarter weather-normalized operating earnings were \$0.76 per share versus \$0.74 in the same period last year. Mild weather (23% warmer than normal) decreased residential and commercial gas distribution sales and throughput in gas transmission and storage, and reduced GAAP earnings by approximately \$0.08 per basic share. Operating earnings benefited from strong industrial gas distribution sales and the impact of higher rates due to the NIPSCO, Columbia Gas of Ohio, and Columbia Gulf rate cases in 2011. Employee and administrative costs were lower for gas distribution and gas transmission and storage, primarily pension-related costs. In 2011, NiSource made accelerated pension fund contributions of \$400 million, which helped first-quarter earnings.

Management indicated that it was in advanced discussions with an individual producer counterparty regarding a JV utilizing NiSource's acreage position in the liquids-rich

portion of the Utica Play in Eastern Ohio. NiSource would provide gathering services and cryogenic processing and make a "significant" downstream infrastructure investment. Management indicated that it hoped to be able to announce details in the next month or so.

In addition to the potential JV, NiSource announced the Big Pine Gathering System anchored by a long-term agreement with XTO Energy. The 70-mile, \$150 million project in Western Pennsylvania is expected to be in service in December 2012. Like the JV, it also would not be subject to regulation and likely has the potential for higher returns on invested capital than FERC-regulated pipelines.

The other newly announced project is the \$220 million Westside expansion that will transport Marcellus production to Gulf Coast markets utilizing NiSource's Columbia Gulf pipeline. Binding long-term agreements have been signed with two shippers and the project, subject to FERC regulation, is expected to be in service in late 2014. These project announcements and the JV demonstrate the value of NiSource's pipeline footprint in the Marcellus and Utica shale plays and provide additional visibility on the company's investment opportunities that we believe are likely to drive strong earnings growth over the next five years.

NiSource Under Review 13 Apr 2012

We are placing NiSource NI under review as we transition coverage to a new analyst.

NiSource Inc NI (NYSE) ★★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Growth (% YoY)	—	—	-3.4	-6.3	-8.5	10.2	—
Revenue	—	—	12.8	-0.1	11.7	10.9	8.8
EBIT	—	—	7.9	-3.9	8.2	9.5	7.0
EBITDA	—	—	15.4	14.0	5.9	15.7	10.3
Net Income	—	—	13.7	10.7	5.2	7.7	8.2
Diluted EPS	—	—	-60.0	12.8	-23.8	7.9	-0.7
Earnings Before Interest, after Tax	—	—	-85.4	-44.7	-6.8	-16.3	17.1
Free Cash Flow to the Firm	—	—					

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Profitability							
Operating Margin %	13.8	12.1	14.1	15.1	18.4	18.5	18.3
EBITDA Margin %	22.8	21.0	23.4	24.0	28.4	28.2	27.5
Net Margin %	4.5	3.7	4.6	5.2	7.5	7.9	7.9
Free Cash Flow to the Firm margin %	18.1	43.8	6.7	3.9	4.0	3.0	4.5
ROIC with Goodwill %	10.8	17.9	7.0	7.5	5.5	5.6	5.7
ROIC w/out Goodwill %	14.2	23.7	9.2	9.7	7.0	7.1	7.1
Return on Assets, pretax %	5.7	8.2	4.6	4.4	4.8	5.1	5.2
Return on Equity %	7.2	9.5	6.0	6.1	7.8	8.4	8.8

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Leverage							
Debt/Capital	0.60	0.58	0.60	0.61	0.59	0.59	0.58
Total Debt/EBITDA	5.09	4.87	4.89	5.50	5.12	4.82	4.70
EBITDA/Interest Expense	3.72	3.49	3.84	3.84	3.96	4.18	4.27

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	17.7	16.4
EV/EBITDA	8.1	10.1	9.6	8.7
EV/EBIT	13.5	16.1	14.7	13.3
Free Cash Flow Yield %	-0.5	-3.1	-0.7	-0.7
Dividend Yield %	5.2	3.9	3.8	4.3

Key Valuation Drivers

Cost of Equity %	10.5
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	13.8
Perpetuity Year	15

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,174	8.1	3.68
Present Value Stage II	13,385	91.9	41.97
Present Value of the Perpetuity	—	—	—
Total Firm Value	14,559	100.0	—
Cash and Equivalents	172	—	0.54
Debt	8,000	—	-24.94
Net balance sheet impact	-7,782	—	-24.40
Other Adjustments	425	—	1.33
Equity Value	7,202	—	23.12
Projected Diluted Shares	319		
Fair Value per Share (USD)	23.00		

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

NiSource Inc NI (NYSE) | ★★★

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25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Total Revenue	6,649	6,422	6,019	5,508	6,069
Cost of Goods Sold	3,318	2,974	2,556	1,897	2,248
Gross Profit	3,331	3,448	3,463	3,611	3,821
Selling, General & Administrative Expenses	1,653	1,656	1,723	1,760	1,814
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	284	287	295	287	295
Restructuring & Other Charges (Gains)	19	2	17	—	—
Depreciation Expense (ff reported separately)	589	596	538	551	589
Amortization of Other Intangibles (ff reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	5,864	5,516	5,129	4,495	4,946
Operating Income (EBIT)	786	906	891	1,013	1,123
Interest Expense	399	392	377	395	410
Interest & Other Income (Expense)	10	-78	-47	15	19
Pre-Tax Income	397	436	467	633	732
Income Tax Expense (Benefit)	166	142	163	221	256
Income After Taxes	231	295	304	412	476
Minority Interest & Other After-Tax Operating Additions (Subtractions from) Earnings Before Interest (Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-11	-3	-5	—	—
Net Income (Loss)	221	292	299	412	476
Net Income (Loss) Excluding Charges	295	341	389	412	476
Diluted Shares Outstanding (Mil)	276	280	289	290	312
Diluted EPS Including Charges	0.80	1.04	1.03	1.42	1.53
Diluted EPS Excluding Charges	1.07	1.22	1.35	1.42	1.53
Dividends Per Common Share	0.92	0.92	0.92	0.96	0.99
EBITDA	1,375	1,503	1,429	1,564	1,712
EBITDA without restructuring	1,394	1,505	1,446	1,564	1,712

NiSource Inc NI (NYSE) ★★★

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Assets					
Excess Cash & Investments	—	—	112	261	179
Operating Cash & Equivalents	191	212	60	83	91
Accounts Receivable	809	1,079	855	755	831
Inventory	547	428	566	421	499
Other Short-Term Operating Assets	677	730	655	600	630
Total Current Assets	2,224	2,449	2,248	2,119	2,230
Property Plant & Equipment, Net	10,684	11,097	11,800	12,650	13,416
Property Plant & Equipment, Gross	19,038	19,590	20,470	21,871	23,226
(Accumulated Depreciation)	-8,354	-8,493	-8,670	-9,221	-9,810
Goodwill, Net	3,677	3,677	3,677	3,677	3,677
Other Intangibles	320	309	298	298	298
Other Long-Term Operating Assets	1,810	1,851	2,183	2,200	2,310
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	557	556	502	502	502
Total Assets	19,272	19,939	20,708	21,446	22,433
Liabilities					
Accounts Payable	502	582	435	298	395
Short-Term Debt	822	1,417	1,687	1,500	1,500
Other Current Liabilities	1,826	1,651	1,525	1,500	1,575
Total Current Liabilities	3,150	3,649	3,646	3,298	3,470
Long-Term Debt	5,965	5,936	6,267	6,500	6,750
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	5,965	5,936	6,267	6,500	6,750
Long-Term Operating Liabilities	1,559	1,596	1,810	1,850	1,943
Deferred Tax Liabilities	2,018	2,210	2,542	2,792	3,042
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	1,445	1,445
Total Liabilities	14,418	15,016	15,711	15,885	16,650
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4,854	4,923	4,997	4,997	4,997
Additional Paid in Capital	—	—	—	425	479
Retained Earnings (Deficit)	—	—	—	139	307
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Total Shareholders' Equity	4,854	4,923	4,997	5,561	5,783
Total Liabilities + Shareholders' Equity	19,272	19,939	20,708	21,446	22,433
Difference, from analyst adjustments and restatements	-1	—	—	—	—

NiSource Inc NI NYSE ★★★

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25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	218	292	299	412	476
Depreciation Expense	589	596	538	551	589
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	102	134	—	—
Deferred Income Taxes & Other Adjustments to Net Income	403	207	212	250	250
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	259	-244	220	100	-77
(Increase) Decrease in Inventory	129	103	-142	145	-78
(Increase) Decrease in Prepayments, other Current Assets	25	42	83	55	-30
Increase (Decrease) in Accounts Payable	-192	38	-155	-137	97
Increase (Decrease) in Other Current Liabilities	481	-359	-269	-25	75
Cash from Operations	1,921	777	920	1,351	1,303
(Capital Expenditures)	-777	-804	-1,125	-1,400	-1,355
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	6	1	9	—	—
Other Investing Cash Flows (Outlays)	117	-140	-34	23	-18
Cash from Investing	-655	-944	-1,149	-1,378	-1,373
Common Stock (Purchase) or Sale	8	13	21	425	54
Common Stock (Dividends)	-253	-256	-258	-273	-308
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-1,061	1,280	-23	-187	—
Long Term Debt Issuance and (Retirement)	290	-821	541	233	250
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	-1,016	216	281	198	-4
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	-234	-57	-50	—	—
Net Change in Cash	16	-8	2	171	-73
Change in Cash on Balance Sheet	191	21	-40	171	-73
Difference, from analyst adjustments and restatements	-175	-29	42	—	—

NiSource Inc NI (NYSE) ★★★

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25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	0.93	—	130.9	257.5	—	8.9	8.1	—	NM	-523.6	—	2.0	2.0	—	1.9	1.6
Sempra Energy SRE USA	1.09	12.3	15.3	14.9	7.9	8.9	8.2	NM	NM	NM	1.3	1.4	1.4	1.3	1.6	1.4
AGL Resources, Inc. GAS USA	1.02	14.4	11.8	11.0	14.1	12.1	11.5	48.8	90.3	43.5	2.6	2.4	2.2	1.9	1.9	1.8
Atmos Energy Corp ATO USA	1.05	13.9	13.7	13.1	7.4	7.1	6.8	NM	NM	NM	1.3	1.2	1.2	0.7	0.7	0.6
Average		13.5	42.9	74.1	9.8	9.3	8.7	48.8	90.3	-240.1	1.7	1.8	1.7	1.3	1.5	1.4
NiSource Inc NI US	1.09	17.6	17.7	16.4	10.1	9.6	8.7	NM	NM	NM	1.3	1.3	1.2	1.1	1.3	1.2

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC with Goodwill %			ROIC without Goodwill %			Return on Equity %			Return on Assets, Pretax %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	— USD	9.4	10.8	10.8	10.0	11.4	11.4	15.9	17.5	19.1	8.4	9.2	9.2	—	6.3	7.3
Sempra Energy SRE USA	33,356USD	6.5	5.2	5.1	6.8	5.5	5.4	14.4	10.1	9.7	6.4	5.5	5.7	3.3	3.8	4.0
AGL Resources, Inc. GAS USA	— USD	6.9	7.1	7.0	7.4	7.6	7.6	13.0	14.8	14.8	6.4	7.2	7.4	3.2	3.3	3.5
Atmos Energy Corp ATO USA	7,283USD	7.8	6.1	6.3	8.8	6.9	7.0	9.0	9.4	9.2	6.3	6.6	6.6	4.2	4.3	4.5
Average		7.7	7.3	7.3	8.3	7.9	7.9	13.1	13.0	13.2	6.9	7.1	7.2	3.6	4.4	4.8
NiSource Inc NI US	20,708USD	7.5	5.5	5.6	9.7	7.0	7.1	6.1	7.8	8.4	4.4	4.8	5.1	3.9	3.8	4.3

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	8,209USD	1.6	21.4	14.2	7.7	24.1	8.8	-81.9	139.3	-49.2	-106.4	215.7	-84.2	5.9	5.9	11.2
Sempra Energy SRE USA	10,036USD	11.5	-5.1	12.2	64.5	8.0	8.2	88.5	-25.2	2.2	-1,162.0	-0.2	-51.2	24.1	33.4	5.0
AGL Resources, Inc. GAS USA	2,287USD	-3.6	4.1	4.7	-10.2	20.8	6.0	-12.5	21.9	7.1	469.3	-45.9	107.7	5.4	4.4	4.9
Atmos Energy Corp ATO USA	4,348USD	-9.2	3.1	2.7	-3.5	4.0	5.8	-1.5	8.5	4.4	-121.8	99.9	-72.0	1.7	2.7	3.0
Average		0.1	5.9	8.5	14.6	14.2	7.2	-1.9	36.1	-8.9	-230.2	67.4	-24.9	9.3	11.6	6.0
NiSource Inc NI US	6,019USD	-6.3	-8.5	10.2	-0.1	11.7	10.9	10.7	5.2	7.7	670.3	-75.8	5.0	-2.1	5.2	5.0

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.09USD	23.00USD	16.10USD	31.05USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	83USD	100.0	100.0	100.0	35.6	36.2	35.0	24.0	24.5	23.4	1.0	2.1	1.0	-0.9	-2.3	-0.3
Sempra Energy <small>SRE USA</small>	1,357USD	58.7	65.2	63.7	30.0	31.0	30.2	20.2	19.9	19.2	13.5	10.8	9.8	-9.7	-10.2	-4.5
AGL Resources, Inc. <small>GAS USA</small>	204USD	52.6	53.8	54.0	26.6	29.8	30.1	19.6	22.8	23.1	8.9	10.5	10.8	4.0	2.1	4.1
Atmos Energy Corp <small>ATO USA</small>	199USD	30.5	31.1	31.6	16.2	16.5	16.9	10.2	11.1	11.3	4.6	4.8	4.9	-0.9	-1.8	-0.5
Average		60.5	62.5	62.3	27.1	28.4	28.1	18.5	19.6	19.3	7.0	7.1	6.6	-1.9	-3.1	-0.3
NiSource Inc NI US	389USD	57.5	65.6	63.0	24.0	28.4	28.2	14.8	18.4	18.5	5.2	7.5	7.9	-3.4	-0.9	-0.9

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	12,976USD	144.1	165.4	179.6	58.3	61.6	63.4	5.5	5.7	5.5	4.4	4.3	4.3	2.8	3.0	3.2
Sempra Energy <small>SRE USA</small>	10,863USD	110.4	109.6	114.1	52.2	52.1	53.1	6.5	5.7	5.7	3.6	4.0	4.0	3.4	3.3	3.3
AGL Resources, Inc. <small>GAS USA</small>	3,164USD	182.0	170.1	157.7	64.5	63.0	61.2	5.5	5.4	5.6	5.2	4.5	4.2	4.3	4.1	3.9
Atmos Energy Corp <small>ATO USA</small>	2,415USD	107.1	110.8	109.6	51.7	52.6	52.3	4.7	5.0	4.8	3.4	3.6	3.5	3.2	3.2	3.2
Average		135.9	139.0	140.3	56.7	57.3	57.5	5.6	5.5	5.4	4.2	4.1	4.0	3.4	3.4	3.4
NiSource Inc NI US	7,954USD	159.2	143.9	142.7	61.4	59.0	58.8	3.8	4.0	4.2	5.5	5.1	4.8	4.1	3.9	3.9

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Net Cash per Share			CFO per Share			Free Cash Flow per Share			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Kinder Morgan Energy Partners LP	18,708USD	6.00	8.28	7.88	-33.79	-36.59	-39.35	7.07	8.15	8.70	-0.22	-0.66	-0.10	NM	564.2	1,235.6
Sempra Energy <small>SRE USA</small>	15,484USD	1.14	0.74	0.65	-43.83	-47.97	-52.34	7.73	9.08	9.34	-4.05	-4.00	-1.94	32.4	57.8	59.4
AGL Resources, Inc. <small>GAS USA</small>	4,447USD	6.79	5.77	5.12	-33.93	-34.79	-35.05	6.35	6.01	5.82	1.17	0.63	1.30	68.5	58.7	57.5
Atmos Energy Corp <small>ATO USA</small>	2,943USD	1.45	3.91	3.22	-25.19	-25.54	-27.06	6.43	6.17	6.44	-0.44	-0.89	-0.25	59.7	58.1	58.2
Average		3.8	4.7	4.2	-34.2	-36.2	-38.5	6.9	7.4	7.6	-0.9	-1.2	-0.2	53.5	184.7	352.7
NiSource Inc NI US	7,128USD	0.60	1.18	0.87	-26.97	-26.38	-25.59	3.19	4.65	4.18	-0.71	-0.17	-0.17	86.4	66.3	64.6

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

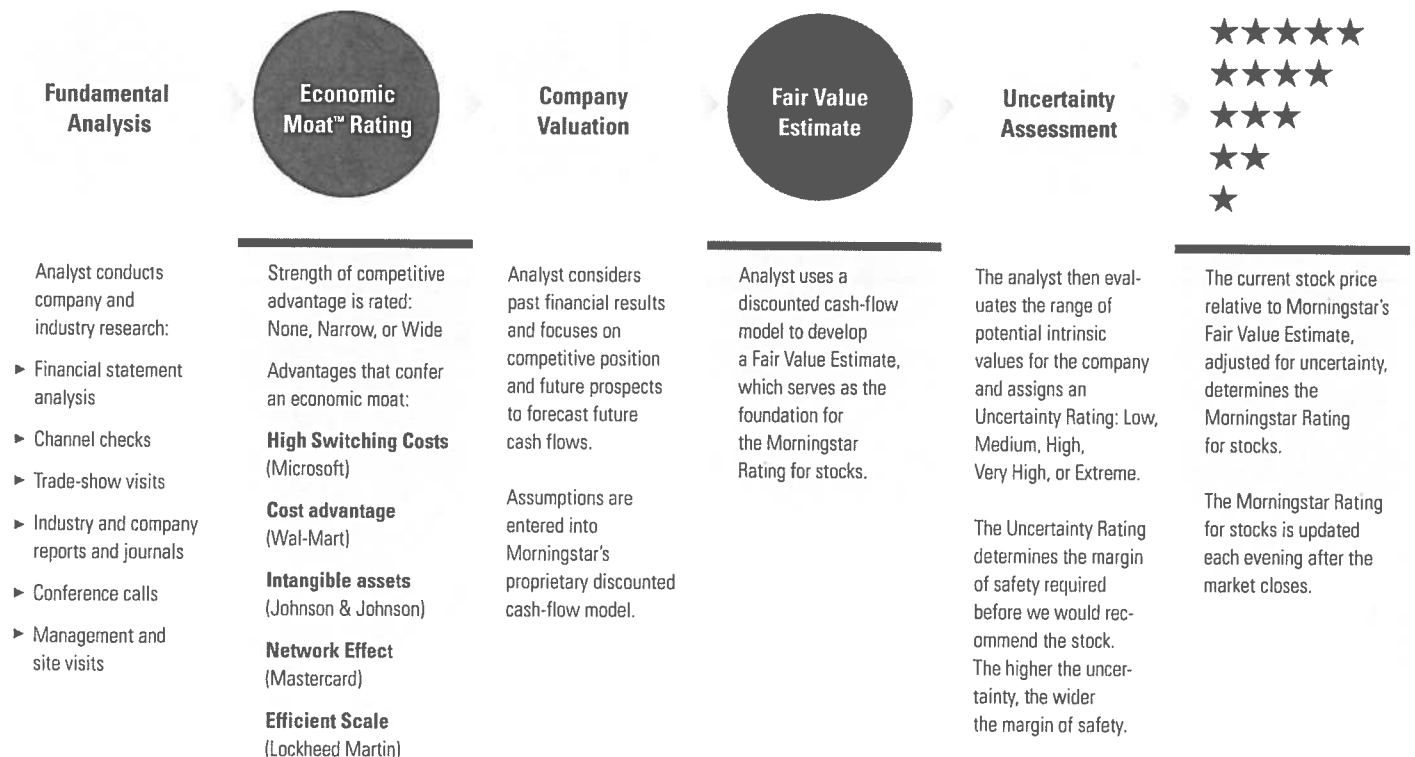
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

* Please contact a sales representative for more information

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

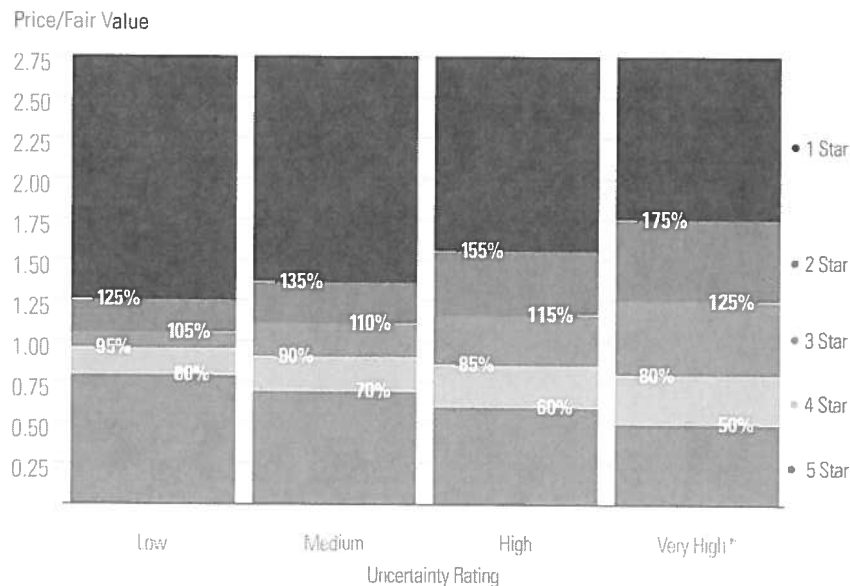
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme

Morningstar's Approach to Rating Corporate Credit

- ▶ Offers a proprietary measure of the credit quality of companies on our coverage list.
- ▶ Encapsulates our in-depth modeling and quantitative work in one letter grade.
- ▶ Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- ▶ Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- ▶ Five years of detailed pro-forma financial statements
- ▶ Annual estimates of free cash flow
- ▶ Annual forecasts of return on invested capital
- ▶ Scenario analyses, including upside and downside cases
- ▶ Forecasts of leverage, coverage, and liquidity ratios for five years
- ▶ Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

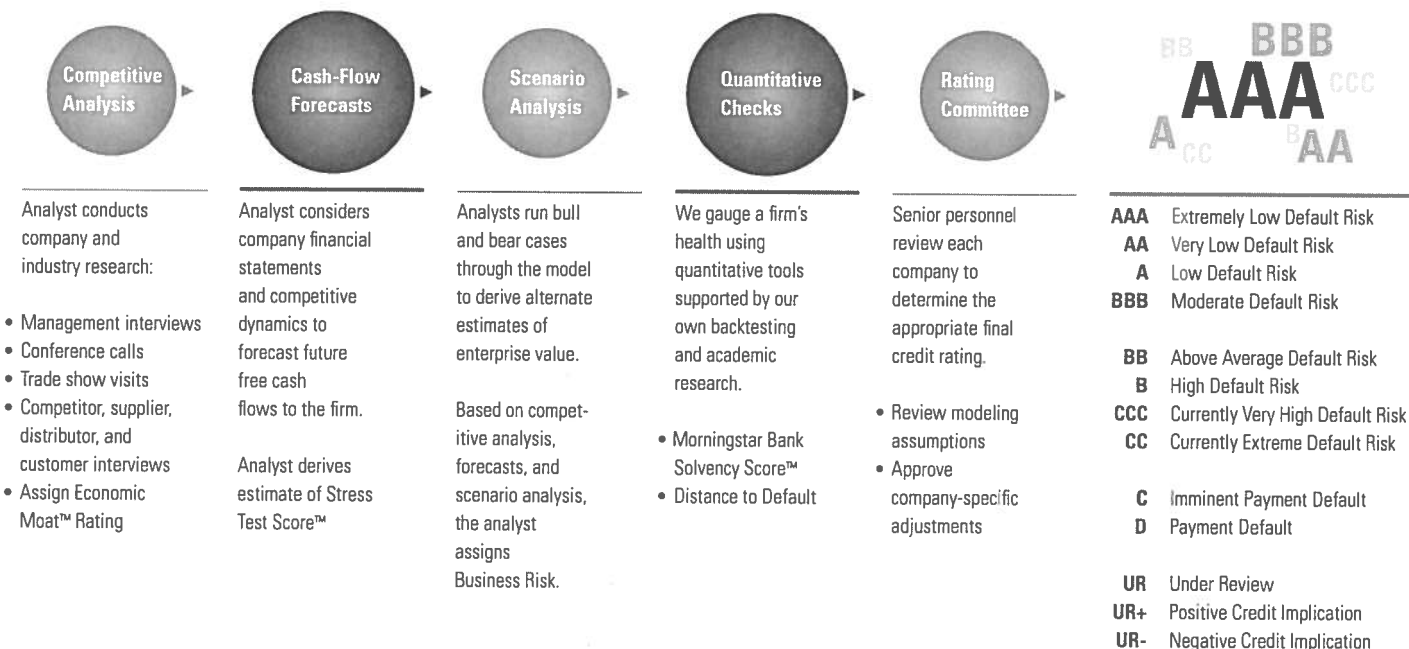
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

The Distance to Default rating is a quantitative, market-based measure of a company's current financial health. (Distance to Default serves as the basis for Morningstar's Financial Health Grade.) The underlying model treats the equity of a firm as a call option on that firm's assets. Based on estimates of asset volatility and the Black-Scholes option-pricing model, we can estimate the likelihood that the value of the company's assets falls below the value of its liabilities, implying likely default.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource steps on the investment accelerator.

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 Stock Analyst
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The primary analyst covering this company does not own its stock.

Research as of 16 Jan 2013
 Estimates as of 15 Jan 2013
 Pricing data through 16 Jan 2013
 Rating updated as of 16 Jan 2013

Currency amounts expressed with "\$" are in U.S. dollars [USD] unless otherwise denoted.

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Analyst's Perspective 16 Jan 2013

We believe NiSource shares deserve to trade at a premium versus peers due to projected strong earnings growth driven by a \$1.5 billion annual investment program to modernize and grow its infrastructure. The electric utility and natural gas distribution investments in regulated businesses are likely to get constructive regulatory treatment and timely rate increases due to pre-approval of environmental compliance projects or rate tacker mechanisms. The gas transmission and storage segment has a large backlog of growth projects for gathering pipelines and infrastructure, the majority of which are non-FERC jurisdiction, allowing the company to achieve returns above 15% on invested capital. In addition, NiSource recently reached agreement with customers to invest in modernizing its Columbia Gas Pipeline.

Key Investment Considerations

- ▶ NiSource shares are trading at 16.7 times our 2013 earnings estimate in mid-January, a premium to the P/E multiple for the diversified utility peer group of approximately 15 times.
- ▶ NiSource's gas transmission pipeline footprint in the Marcellus and Utica shale-gas plays provides a competitive advantage to deliver shale-produced gas to high-demand markets in the Mid-Atlantic.
- ▶ NiSource announced its first annual dividend increase since 2001, to \$0.96 from \$0.92 per share, beginning in August 2012. Strong earnings growth and cash flow from operations should allow mid-single digit increases over the next five years.

Vital Statistics

Market Cap (USD Mil)	8,016
52-Week High (USD)	26.15
52-Week Low (USD)	22.31
52-Week Total Return %	15.8
YTD Total Return %	4.0
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	9.3
Price/Fair Value	1.04

Valuation Summary and Forecasts

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings		14.4	17.6	17.8	16.6
EV/EBITDA		8.1	10.1	10.0	9.1
EV/EBIT		13.5	16.1	15.4	13.8
Free Cash Flow Yield %		-0.4	-3.1	0.1	-1.7
Dividend Yield %		5.2	3.9	3.5	3.9

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue		6,422	6,019	5,526	6,096
Revenue YoY %		-3.4	-6.3	-8.2	10.3
EBIT		908	907	1,031	1,150
EBIT YoY %		12.8	-0.1	13.6	11.6
Net Income, Adjusted		341	389	426	496
Net Income YoY %		15.6	14.1	9.6	16.4
Diluted EPS		1.22	1.35	1.45	1.56
Diluted EPS YoY %		13.8	10.8	7.5	7.5
Free Cash Flow		135	7	384	161
Free Cash Flow YoY %		-90.9	-95.1	NM	-58.2

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analysis

NiSource's pipeline footprint offers a competitive advantage to deliver shale-produced gas to Mid-Atlantic markets.

Thesis 16 Jan 2013

NiSource recently stepped up its capital spending program to \$1.5 billion-\$1.8 billion per year compared to \$1.1 billion in 2011. Management has identified over \$25 billion of investment opportunities in its core business during the next 15-20 years. With all these opportunities, the key will be execution and, in the case of regulated projects, fair treatment by regulators.

We like that a majority of the planned investments are regulated utility infrastructure projects in jurisdictions with constructive regulatory frameworks. In addition, these investments typically have mechanisms that allow for timely rate increases. The gas transmission pipelines have FERC-approved recovery mechanisms that usually have higher returns than state-regulated gas distribution utilities and also have automatic annual rate increases. The non-utility investments in the midstream business have, for the most part, fee-based long-term contracts that significantly reduce commodity exposure.

In 2011, NIPSCO, NiSource's regulated utility in Indiana, began an \$850 million project for environmental compliance at four of its coal-fired power plants. The majority of the new investment will be for flue gas desulfurization equipment, or scrubbers, on two units at the 1,780-MW Schahfer generating station. The entire project is expected to take 6-8 years, and position NIPSCO to comply with recently issued federal environmental standards.

Regulators have pre-approved the project and NIPSCO will be allowed timely rate increases for the investments based on a 10.2% return on equity, a level consistent with recent industry regulatory decisions. We estimate the environmental project will increase NIPSCO's total annual capital investments to \$400 million-\$450 million by 2013, double the capital expenditure in 2010, and increase electric utility operating earnings more than 25% between 2012 and 2016.

All of NiSource's seven gas distribution utilities have ongoing modernization programs. The total investment in the gas distribution systems, including maintenance capital expenditures, is expected to average \$600 million-\$650 million per year with about 75% of the total for modernization or customer growth. Approximately \$300 million per year of the modernization capital is for infrastructure replacement (replacing steel pipe with plastic) in Ohio, Kentucky, Pennsylvania, Virginia and Massachusetts. Returns on these investments are by automatic tracker mechanisms, providing ROEs of approximately 10% and adjusting customer rates in less than one year after the investment.

We estimate the investment in the gas distribution systems will increase operating earnings by approximately 6% per year through 2016, a little below the 7%-9% annual growth rate that management has targeted.

Due to pipeline expansion opportunities in shale-gas producing regions we estimate operating earnings growth for the Natural Gas Transmission & Storage segment to increase at a compound annual growth rate of 12% from 2012-16, the upper end of management's guidance of 10%-12%. Two joint ventures are driving our bullish view of this segment's growth.

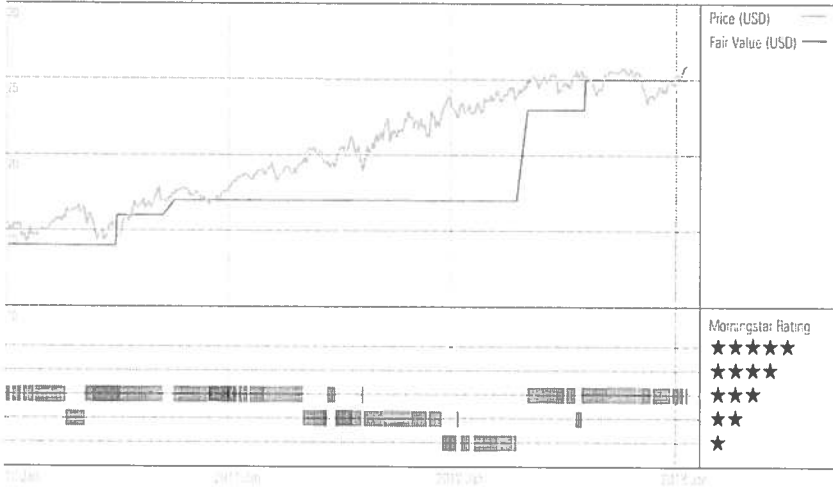
First, is the 50/50 JV with Hilcorp Energy Company in the Utica shale. The first phase of the JV will be a \$300 million project to develop a gas-gathering pipeline and processing facilities in the Marcellus and Utica shales. These projects are typical of the growth opportunities for NiSource, driven by drilling in shale-gas production regions. We suspect the returns provided by these nonregulated investments are attractive given their strategic location.

The second joint venture is also with Hilcorp to develop the hydrocarbon potential in approximately 100,000 combined

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Price/Fair Value Morningstar data as of Jan. 16, 2013



acres in the Utica/Point Pleasant shales in northeast Ohio and western Pennsylvania. Investment in this JV will be through NiSource's existing mineral positions and cash flows from the projects. Therefore, NiSource's cash investment will be modest. We support this strategy and believe the company has a high probability of achieving long-term value from the mineral rights at minimal risk.

In late 2012, NiSource announced an agreement with customers to modernize the Columbia Gas Transmission pipeline. The initial phase of the project will be for a five-year period and result in \$300 million of annual investment. The settlement agreement provides annual cost recovery mechanisms for the incremental investment. The overall ROE was not disclosed, but typically FERC projects have higher allowed returns than state regulated distribution systems.

The two JVs and the Columbia Transmission modernization program are only part of the opportunity in the Shale Gas region that NiSource believes it can exploit. Management has identified a total of \$8 billion-\$10 billion of investment inventory that will result in \$500 million-\$700 million of

annual investment by the NGT&S segment.

Valuation, Growth and Profitability 16 Jan 2013

We are reaffirming our \$25 per share fair value estimate. Our fair value estimate incorporates our assumption that annual EPS growth will be approximately 8% during the next five years, slightly higher than management's 5%-7% guidance. Our bullish view of earnings growth is due in large part to the continued investment opportunity in the Utica and Marcellus shale regions. We assume NGT&S operating earnings grow at a compounded annual growth rate of 12%, the upper end of the 10%-12% guidance range.

We believe the plan that management has disclosed with respect to the regulated electric utility and gas distribution business is realistic. However, we have conservatively assumed an operating earnings growth rate from these segments slightly below the 7%-9% guidance.

We have lowered our cost of equity to 10.0% from 10.5% following the announcement of the Hilcorp JV. The structure of the partnership reduces commodity exposure by utilization of NiSource's mineral rights as its primary contribution to the JV. Our weighted average cost of capital now is 7.2% down from 7.6% to reflect the lower cost of equity and current market credit spreads.

Scenario Analysis

A material source of uncertainty in our fair value estimate is the growth in earnings due to investments above NiSource's cost of capital. Capital expenditures in the gas distribution and electric operations segments are, for the most part, subject to regulation, and have reduced uncertainty due to the preapproval process and monopoly status these businesses are afforded. However, investments in nonregulated pipelines and other infrastructure in the gas transmission and storage segment, although having higher potential returns, do not have this benefit.

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Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

If we assume nonregulated investments in the NGT&S segment from 2013-16 decline by 25%, to \$150 million per year, our five-year compounded annual NGT&S operating earnings growth rate declines to 9% from 12%. This would reduce 2016 consolidated earnings by \$0.15 per share and reduce our fair value estimate by \$2 per share.

Our fair value estimate also is sensitive to our cost of capital estimate. A 50-basis-point change in our cost of equity assumption changes our fair value estimate by approximately \$3 per share.

Economic Moat

We believe the regulated nature of the majority of NiSource's operations support the company's narrow economic moat. In exchange for its monopoly position, state and federal regulators set returns at levels that aim to keep customer costs as low as possible while providing adequate returns for capital providers. This implicit agreement between regulators and utilities should, in the long run, allow NiSource to earn its cost of capital.

Moat Trend

We believe NiSource's moat trend is stable. We do not foresee a long-term change to the firm's business as a monopoly provider of natural gas and electricity, nor do we see changes to its compact with regulators in the states it serves. The majority of operating earnings are from FERC-regulated natural gas transmission pipelines, regulated natural gas distribution businesses, and a regulated electric utility. FERC provides transmission line owners return on equity levels that are usually superior to state commissions. In addition, FERC will not allow any new competing pipeline without a clear need for the capacity. As with all regulated utilities, we think regulatory caps on revenue and returns preclude NiSource from establishing a wide economic moat.

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Bulls Say/Bears Say

Bulls Say

- ▶ NiSource can add gathering and other nonregulated pipelines connecting to its main transmission system at returns on invested capital exceeding 15%, significantly higher than allowed returns from regulated assets.
- ▶ NiSource has leases for up to 200,000 acres in the Utica shale-gas formation. Originally leased for natural gas storage, a portion of these mineral rights for drilling have been earmarked as NiSource's contribution to the HilCorp JV, significantly reducing the cash required and risk of developing these rights.
- ▶ FERC regulation tends to be less influenced by political agendas versus state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed returns on equity.

Bears Say

- ▶ Almost 50% of NIPSCO's electric sales are to industrial customers, higher than most utilities. Industrial sales are more sensitive to the economy than residential and commercial sales.
- ▶ Continued weak natural gas prices could reduce shale-gas drilling activity in the Marcellus region, reducing opportunities for new gas gathering and transportation projects.
- ▶ Mild winter or summer weather negatively affects NiSource's earnings.

NiSource Inc NI (NYSE) ★★★

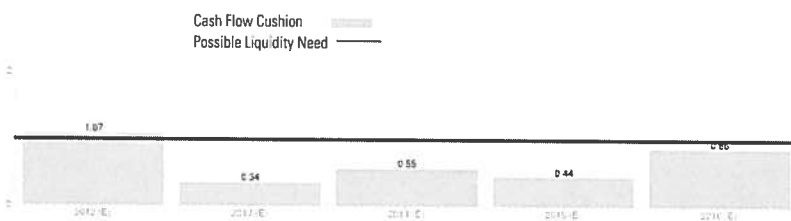
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Credit Analysis

Five Year Adjusted Cash Flow Forecast (USD Mil)

	2012(E)	2013(E)	2014(E)	2015(E)	2016(E)
Cash and Equivalents (beginning of period)	172	332	309	306	293
Adjusted Available Cash Flow	586	-39	174	83	443
Total Cash Available before Debt Service	758	293	483	389	736
Principal Payments	-315	-460	-465	-460	-440
Interest Payments	-390	-407	-412	-422	-417
Other Cash Obligations and Commitments	—	—	—	—	—
Total Cash Obligations and Commitments	-705	-867	-877	-882	-857

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	172	4.1
Sum of 5-Year Adjusted Free Cash Flow	1,247	29.8
Sum of Cash and 5-Year Cash Generation	1,419	33.9
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	1,419	33.9
Sum of 5-Year Cash Commitments	-4,186	—

Credit Rating Pillars—Peer Group Comparison

	NI	Sector	Universe
Business Risk	5	5.1	5.2
Cash Flow Cushion	9	9.3	6.2
Solvency Score	9	5.8	5.1
Distance to Default	10	3.9	4.0
Credit Rating	BBB	BBB+	BBB+

Source: Morningstar Estimates

Note: Scoring is on a scale 1-10, 1 being Best, 10 being Worst

Financial Health

On Sept. 14, 2010, NiSource entered into an agreement for a forward sale of 24.3 million shares (27.4 shares with underwriter's overallotment) at a net price of \$14.72 per share (subject to adjustments). NiSource settled the forward agreement by delivering shares in the 2012 third quarter. The equity issuance has improved the company's credit metrics. Total debt to capitalization at 59% is still on the high end of the utility sector, but we think this is manageable considering the diversity and visibility of the company's earnings.

Capital Structure

With approximately \$1.5 billion-\$1.8 billion in annual capital spending planned between 2013 and 2016, we expect NiSource to be a frequent debt issuer. NiSource has less than \$1 billion of debt coming due in 2013 and 2014, and we estimate will issue approximately \$430 million of additional debt during the next couple of years. Given NiSource's cash from operations and improved balance sheet as a result of the recent equity issuance, we do not expect the firm to issue equity in the foreseeable future excluding dividend reinvestment and employee incentive plans. In addition, we expect total debt/EBITDA to modestly improve to less than 4.0 times by 2016 from our projected level of 4.8 times at the end of 2012.

Enterprise Risk

Regulatory risk remains the key uncertainty, as the majority of operating earnings are from businesses that are state- or FERC-regulated. That said, NiSource's regulatory exposure is diversified due to gas distribution operations in seven states and its federal-regulated transmission pipeline. FERC regulation tends to be less influenced by political agendas compared to state regulatory bodies. This usually provides more constructive regulatory decisions and higher allowed return on equity. Another potential risk for NiSource's gas transmission and storage segment is

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Credit Analysis

continued depressed natural gas prices reducing drilling activity in the Marcellus and Utica shale-gas producing regions. We assume NiSource's infrastructure investments will produce strong earnings growth, and a decline in drilling activity would negatively affect the amount of this investment and earnings growth. NIPSCO has started an \$850 million capital spending program, most of which has been approved by the Indiana Utility Regulatory Commission, to address environmental compliance at its four coal-fired power plants. However, environmental rules could become stricter, requiring additional capital investment or added operating cost that may have uncertain cost recovery. This is a risk facing all power plants, especially coal-fired ones.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	Insider Activity
ROBERT C. SKAGGS, JR	CEO/President/Director, Director	565,109	29 Nov 2012	—
MR. GARY L. NEALE	Director	324,720	03 Jan 2007	—
JIMMY D. STATON	CEO, Divisional/Executive VP	302,108	31 Jan 2012	—
CHRISTOPHER A. HELMS		257,426	28 Jan 2011	—
STEPHEN P. SMITH	Executive VP/CFO	236,291	31 Jan 2012	—
MR. STEPHEN P. ADIK	Director	154,559	17 Apr 2005	—
MICHAEL W. O'DONNELL		148,562	19 Mar 2009	—
CARRIE J. HIGHTMAN	Executive VP/Other Executive Officer	147,950	11 Jun 2012	—
ROBERT D. CAMPBELL	Senior VP, Divisional	118,892	12 Jun 2012	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
T. Rowe Price Equity Income	★★★	3.52	1.08	—	30 Jun 2012
Utilities Select Sector SPDR	★★★	1.40	1.64	29	21 Sep 2012
Vanguard Mid Cap Index I	★★★★	1.26	0.30	61	30 Jun 2012
Vanguard US Total Market Shares (AU) ETF		1.25	0.05	144	30 Jun 2012
Munder Mid-Cap Core Growth Y	★★★★	1.24	1.92	164	30 Jun 2012

Concentrated Holders

Flex Funds Utilities and Infrastructure	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Flex Funds Utilities and Infrastructure	★★	0.04	8.53	—	31 Aug 2012
Tortoise MLP & Pipeline Instl		0.12	7.21	138	31 May 2012
Reaves Utility Income	★★★	0.46	5.55	1,300	31 Mar 2012
DWS RREEF Global Infrastructure A	★★★★★	0.41	4.96	115	31 Jul 2012

Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/Sold (k)	Portfolio Date
Reaves Utility Income	★★★	0.46	5.55	1,300	31 Mar 2012
CRM Mid Cap Value Instl	★★★★	0.96	2.10	304	30 Jun 2012
CRM US Equities Opportunities S USD		0.09	1.52	252	31 Mar 2012
Munder Mid-Cap Core Growth Y	★★★★	1.24	1.92	164	30 Jun 2012
Vanguard US Total Market Shares (AU) ETF		1.25	0.05	144	30 Jun 2012

Top 5 Sellers

Udry L&G Pen PMC Consensus Idx	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date	
Udry L&G Pen PMC Consensus Idx	—	0.01	-1,908	31 Mar 2012	
Udry L&G Pen PMC Glb Eq 60:40 Idx	—	0.01	-1,908	31 Mar 2012	
Udry L&G Pen PMC Oversea Consensus Idx	—	0.02	-959	31 Mar 2012	
Udry L&G Pen PMC World Ex UK Eq Idx	0.06	0.03	-803	31 Mar 2012	
T. Rowe Price Mid-Cap Value	★★★★	0.89	0.74	-750	30 Jun 2012

Stewardship: 16 Jan 2013

We assign NiSource a standard stewardship rating. This rating is due in large part to our favorable opinion of management's ability to manage the regulatory process in numerous state jurisdictions and FERC. In addition, although one could argue it was luck that located NiSource's Columbia Pipeline in the middle of the Marcellus Shale Gas and at the edge of the Utica Shale regions, management has taken advantage of this opportunity and developed projects that appear to provide returns significantly above the company's cost of capital.

Robert Skaggs inherited a debt-heavy balance sheet and a shaky dividend when he became CEO in 2005. Since then, these problems have been addressed. In addition, management has reduced regulatory risk by achieving a favorable settlement for NIPSCO and several of its gas distribution companies. The company also appears to have a disciplined capital approval process for its nonregulated investments.

In 2011, Skaggs earned total compensation of approximately \$5 million. We believe this is a reasonable level of compensation considering NiSource's size and complexity. In addition, we think the significant portion of total compensation that is long-term and based on financial results and total shareholder return is aligned with shareholders' interests.

NiSource Inc NI (NYSE) ★★★

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Analyst Notes

NiSource's Weak Results in 3Q From Settlement Agreement; No Change to EPS or Fair Value Estimates

02 Nov 2012

On Nov. 2, NiSource NI reported third-quarter 2012 operating earnings of \$0.05 per share versus \$0.11 per share in the same period last year. The negative variance primarily reflects the \$50 million cost to achieve the Columbia Gas Transmission's pipeline modernizations settlement announced in September. NiSource reaffirmed its 2012 operating earnings guidance range of \$1.40-\$1.50 per share and its long-term annual EPS growth rate of 5%-7%. We are reiterating our 2012 EPS estimate of \$1.46 and our long-term earnings outlook. Our \$25 per share fair value estimate is also unchanged.

Gas Transmission & Storage had operating earnings of \$38.8 million for the recently ended quarter versus \$68.2 million in the same period last year. The negative variance was primarily due to the pipeline modernization settlement, partially offset by earnings from new projects placed in service and the impact of the Columbia Gulf rate case.

NiSource's Electric Operations reported operating earnings for the quarter of \$77.7 million compared to \$72.9 million last year. The segment benefited from the 2011 Indiana rate case. Gas Distribution also had a good quarter driven by the implementation of new rates due to a rate case in Pennsylvania and higher revenues from the Columbia Gas of Ohio's ongoing infrastructure replacement program. Operating earnings for the segment increased to \$15.5 million compared to \$8 million in the 2011 third quarter.

Management's status report on major projects in construction or development was for the most part consistent with those made at the September investor day meeting. New information included the entering into binding agreements with customers for the East Side Expansion project. The project is now estimated to cost \$210

million and expected to be in service in the 2015 third quarter.

NiSource also indicated it received FERC approval to add 12,000 horsepower of compression to the Millennium Pipeline. NiSource owns 47.5% of the pipeline and the total investment for the partnership is \$43 million. The project is expected to be in service in the first quarter of 2013.

The other recent FERC approval was for the 66-mile 765-kilovolt Reynolds to Greentown Transmission Line. NiSource is 50% partner on the approximately \$300 million project in central Indiana. The transmission line is expected to be in service later in the decade.

NiSource Reports Strong Second Quarter and Provides More Utica Shale JV Details

07 Aug 2012
 On July 31, NiSource NI reported strong second-quarter 2012 operating earnings of \$0.23 per share versus \$0.17 per share in the second quarter of 2011. Each of NiSource's business segments had year-over-year improvement.

Management provided more detail on the joint venture with affiliates of Hilcorp Energy Company in the Utica Shale region of northeast Ohio and western Pennsylvania. As previously announced in early July, the 50/50 JV will invest \$300 million in the first phase of the development, which will provide gathering and processing capacity in the region. The project is expected to be in service in the second half of 2013.

In addition, management indicated the JV does not include potential further development in owned acreage in the western portion of the Utica Shale play now being evaluated. The additional detail to an already favorable development opportunity in the Utica Shale region led us to increase our ongoing growth investment assumption for the

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Analyst Notes

Gas Transmission and Storage segment to \$200 million per year from \$175 million. Based in large part on this increase in investment opportunity, we have increased our fair value estimate to \$25 per share from \$23 per share.

Management reaffirmed its operating earnings guidance of \$1.40 to \$1.50 per share and said it now expected to be in the upper half of the range. Based on the strong second-quarter performance, we have raised our 2012 earnings estimate to \$1.46 per share from \$1.42. In addition, based on our increase in Utica Shale investment, we increased our 2013 EPS estimate to \$1.58, our 2014 EPS estimate to \$1.76, and our 2015 EPS estimate to \$1.93.

The Natural Gas Transmission and Storage segment contributed second-quarter operating earnings of \$91.6 million versus \$84.6 million in the same period last year. Management indicated the \$150 million Big Pine Gathering System in the Marcellus Shale region is on schedule for an in-service date later this year. In addition, NiSource has signed binding long-term agreements with two shippers for the \$200 million West Side Expansion project schedule to be in-service in late 2014.

NiSource Electric had a strong quarter with \$59.8 million of operating earnings compared with \$37.8 million last year. The improvement was driven by the recent Indiana rate case that resulted in new electric base rates effective in late December 2011. NiSource also indicated that FERC approved the 100-mile transmission project in northern Indiana as part of the MISO system improvements. The \$270 million 345-kV transmission line is projected to be in-service in the latter part of the decade. The FERC approval was the last major regulatory hurdle for the project.

NiSource's Gas Distribution segment also had a solid second quarter. Operating earnings were \$54.6 million versus \$48.9 million in the same period last year. The

improvement reflected regulatory and infrastructure programs that have automatic rate trackers increasing rates shortly after investments are made. Management indicated it would file a rate case for Columbia Gas of Pennsylvania in the third quarter of this year.

NiSource Inc NI (NYSE) ★★★

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2009	2010	2011	2012	2013	
Growth (% YoY)	—	—	-3.4	-6.3	-8.2	10.3	5.1
Revenue	—	—	12.8	-0.1	13.6	11.6	9.6
EBIT	—	—	7.9	-4.0	9.4	10.0	7.6
EBITDA	—	—	15.6	14.1	9.6	16.4	12.1
Net Income	—	—	13.8	10.8	7.5	7.5	9.3
Diluted EPS	—	—	3.7	-0.1	5.5	2.1	6.1
Earnings Before Interest, after Tax	—	—	-90.9	-95.1	NM	-58.2	151.4
Free Cash Flow	—	—					

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2009	2010	2011	2012	2013	
Profitability							
Operating Margin %	13.8	12.1	14.1	15.1	18.7	18.9	18.7
EBITDA Margin %	22.8	21.0	23.4	24.0	28.6	28.5	27.9
Net Margin %	5.4	4.4	5.3	6.5	7.7	8.1	8.4
Free Cash Flow Margin %	8.2	22.2	2.1	0.1	7.0	2.6	5.6
ROIC %	6.5	6.6	6.6	6.3	6.5	6.4	6.8
Adjusted ROIC %	9.0	9.3	9.1	8.6	8.7	8.5	9.0
Return on Assets %	1.8	2.3	1.5	1.5	2.0	2.3	2.4
Return on Equity %	7.0	9.1	6.0	6.0	8.1	8.8	9.3

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2009	2010	2011	2012	2013	
Leverage							
Debt/Capital	0.60	0.58	0.60	0.61	0.59	0.59	0.57
Total Debt/EBITDA	5.08	4.87	4.88	5.50	4.98	4.71	4.50
EBITDA/Interest Expense	3.72	3.50	3.84	3.84	4.05	4.28	4.50

Valuation Summary and Forecasts

	2010	2011	2012(F)	2013(F)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	17.8	16.6
EV/EBITDA	8.1	10.1	10.0	9.1
EV/EBIT	13.5	16.1	15.4	13.8
Free Cash Flow Yield %	-0.4	-3.1	0.1	-1.7
Dividend Yield %	5.2	3.9	3.5	3.9

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	66.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,494	10.0	4.71
Present Value Stage II	2,616	17.4	8.24
Present Value Stage III	10,909	72.6	34.36
Total Firm Value	15,019	100.0	47.30
Cash and Equivalents	172	—	0.54
Debt	-7,954	—	-25.05
Preferred Stock	—	—	—
Other Adjustments	380	—	1.20
Equity Value	7,618	—	23.99
Projected Diluted Shares	318		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

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Morningstar Analyst Forecasts

Income Statement (USD Mill)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Revenue	6,649	6,422	6,019	5,526	6,096
Cost of Goods Sold	3,318	2,974	2,556	1,897	2,248
Gross Profit	3,331	3,448	3,463	3,629	3,849
Selling, General & Administrative Expenses	1,653	1,656	1,723	1,760	1,814
Other Operating Expense (Income)	284	287	295	287	295
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	589	596	538	551	589
Operating Income (ex charges)	805	908	907	1,031	1,150
Restructuring & Other Cash Charges	19	2	17	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	786	906	891	1,031	1,150
Interest Expense	399	392	377	390	407
Interest Income	10	-78	-47	15	19
Pre-Tax Income	397	436	467	655	763
Income Tax Expense	166	142	163	229	267
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	-11	-3	-5	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	221	292	299	426	496
Weighted Average Diluted Shares Outstanding	276	280	289	294	318
Diluted Earnings Per Share	0.80	1.04	1.03	1.45	1.56
Adjusted Net Income	295	341	389	426	496
Diluted Earnings Per Share (Adjusted)	1.07	1.22	1.35	1.45	1.56
Dividends Per Common Share	0.92	0.92	0.92	0.94	0.98
EBITDA	1,376	1,503	1,429	1,581	1,739
Adjusted EBITDA	1,395	1,505	1,446	1,581	1,739

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Cash and Equivalents	191	212	172	332	309
Investments	—	—	—	—	—
Accounts Receivable	809	1,079	855	833	919
Inventory	547	428	566	421	499
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	677	730	655	553	610
Current Assets	2,224	2,449	2,248	2,138	2,336
Net Property Plant, and Equipment	10,684	11,097	11,800	12,650	13,441
Goodwill	3,677	3,677	3,677	3,677	3,677
Other Intangibles	320	309	298	298	298
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,810	1,851	2,183	2,200	2,310
Long-Term Non-Operating Assets	557	556	502	502	502
Total Assets	19,272	19,939	20,708	21,465	22,564
Accounts Payable	502	582	435	323	382
Short-Term Debt	822	1,417	1,687	1,050	1,500
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,826	1,651	1,525	1,500	1,575
Current Liabilities	3,150	3,649	3,646	2,873	3,457
Long-Term Debt	5,965	5,936	6,267	6,820	6,700
Deferred Tax Liabilities (Long-Term)	2,018	2,210	2,542	2,800	3,000
Other Long-Term Operating Liabilities	1,559	1,596	1,810	2,000	2,200
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	1,445	1,445
Total Liabilities	14,418	15,016	15,711	15,938	16,803
Preferred Stock	—	—	—	—	—
Common Stock	4,854	4,923	4,997	4,997	4,997
Additional Paid-in Capital	—	—	—	380	430
Retained Earnings (Deficit)	—	—	—	150	334
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Shareholder's Equity	4,854	4,923	4,997	5,527	5,761
Minority Interest	—	—	—	—	—
Total Equity	4,854	4,923	4,997	5,527	5,761



NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	Forecast				
	2009	2010	2011	2012	2013
Net Income	217	283	299	426	496
Depreciation	590	597	538	551	589
Amortization	—	—	—	—	—
Stock-Based Compensation	10	31	39	40	41
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	378	194	178	258	200
Other Non-Cash Adjustments	25	78	128	—	—
(Increase) Decrease in Accounts Receivable	259	-244	220	22	-86
(Increase) Decrease in Inventory	129	103	-142	145	-78
Change in Other Short-Term Assets	2	23	90	103	-57
Increase (Decrease) in Accounts Payable	-191	38	-155	-112	60
Change in Other Short-Term Liabilities	503	-320	-276	-25	75
Cash From Operations	1,921	783	920	1,408	1,241
(Capital Expenditures)	-777	-804	-1,125	-1,400	-1,380
Net (Acquisitions), Asset Sales, and Disposals	6	1	9	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	109	-140	-34	173	90
Cash From Investing	-662	-944	-1,149	-1,228	-1,290
Common Stock Issuance (or Repurchase)	8	13	21	380	50
Common Stock (Dividends)	-253	-256	-258	-276	-312
Short-Term Debt Issuance (or Retirement)	-1,061	1,280	-23	-637	450
Long-Term Debt Issuance (or Retirement)	290	-826	541	553	-120
Other Financing Cash Flows	—	—	—	-40	-41
Cash From Financing	-1,016	211	281	-20	27
Exchange Rates, Discontinued Ops, etc. (net)	-247	-57	-50	—	—
Net Change in Cash	-4	-8	2	160	-23

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

Company/Ticker	Price/Fair Value	Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Dominion Resources Inc D USA	0.97	17.4	17.0	15.6	12.2	10.7	9.8	NM	NM	NM	2.6	2.4	2.3	2.1	2.2	2.1
AGL Resources, Inc. GAS USA	1.07	14.5	15.2	13.8	15.5	8.5	8.0	205.5	11.1	45.1	1.5	1.4	1.3	2.1	1.1	1.0
Average		16.0	16.1	14.7	13.9	9.6	8.9	205.5	11.1	45.1	2.1	1.9	1.8	2.1	1.7	1.6
NiSource Inc NI US	1.04	17.6	17.8	16.6	10.1	10.0	9.1	NM	NM	NM	1.3	1.5	1.4	1.1	1.5	1.3

Returns Analysis

Company/Ticker	Last Historical Year Total Assets (Mil)	ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Dominion Resources Inc D USA	— USD	9.4	7.9	8.2	10.6	8.8	9.1	12.0	14.9	15.3	3.2	3.8	4.0	3.7	4.0	4.3
AGL Resources, Inc. GAS USA	13,913 USD	5.3	6.8	6.1	6.7	8.6	7.6	6.7	9.1	9.6	1.6	2.2	2.4	3.0	4.6	4.7
Average		7.4	7.4	7.2	8.7	8.7	8.4	9.4	12.0	12.5	2.4	3.0	3.2	3.4	4.3	4.5
NiSource Inc NI US	— USD	6.3	6.5	6.4	8.6	8.7	8.5	6.0	8.1	8.8	1.5	2.0	2.3	3.9	3.5	3.9

Growth Analysis

Company/Ticker	Last Historical Year Revenue (Mil)	Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Dominion Resources Inc D USA	14,379 USD	-5.4	-6.6	7.9	-11.5	24.5	8.9	-8.6	0.9	9.0	-93.7	-65.9	NM	7.7	7.1	6.6
AGL Resources, Inc. GAS USA	2,338 USD	-1.5	83.9	7.8	-12.0	56.9	8.0	-4.2	-8.4	9.8	-704.4	-132.6	-7.7	2.3	3.2	3.2
Average		-3.5	38.7	7.9	-11.8	40.7	8.5	-6.4	-3.8	9.4	-399.1	-99.3	-7.7	5.0	5.2	4.9
NiSource Inc NI US	6,019 USD	-6.3	-8.2	10.3	-0.1	13.6	11.6	10.8	7.5	7.5	-95.1	NM	-58.2	—	2.2	4.3

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.88 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin %			EBITDA Margin %			Operating Margin %			Net Margin %			Free Cash Flow Margin %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Dominion Resources Inc D USA	1,754 USD	55.4	58.5	57.5	28.9	35.4	35.6	19.9	26.5	26.8	12.2	13.2	13.4	-4.7	-3.6	-9.4
AGL Resources, Inc. GAS USA	236 USD	53.1	52.7	52.6	26.8	25.4	24.9	18.8	16.1	16.1	10.1	7.3	7.4	1.0	10.0	2.3
Average		54.3	55.6	55.1	27.9	30.4	30.3	19.4	21.3	21.5	11.2	10.3	10.4	-1.9	3.2	-3.6
NiSource Inc NI US	389 USD	57.5	65.7	63.1	24.0	28.6	28.5	15.1	18.7	18.9	6.5	7.7	8.1	-3.4	0.1	-2.3

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity %			Debt/Total Cap %			EBITDA/Interest Exp.			Total Debt/EBITDA			Assets/Equity		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Dominion Resources Inc D USA	20,687 USD	176.8	177.3	169.7	63.9	63.9	62.9	4.8	5.3	5.4	5.0	4.6	4.4	3.9	3.8	3.7
AGL Resources, Inc. GAS USA	4,899 USD	147.7	136.1	134.8	59.6	57.6	57.4	4.6	5.9	6.0	7.8	4.4	4.3	4.2	4.0	4.0
Average		162.3	156.7	152.3	61.8	60.8	60.2	4.7	5.6	5.7	6.4	4.5	4.4	4.1	3.9	3.9
NiSource Inc NI US	7,954 USD	159.2	142.4	142.3	61.4	58.7	58.7	3.8	4.1	4.3	5.5	5.0	4.7	4.1	3.9	3.9

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share			Current Ratio			Quick Ratio			Cash/Short-Term Debt			Payout Ratio %		
		2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)	2011	2012(E)	2013(E)
Dominion Resources Inc D USA	30,110 USD	0.18	0.09	0.23	0.78	0.72	0.77	0.59	0.56	0.60	0.03	0.01	0.04	80.4	68.5	67.1
AGL Resources, Inc. GAS USA	4,771 USD	0.85	0.22	0.38	0.89	0.88	0.92	0.65	0.62	0.64	0.05	0.03	0.05	84.7	69.5	65.3
Average		0.52	0.16	0.31	0.84	0.80	0.85	0.62	0.59	0.62	0.04	0.02	0.05	82.6	69.0	66.2
NiSource Inc NI US	8,016 USD	0.60	1.13	0.97	0.62	0.74	0.68	0.46	0.60	0.53	0.10	0.32	0.21	88.9	64.8	62.9

Research Methodology for Valuing Companies

Components of Our Methodology

- ▶ Economic Moat™ Rating
- ▶ Moat Trend™ Rating
- ▶ Moat Valuation
- ▶ Three-Stage Discounted Cash Flow
- ▶ Weighted Average Cost of Capital
- ▶ Fair Value Estimate
- ▶ Scenario Analysis
- ▶ Uncertainty Ratings
- ▶ Margin of Safety
- ▶ Consider Buying/Selling
- ▶ Stewardship Rating

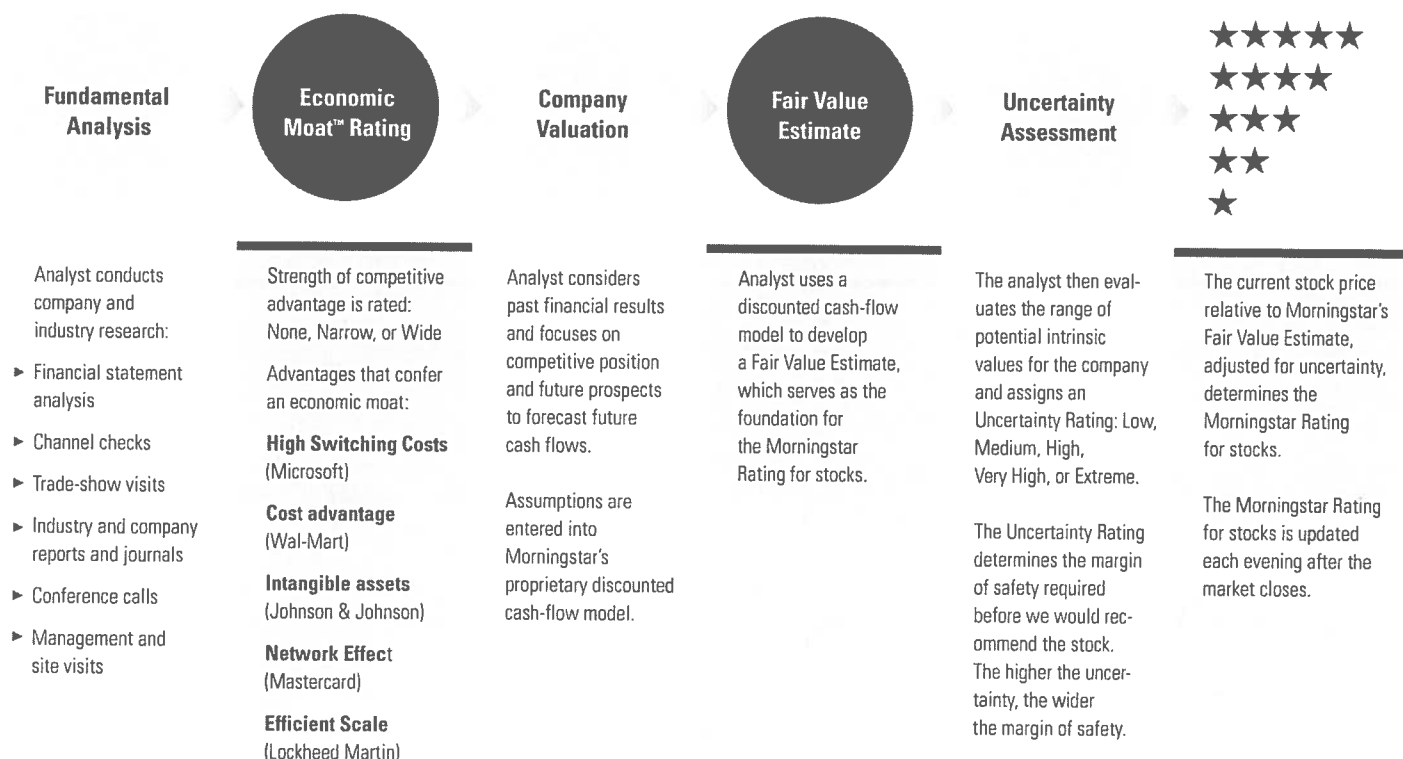
The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages

of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- ▶ Comprehensive Equity Research Methodology
- ▶ Uncertainty Methodology
- ▶ Cost of Equity Methodology
- ▶ Morningstar DCF Valuation Model
- ▶ Stewardship Rating Methodology

* Please contact a sales representative for more information.

perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

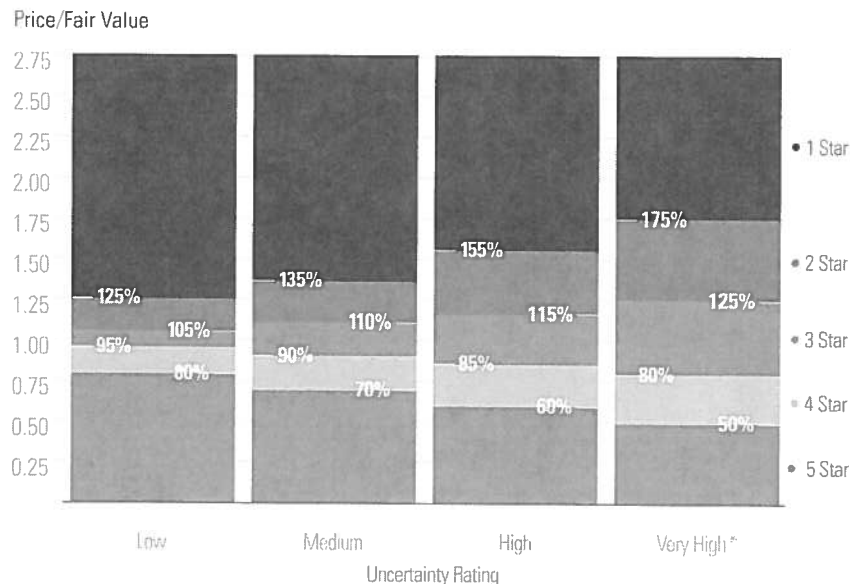
We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium

to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme

Morningstar's Approach to Rating Corporate Credit

- ▶ Offers a proprietary measure of the credit quality of companies on our coverage list.
- ▶ Encapsulates our in-depth modeling and quantitative work in one letter grade.
- ▶ Allows investors to rank companies by each of the four underlying components of our credit ratings, including both analyst-driven and quantitative measures.
- ▶ Provides access to all the underlying forecasts that go into the rating, available through our institutional service.

Purpose

The Morningstar Corporate Credit Rating measures the ability of a firm to satisfy its debt and debt-like obligations. The higher the rating, the less likely we think the company is to default on these obligations.

The Morningstar Corporate Credit Rating builds on the modeling expertise of our securities research team. For each company, we publish:

- ▶ Five years of detailed pro-forma financial statements
- ▶ Annual estimates of free cash flow
- ▶ Annual forecasts of return on invested capital
- ▶ Scenario analyses, including upside and downside cases
- ▶ Forecasts of leverage, coverage, and liquidity ratios for five years
- ▶ Estimates of off balance sheet liabilities

These forecasts are key inputs into the Morningstar Corporate Credit Rating and are available to subscribers at select.morningstar.com.

Methodology

We feel it's important to perform credit analysis through different lenses—qualitative and quantitative, as well as fundamental and market-driven. We therefore evaluate each company in four broad categories.

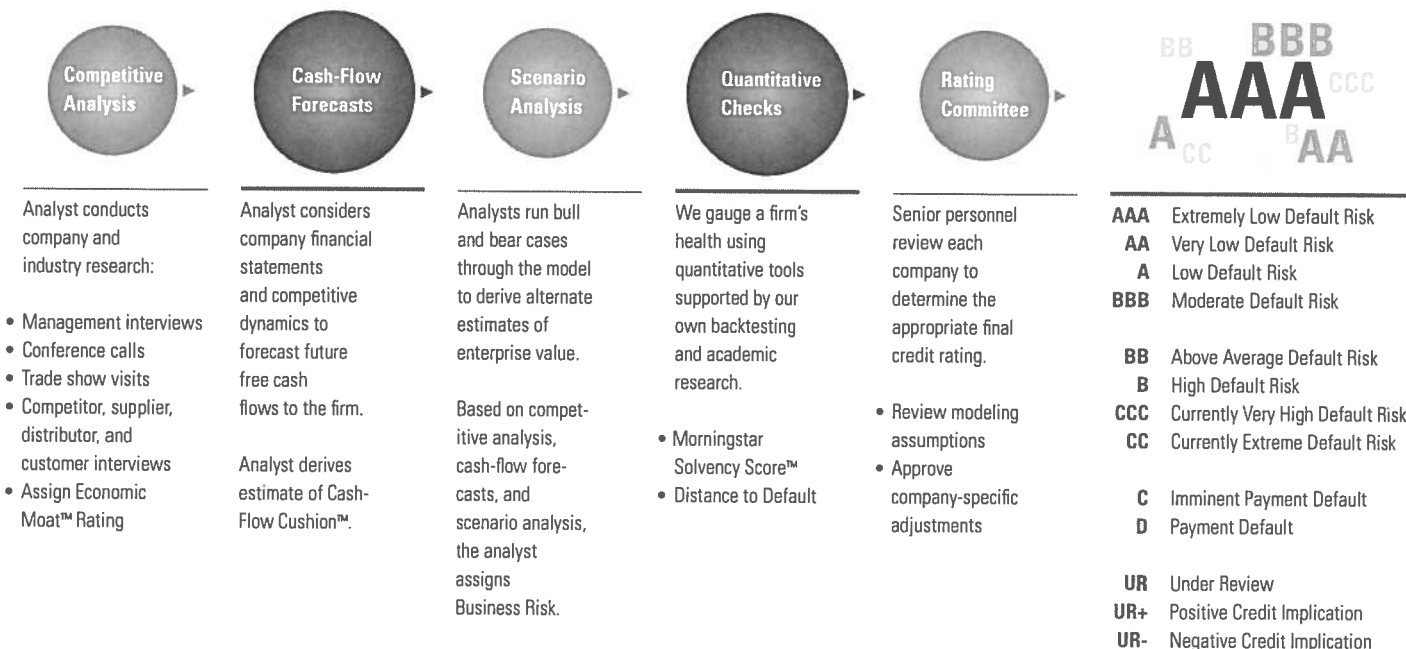
Business Risk

Business Risk captures the fundamental uncertainty around a firm's business operations and the cash flow generated by those operations. Key components of the Business Risk rating include the Morningstar Economic Moat™ Rating and the Morningstar Uncertainty Rating.

Cash Flow Cushion™

Morningstar's proprietary Cash Flow Cushion™ ratio is a fundamental indicator of a firm's future financial health. The measure reveals how many times a company's internal cash generation plus total excess liquid cash will cover its debt-like contractual commitments over the next five years. The Cash Flow Cushion acts as a predictor of financial distress, bringing to light potential refinancing, operational, and liquidity risks inherent to the firm.

Morningstar Research Methodology for Determining Corporate Credit Ratings



Morningstar's Approach to Rating Corporate Credit

The advantage of the Cash Flow Cushion ratio relative to other fundamental indicators of credit health is that the measure focuses on the future cash-generating performance of the firm derived from Morningstar's proprietary discounted cash flow model. By making standardized adjustments for certain expenses to reflect their debt-like characteristics, we can compare future projected free cash flows with debt-like cash commitments coming due in any particular year. The forward-looking nature of this metric allows us to anticipate changes in a firm's financial health and pinpoint periods where cash shortfalls are likely to occur.

Morningstar Solvency Score™

The Morningstar Solvency Score™ is a quantitative score derived from both historical and forecasted financial ratios. It includes ratios that focus on liquidity (a company's ability to meet short term cash outflows), profitability (a company's ability to generate profit per unit of input), capital structure (how does the company finance its operations), and interest coverage (how much of profit is used up by interest payments).

Distance to Default

Morningstar's quantitative Distance to Default measure ranks companies on the likelihood that they will tumble into financial distress. The measure is a linear model of the percentile of a firm's leverage (ratio of Enterprise Value to Market Value), the percentile of a firm's equity volatility relative to the rest of the universe and the interaction of these two percentiles. This is a proxy methodology for the common definition of Distance to Default which relies on option-based pricing models. The proxy has the benefit of increased breadth of coverage, greater simplicity of calculation, and more predictive power.

For each of these four categories, we assign a score, which we then translate into a descriptive rating along the scale of Very Good / Good / Fair / Poor / Very Poor.

Overall Credit Rating

The four component ratings roll up into a single preliminary credit rating. To determine the final credit rating, a credit committee of at least five senior research personnel reviews each preliminary rating.

We review credit ratings on a regular basis and as events warrant. Any change in rating must be approved by the Credit Rating Committee.

Investor Access

Morningstar Corporate Credit Ratings are available on Morningstar.com. Our credit research, including detailed cash-flow models that contain all of the components of the Morningstar Corporate Credit Rating, is available to subscribers at select.morningstar.com.

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Reaffirms Full-Year Guidance After Weak First-Quarter Results

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 Stock Analyst
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 312-696-6523

The primary analyst covering this company does not own its stock.

Research as of 30 Apr 2013
 Estimates as of 15 Jan 2013
 Pricing data through 29 Apr 2013
 Rating updated as of 29 Apr 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Analyst Note 30 Apr 2013

NiSource NI reported 2013 first-quarter operating earnings per share of \$0.69 versus \$0.76 in the same period last year. The weak results for the recently ended quarter reflect approximately \$0.07 per share earnings dilution from the September 2012 completion of the forward equity issuance, which added 24 million new shares. Management acknowledged the soft first quarter but expressed confidence that they were on track to achieve net operating earnings in line with their previous EPS guidance of \$1.50 to \$1.60. We are reaffirming our 2013 EPS estimate of \$1.56. We are also reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of \$25 per share.

One recent positive for NiSource's electric and natural gas distribution operations in Indiana was the passage of legislation that allows for a rate tracker for infrastructure investments for distribution and storage facilities. Although this does not benefit NiSource's ongoing environmental capital expenditures for coal-fired plants, which already have a rate tracker, or its planned Federal Energy Regulatory Commission jurisdictional transmission investments, we believe this legislation is a material long-term positive for NiSource's distribution operations in Indiana.

Vital Statistics

Market Cap (USD Mil)	9,694
52-Week High (USD)	31.39
52-Week Low (USD)	23.14
52-Week Total Return %	31.1
YTD Total Return %	27.1
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	9.3
Price/Fair Value	1.25

Valuation Summary and Forecasts

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings		14.4	17.6	—	20.0
EV/EBITDA		9.7	10.9	—	10.2
EV/EBIT		16.1	17.4	—	15.4
Free Cash Flow Yield %		-0.3	-2.7	—	-1.4
Dividend Yield %		3.8	3.3	—	3.2

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue		6,422	6,019	5,526	6,096
Revenue YoY %		-3.4	-6.3	-8.2	10.3
EBIT		908	907	1,031	1,150
EBIT YoY %		12.8	-0.1	13.6	11.6
Net Income, Adjusted		341	389	426	496
Net Income YoY %		15.6	14.1	9.6	16.4
Diluted EPS		1.22	1.35	1.45	1.56
Diluted EPS YoY %		13.8	10.8	7.5	7.5
Free Cash Flow		135	7	384	161
Free Cash Flow YoY %		-90.9	-95.1	NM	-58.2

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

NiSource Inc NI (NYSE) ★★

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31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2009	2010	2011	2012	2013	
Growth (% YoY)	—	—	-3.4	-6.3	-8.2	10.3	5.1
Revenue	—	—	12.8	-0.1	13.6	11.6	9.6
EBIT	—	—	7.9	-4.0	9.4	10.0	7.6
EBITDA	—	—	15.6	14.1	9.6	16.4	12.1
Net Income	—	—	13.8	10.8	7.5	7.5	9.3
Diluted EPS	—	—	3.7	-0.1	5.5	2.1	6.1
Earnings Before Interest, after Tax	—	—	-90.9	-95.1	NM	-58.2	151.4
Free Cash Flow	—	—					

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2009	2010	2011	2012	2013	
Profitability							
Operating Margin %	13.8	12.1	14.1	15.1	18.7	18.9	18.7
EBITDA Margin %	22.8	21.0	23.4	24.0	28.6	28.5	27.9
Net Margin %	5.4	4.4	5.3	6.5	7.7	8.1	8.4
Free Cash Flow Margin %	8.2	22.2	2.1	0.1	7.0	2.6	5.6
ROIC %	6.5	6.6	6.6	6.3	6.5	6.4	6.8
Adjusted ROIC %	9.0	9.3	9.1	8.6	8.7	8.5	9.0
Return on Assets %	1.8	2.3	1.5	1.5	2.0	2.3	2.4
Return on Equity %	7.0	9.1	6.0	6.0	8.1	8.8	9.3

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		2009	2010	2011	2012	2013	
Leverage							
Debt/Capital	0.60	0.58	0.60	0.61	0.59	0.59	0.57
Total Debt/EBITDA	5.08	4.87	4.88	5.50	4.98	4.71	4.50
EBITDA/Interest Expense	3.72	3.50	3.84	3.84	4.05	4.28	4.50

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	—	20.0
EV/EBITDA	9.7	10.9	—	10.2
EV/EBIT	16.1	17.4	—	15.4
Free Cash Flow Yield %	-0.3	-2.7	—	-1.4
Dividend Yield %	3.8	3.3	—	3.2

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	66.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,494	10.0	4.71
Present Value Stage II	2,616	17.4	8.24
Present Value Stage III	10,909	72.6	34.36
Total Firm Value	15,019	100.0	47.30
Cash and Equivalents	172	—	0.54
Debt	-7,954	—	-25.05
Preferred Stock	—	—	—
Other Adjustments	380	—	1.20
Equity Value	7,618	—	23.99
Projected Diluted Shares	318		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Revenue	6,649	6,422	6,019	5,526	6,096
Cost of Goods Sold	3,318	2,974	2,556	1,897	2,248
Gross Profit	3,331	3,448	3,463	3,629	3,849
Selling, General & Administrative Expenses	1,653	1,656	1,723	1,760	1,814
Other Operating Expense (Income)	284	287	295	287	295
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	589	596	538	551	589
Operating Income (ex charges)	805	908	907	1,031	1,150
Restructuring & Other Cash Charges	19	2	17	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	786	906	891	1,031	1,150
Interest Expense	399	392	377	390	407
Interest Income	10	-78	-47	15	19
Pre-Tax Income	397	436	467	655	763
Income Tax Expense	166	142	163	229	267
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	-11	-3	-5	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	221	292	299	426	496
Weighted Average Diluted Shares Outstanding	276	280	289	294	318
Diluted Earnings Per Share	0.80	1.04	1.03	1.45	1.56
Adjusted Net Income	295	341	389	426	496
Diluted Earnings Per Share (Adjusted)	1.07	1.22	1.35	1.45	1.56
Dividends Per Common Share	0.92	0.92	0.92	0.94	0.98
EBITDA	1,376	1,503	1,429	1,581	1,739
Adjusted EBITDA	1,395	1,505	1,446	1,581	1,739

NiSource Inc NI (NYSE) ★★

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Cash and Equivalents	191	212	172	332	309
Investments	—	—	—	—	—
Accounts Receivable	809	1,079	855	833	919
Inventory	547	428	566	421	499
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	677	730	655	553	610
Current Assets	2,224	2,449	2,248	2,138	2,336
Net Property Plant, and Equipment	10,684	11,097	11,800	12,650	13,441
Goodwill	3,677	3,677	3,677	3,677	3,677
Other Intangibles	320	309	298	298	298
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,810	1,851	2,183	2,200	2,310
Long-Term Non-Operating Assets	557	556	502	502	502
Total Assets	19,272	19,939	20,708	21,465	22,564
Accounts Payable	502	582	435	323	382
Short-Term Debt	822	1,417	1,687	1,050	1,500
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,826	1,651	1,525	1,500	1,575
Current Liabilities	3,150	3,649	3,646	2,873	3,457
Long-Term Debt	5,965	5,936	6,267	6,820	6,700
Deferred Tax Liabilities (Long-Term)	2,018	2,210	2,542	2,800	3,000
Other Long-Term Operating Liabilities	1,559	1,596	1,810	2,000	2,200
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	1,445	1,445
Total Liabilities	14,418	15,016	15,711	15,938	16,803
Preferred Stock	—	—	—	—	—
Common Stock	4,854	4,923	4,997	4,997	4,997
Additional Paid-in Capital	—	—	—	380	430
Retained Earnings (Deficit)	—	—	—	150	334
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Shareholder's Equity	4,854	4,923	4,997	5,527	5,761
Minority Interest	—	—	—	—	—
Total Equity	4,854	4,923	4,997	5,527	5,761

NiSource Inc NI (NYSE) ★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
31.15 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Net Income	217	283	299	426	496
Depreciation	590	597	538	551	589
Amortization	—	—	—	—	—
Stock-Based Compensation	10	31	39	40	41
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	378	194	178	258	200
Other Non-Cash Adjustments	25	78	128	—	—
(Increase) Decrease in Accounts Receivable	259	-244	220	22	-86
(Increase) Decrease in Inventory	129	103	-142	145	-78
Change in Other Short-Term Assets	2	23	90	103	-57
Increase (Decrease) in Accounts Payable	-191	38	-155	-112	60
Change in Other Short-Term Liabilities	503	-320	-276	-25	75
Cash From Operations	1,921	783	920	1,408	1,241
(Capital Expenditures)	-777	-804	-1,125	-1,400	-1,380
Net (Acquisitions), Asset Sales, and Disposals	6	1	9	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	109	-140	-34	173	90
Cash From Investing	-662	-944	-1,149	-1,228	-1,290
Common Stock Issuance (or Repurchase)	8	13	21	380	50
Common Stock (Dividends)	-253	-256	-258	-276	-312
Short-Term Debt Issuance (or Retirement)	-1,061	1,280	-23	-637	450
Long-Term Debt Issuance (or Retirement)	290	-826	541	553	-120
Other Financing Cash Flows	—	—	—	-40	-41
Cash From Financing	-1,016	211	281	-20	27
Exchange Rates, Discontinued Ops, etc. (net)	-247	-57	-50	—	—
Net Change in Cash	-4	-8	2	160	-23

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

NiSource's Infrastructure Investments Overshadow Solid First-Quarter Results

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Analyst Note 01 May 2012

On May 1, NiSource NI reported solid 2012 first-quarter earnings. However, the favorable results were overshadowed by management's announcement that they are very close to a joint venture agreement that would include a significant downstream infrastructure investment opportunity in the Utica play. In addition, NiSource announced two gas transmission and storage segment projects totaling \$370 million.

The JV and the two projects provide further confidence that the company will sustain the recent higher level of capital spending exceeding \$1.4 billion in 2012, which we estimate will drive 8% annual EPS growth during the next five years. NiSource reiterated 2012 operating earnings guidance of \$1.40 to \$1.50 per share. Our 2012 EPS estimate of \$1.42 is unchanged. We are also reaffirming our \$23 per share fair value estimate.

First-quarter weather-normalized operating earnings were \$0.76 per share versus \$0.74 in the same period last year. Mild weather (23% warmer than normal) decreased residential and commercial gas distribution sales and throughput in gas transmission and storage, and reduced GAAP earnings by approximately \$0.08 per basic share. Operating earnings benefited from strong industrial gas distribution sales and the impact of higher rates due to the NIPSCO, Columbia Gas of Ohio, and Columbia Gulf rate cases in 2011. Employee and administrative costs were lower for gas distribution and gas transmission and storage, primarily pension-related costs. In 2011, NiSource made accelerated pension fund contributions of \$400 million, which helped first-quarter earnings.

Management indicated that it was in advanced discussions with an individual producer counterparty regarding a JV utilizing NiSource's acreage position in the liquids-rich

Vital Statistics

Market Cap (USD Mil)	7,188
52-Week High (USD)	24.76
52-Week Low (USD)	17.95
52-Week Total Return %	35.0
YTD Total Return %	8.3
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.0
5-Yr Forward EPS CAGR %	8.2
Price/Fair Value	1.10

Valuation Summary and Forecasts

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings		14.4	17.6	17.8	16.6
EV/EBITDA		8.1	10.1	9.7	8.8
EV/EBIT		13.5	16.1	14.9	13.5
Free Cash Flow Yield %		-0.5	-3.1	-0.7	-0.7
Dividend Yield %		5.2	3.9	3.7	4.1

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue		6,422	6,019	5,508	6,069
Revenue YoY %		-3.4	-6.3	-8.5	10.2
EBIT		908	907	1,013	1,123
EBIT YoY %		12.8	-0.1	11.7	10.9
Net Income, Adjusted		341	389	412	476
Net Income YoY %		15.4	14.0	5.9	15.7
Diluted EPS		1.22	1.35	1.42	1.53
Diluted EPS YoY %		13.7	10.7	5.2	7.7
Free Cash Flow		-27	-205	-50	-52
Free Cash Flow YoY %		-102.3	670.3	-75.8	5.0

Source for forecasts in the data tables above: Morningstar Estimates

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, NiSource's wholly-owned electric and gas utility, owns coal, natural gas and hydroelectric power plants.

The primary analyst covering this company does not own its stock.

Research as of 01 May 2012
 Estimates as of 25 Apr 2012
 Pricing data through 01 May 2012
 Rating updated as of 01 May 2012

Currency amounts expressed with "\$" are in U.S. dollars [USD] unless otherwise denoted.

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NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

portion of the Utica Play in Eastern Ohio. NiSource would provide gathering services and cryogenic processing and make a "significant" downstream infrastructure investment. Management indicated that it hoped to be able to announce details in the next month or so.

In addition to the potential JV, NiSource announced the Big Pine Gathering System anchored by a long-term agreement with XTO Energy. The 70-mile, \$150 million project in Western Pennsylvania is expected to be in service in December 2012. Like the JV, it also would not be subject to regulation and likely has the potential for higher returns on invested capital than FERC-regulated pipelines.

The other newly announced project is the \$220 million Westside expansion that will transport Marcellus production to Gulf Coast markets utilizing NiSource's Columbia Gulf pipeline. Binding long-term agreements have been signed with two shippers and the project, subject to FERC regulation, is expected to be in service in late 2014. These project announcements and the JV demonstrate the value of NiSource's pipeline footprint in the Marcellus and Utica shale plays and provide additional visibility on the company's investment opportunities that we believe are likely to drive strong earnings growth over the next five years.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.33 USD	23.00 USD	16.10 USD	31.05 USD	Medium	Narrow	Stable	NA	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Growth (% YoY)							
Revenue	—	—	-3.4	-6.3	-8.5	10.2	—
EBIT	—	—	12.8	-0.1	11.7	10.9	8.8
EBITDA	—	—	7.9	-3.9	8.2	9.5	7.0
Net Income	—	—	15.4	14.0	5.9	15.7	10.3
Diluted EPS	—	—	13.7	10.7	5.2	7.7	8.2
Earnings Before Interest, after Tax	—	—	-60.0	12.8	-23.8	7.9	-0.7
Free Cash Flow to the Firm	—	—	-85.4	-44.7	-6.8	-16.3	17.1

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Profitability							
Operating margin %	13.8	12.1	14.1	15.1	18.4	18.5	18.3
EBITDA margin %	22.8	21.0	23.4	24.0	28.4	28.2	27.5
Net margin %	4.5	3.7	4.6	5.2	7.5	7.9	7.9
Free Cash Flow to the Firm margin %	18.1	43.8	6.7	3.9	4.0	3.0	4.5
ROIC with Goodwill %	10.8	17.9	7.0	7.5	5.5	5.6	5.7
ROIC w/out Goodwill %	14.2	23.7	9.2	9.7	7.0	7.1	7.1
Return on Assets, pretax %	5.7	8.2	4.6	4.4	4.8	5.1	5.2
Return on Equity %	7.2	9.5	6.0	6.1	7.8	8.4	8.8

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Leverage							
Debt/Capital	0.60	0.58	0.60	0.61	0.59	0.59	0.58
Total Debt/EBITDA	5.09	4.87	4.89	5.50	5.12	4.82	4.70
EBITDA/Interest Expense	3.72	3.49	3.84	3.84	3.96	4.18	4.27

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	17.8	16.6
EV/EBITDA	8.1	10.1	9.7	8.8
EV/EBIT	13.5	16.1	14.9	13.5
Free Cash Flow Yield %	-0.5	-3.1	-0.7	-0.7
Dividend Yield %	5.2	3.9	3.7	4.1

Key Valuation Drivers

Cost of Equity %	10.5
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	13.8
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,174	8.1	3.68
Present Value Stage II	13,385	91.9	41.97
Present Value of the Perpetuity	—	—	—
Total Firm Value	14,559	100.0	—
Cash and Equivalents	172	—	0.54
Debt	8,000	—	-24.94
Net balance sheet impact	-7,782	—	-24.40
Other Adjustments	425	—	1.33
Equity Value	7,202	—	23.04
Projected Diluted Shares	319		
Fair Value per Share (USD)	23.00		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

NiSource Inc NI (NYSE) | ★★★

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Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Total Revenue	6,649	6,422	6,019	5,508	6,069
Cost of Goods Sold	3,318	2,974	2,556	1,897	2,248
Gross Profit	3,331	3,448	3,463	3,611	3,821
Selling, General & Administrative Expenses	1,653	1,656	1,723	1,760	1,814
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	284	287	295	287	295
Restructuring & Other Charges (Gains)	19	2	17	—	—
Depreciation Expense (if reported separately)	589	596	538	551	589
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	5,864	5,516	5,129	4,495	4,946
Operating Income (EBIT)	786	906	891	1,013	1,123
Interest Expense	399	392	377	395	410
Interest & Other Income (Expense)	10	-78	-47	15	19
Pre-Tax Income	397	436	467	633	732
Income Tax Expense (Benefit)	166	142	163	221	256
Income After Taxes	231	295	304	412	476
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest (Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-11	-3	-5	—	—
Net Income (Loss)	221	292	299	412	476
Net Income (Loss) Excluding Charges	295	341	389	412	476
Diluted Shares Outstanding (Mil)	276	280	289	290	312
Diluted EPS Including Charges	0.80	1.04	1.03	1.42	1.53
Diluted EPS Excluding Charges	1.07	1.22	1.35	1.42	1.53
Dividends Per Common Share	0.92	0.92	0.92	0.92	0.95
EBITDA	1,375	1,503	1,429	1,564	1,712
EBITDA without restructuring	1,394	1,505	1,446	1,564	1,712

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Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Assets					
Excess Cash & Investments	—	—	112	266	197
Operating Cash & Equivalents	191	212	60	83	91
Accounts Receivable	809	1,079	855	755	831
Inventory	547	428	566	421	499
Other Short Term Operating Assets	677	730	655	600	630
Total Current Assets	2,224	2,449	2,248	2,125	2,248
Property Plant & Equipment, Net	10,684	11,097	11,800	12,650	13,416
Property Plant & Equipment, Gross	19,038	19,590	20,470	21,871	23,226
(Accumulated Depreciation)	-8,354	-8,493	-8,670	-9,221	-9,810
Goodwill, Net	3,677	3,677	3,677	3,677	3,677
Other Intangibles	320	309	298	298	298
Other Long-Term Operating Assets	1,810	1,851	2,183	2,200	2,310
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	557	556	502	502	502
Total Assets	19,272	19,939	20,708	21,451	22,451
Liabilities					
Accounts Payable	502	582	435	298	395
Short-Term Debt	822	1,417	1,687	1,500	1,500
Other Current Liabilities	1,826	1,651	1,525	1,500	1,575
Total Current Liabilities	3,150	3,649	3,646	3,298	3,470
Long-Term Debt	5,965	5,936	6,267	6,500	6,750
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	5,965	5,936	6,267	6,500	6,750
Long-Term Operating Liabilities	1,559	1,596	1,810	1,850	1,943
Deferred Tax Liabilities	2,018	2,210	2,542	2,792	3,042
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	1,445	1,445
Total Liabilities	14,418	15,016	15,711	15,885	16,650
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4,854	4,923	4,997	4,997	4,997
Additional Paid in Capital	—	—	—	425	479
Retained Earnings (Deficit)	—	—	—	144	325
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Total Shareholders' Equity	4,854	4,923	4,997	5,567	5,802
Total Liabilities + Shareholders' Equity	19,272	19,939	20,708	21,451	22,451
Difference, from analyst adjustments and restatements	-1	—	—	—	—

NiSource Inc NI (NYSE) ★★★

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Cash Flow (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	218	292	299	412	476
Depreciation Expense	589	596	538	551	589
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	102	134	—	—
Deferred Income Taxes & Other Adjustments to Net Income	403	207	212	250	250
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	259	-244	220	100	-77
(Increase) Decrease in Inventory	129	103	-142	145	-78
(Increase) Decrease in Prepayments, other Current Assets	25	42	83	55	-30
Increase (Decrease) in Accounts Payable	-192	38	-155	-137	97
Increase (Decrease) in Other Current Liabilities	481	-359	-269	-25	75
Cash from Operations	1,921	777	920	1,351	1,303
(Capital Expenditures)	-777	-804	-1,125	-1,400	-1,355
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	6	1	9	—	—
Other Investing Cash Flows (Outlays)	117	-140	-34	23	-18
Cash from Investing	-655	-944	-1,149	-1,378	-1,373
Common Stock (Purchase) or Sale	8	13	21	425	54
Common Stock (Dividends)	-253	-256	-258	-267	-296
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-1,061	1,280	-23	-187	—
Long Term Debt Issuance and (Retirement)	290	-821	541	233	250
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	-1,016	216	281	204	9
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	-234	-57	-50	—	—
Net Change in Cash	16	-8	2	177	-61
Change in Cash on Balance Sheet	191	21	-40	177	-61
Difference, from analyst adjustments and restatements	-175	-29	42	—	—

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.45 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource's Weak Results in 3Q From Settlement Agreement; No Change to EPS or Fair Value Estimates

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Analyst Note 02 Nov 2012

On Nov. 2, NiSource NI reported third-quarter 2012 operating earnings of \$0.05 per share versus \$0.11 per share in the same period last year. The negative variance primarily reflects the \$50 million cost to achieve the Columbia Gas Transmission's pipeline modernizations settlement announced in September. NiSource reaffirmed its 2012 operating earnings guidance range of \$1.40-\$1.50 per share and its long-term annual EPS growth rate of 5%-7%. We are reiterating our 2012 EPS estimate of \$1.46 and our long-term earnings outlook. Our \$25 per share fair value estimate is also unchanged.

The primary analyst covering this company does not own its stock.

Research as of 02 Nov 2012
 Estimates as of 31 Jul 2012
 Pricing data through 01 Nov 2012
 Rating updated as of 01 Nov 2012

Currency amounts expressed with "\$" are in U.S. dollars [USD] unless otherwise denoted.

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Gas Transmission & Storage had operating earnings of \$38.8 million for the recently ended quarter versus \$68.2 million in the same period last year. The negative variance was primarily due to the pipeline modernization settlement, partially offset by earnings from new projects placed in service and the impact of the Columbia Gulf rate case.

NiSource's Electric Operations reported operating earnings for the quarter of \$77.7 million compared to \$72.9 million last year. The segment benefited from the 2011 Indiana rate case. Gas Distribution also had a good quarter driven by the implementation of new rates due to a rate case in Pennsylvania and higher revenues from the Columbia Gas of Ohio's ongoing infrastructure replacement program. Operating earnings for the segment increased to \$15.5 million compared to \$8 million in the 2011 third quarter.

Management's status report on major projects in construction or development was for the most part consistent with those made at the September investor day meeting. New information included the entering into binding agreements with customers for the East Side Expansion project. The project is now estimated to cost \$210 million and expected to be in service in the 2015 third

Vital Statistics

Market Cap (USD Mil)	7,251
52-Week High (USD)	26.15
52-Week Low (USD)	21.17
52-Week Total Return %	23.8
YTD Total Return %	10.8
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	9.4
Price/Fair Value	1.02

Valuation Summary and Forecasts

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings		14.4	17.6	17.4	16.1
EV/EBITDA		8.1	10.1	9.5	8.7
EV/EBIT		13.5	16.1	14.6	13.1
Free Cash Flow Yield %		-0.5	-3.1	-0.6	-0.8
Dividend Yield %		5.2	3.9	3.8	4.3

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue		6,422	6,019	5,526	6,096
Revenue YoY %		-3.4	-6.3	-8.2	10.3
EBIT		908	907	1,031	1,150
EBIT YoY %		12.8	-0.1	13.6	11.6
Net Income, Adjusted		341	389	423	494
Net Income YoY %		15.4	14.0	8.9	16.8
Diluted EPS		1.22	1.35	1.46	1.58
Diluted EPS YoY %		13.7	10.7	8.2	8.7
Free Cash Flow		-27	-205	-41	-61
Free Cash Flow YoY %		-102.3	670.3	-80.2	49.6

Source for forecasts in the data tables above: Morningstar Estimates

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.45 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

quarter.

NiSource also indicated it received FERC approval to add 12,000 horsepower of compression to the Millennium Pipeline. NiSource owns 47.5% of the pipeline and the total investment for the partnership is \$43 million. The project is expected to be in service in the first quarter of 2013.

The other recent FERC approval was for the 66-mile 765-kilovolt Reynolds to Greentown Transmission Line. NiSource is 50% partner on the approximately \$300 million project in central Indiana. The transmission line is expected to be in service later in the decade.



NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.45 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Growth (% YoY)	—	—	-3.4	-6.3	-8.2	10.3	—
Revenue	—	—	12.8	-0.1	13.6	11.6	9.6
EBIT	—	—	7.9	-3.9	9.4	10.0	7.6
EBITDA	—	—	15.4	14.0	8.9	16.8	11.5
Net Income	—	—	13.7	10.7	8.2	8.7	9.4
Diluted EPS	—	—	-60.0	12.8	-22.9	8.4	-0.1
Earnings Before Interest, after Tax	—	—	-85.4	-44.7	-2.9	-23.3	17.6
Free Cash Flow to the Firm	—	—					

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Profitability							
Operating Margin %	13.8	12.1	14.1	15.1	18.7	18.9	18.7
EBITDA Margin %	22.8	21.0	23.4	24.0	28.6	28.5	27.9
Net Margin %	4.5	3.7	4.6	5.2	7.7	8.1	8.2
Free Cash Flow to the Firm margin %	18.1	43.8	6.7	3.9	4.2	2.9	4.5
ROIC with Goodwill %	10.8	17.9	7.0	7.5	5.5	5.7	5.8
ROIC w/out Goodwill %	14.2	23.7	9.2	9.7	7.1	7.3	7.3
Return on Assets, pretax %	5.7	8.2	4.6	4.4	4.9	5.2	5.4
Return on Equity %	7.2	9.5	6.0	6.1	8.0	8.7	9.2

	3-Year Hist. Avg	Forecast					5-Year Proj. Avg
		Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	
Leverage							
Debt/Capital	0.60	0.58	0.60	0.61	0.59	0.59	0.58
Total Debt/EBITDA	5.09	4.87	4.89	5.50	5.06	4.74	4.61
EBITDA/Interest Expense	3.72	3.49	3.84	3.84	4.01	4.24	4.36

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	17.4	16.1
EV/EBITDA	8.1	10.1	9.5	8.7
EV/EBIT	13.5	16.1	14.6	13.1
Free Cash Flow Yield %	-0.5	-3.1	-0.6	-0.8
Dividend Yield %	5.2	3.9	3.8	4.3

Key Valuation Drivers

Cost of Equity %	10.5
Credit Spread for Debt %	2.5
Weighted Average Cost of Capital %	7.6
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	3.0
Stage II Investment Rate %	13.8
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,185	7.9	3.71
Present Value Stage II	13,791	92.1	43.24
Present Value of the Perpetuity	—	—	—
Total Firm Value	14,976	100.0	—
Cash and Equivalents	172	—	0.54
Debt	8,000	—	-24.94
Net balance sheet impact	-7,782	—	-24.40
Other Adjustments	425	—	1.33
Equity Value	7,619	—	24.80
Projected Diluted Shares	319		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts. When probability-weighted scenario analysis is performed, the sum of per share values may differ from the Fair Value Estimate.

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.45 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Total Revenue	6,649	6,422	6,019	5,526	6,096
Cost of Goods Sold	3,318	2,974	2,556	1,897	2,248
Gross Profit	3,331	3,448	3,463	3,629	3,849
Selling, General & Administrative Expenses	1,653	1,656	1,723	1,760	1,814
Research & Development Expenses	—	—	—	—	—
Other Operating Expenses (Income)	284	287	295	287	295
Restructuring & Other Charges (Gains)	19	2	17	—	—
Depreciation Expense (if reported separately)	589	596	538	551	589
Amortization of Other Intangibles (if reported separately)	—	—	—	—	—
Amortization/Impairment of Goodwill	—	—	—	—	—
Total Expenses	5,864	5,516	5,129	4,495	4,946
Operating Income (EBIT)	786	906	891	1,031	1,150
Interest Expense	399	392	377	395	410
Interest & Other Income (Expense)	10	-78	-47	15	19
Pre-Tax Income	397	436	467	651	760
Income Tax Expense (Benefit)	166	142	163	227	266
Income After Taxes	231	295	304	423	494
Minority Interest & Other After-Tax Operating Additions to (Subtractions from) Earnings Before Interest (Preferred Dividends)	—	—	—	—	—
After-Tax Non-Operating Income, Extraordinary Items (Losses), Discontinued Operations, Accounting Changes	-11	-3	-5	—	—
Net Income (Loss)	221	292	299	423	494
Net Income (Loss) Excluding Charges	295	341	389	423	494
Diluted Shares Outstanding (Mil)	276	280	289	290	312
Diluted EPS Including Charges	0.80	1.04	1.03	1.46	1.58
Diluted EPS Excluding Charges	1.07	1.22	1.35	1.46	1.58
Dividends Per Common Share	0.92	0.92	0.92	0.96	0.99
EBITDA	1,375	1,503	1,429	1,581	1,739
EBITDA without restructuring	1,394	1,505	1,446	1,581	1,739

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.45 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Assets					
Excess Cash & Investments	—	—	112	269	179
Operating Cash & Equivalents	191	212	60	83	91
Accounts Receivable	809	1,079	855	757	835
Inventory	547	428	566	421	499
Other Short Term Operating Assets	677	730	655	600	630
Total Current Assets	2,224	2,449	2,248	2,130	2,235
Property Plant & Equipment, Net	10,684	11,097	11,800	12,650	13,441
Property Plant & Equipment, Gross	19,038	19,590	20,470	21,871	23,251
(Accumulated Depreciation)	-8,354	-8,493	-8,670	-9,221	-9,810
Goodwill, Net	3,677	3,677	3,677	3,677	3,677
Other Intangibles	320	309	298	298	298
Other Long-Term Operating Assets	1,810	1,851	2,183	2,200	2,310
Deferred Tax Assets	—	—	—	—	—
Long-Term Non-Operating Assets, including Pension items	557	556	502	502	502
Total Assets	19,272	19,939	20,708	21,457	22,463
Liabilities					
Accounts Payable	502	582	435	298	395
Short-Term Debt	822	1,417	1,687	1,500	1,500
Other Current Liabilities	1,826	1,651	1,525	1,500	1,575
Total Current Liabilities	3,150	3,649	3,646	3,298	3,470
Long-Term Debt	5,965	5,936	6,267	6,500	6,750
Incremental Debt Requirements	—	—	—	—	—
Total Long-Term Debt	5,965	5,936	6,267	6,500	6,750
Long-Term Operating Liabilities	1,559	1,596	1,810	1,850	1,943
Deferred Tax Liabilities	2,018	2,210	2,542	2,792	3,042
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	1,445	1,445
Total Liabilities	14,418	15,016	15,711	15,885	16,650
Preferred Stock	—	—	—	—	—
Minority Interest	—	—	—	—	—
Shareholders' Equity					
Common Stock	4,854	4,923	4,997	4,997	4,997
Additional Paid in Capital	—	—	—	425	479
Retained Earnings (Deficit)	—	—	—	150	337
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Total Shareholders' Equity	4,854	4,923	4,997	5,572	5,813
Total Liabilities + Shareholders' Equity	19,272	19,939	20,708	21,457	22,463
Difference, from analyst adjustments and restatements	-1	—	—	—	—



NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
25.45 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

	Dec 2009	Dec 2010	Dec 2011	Forecast	
				Dec 2012	Dec 2013
Net Income from Continuing Operations	218	292	299	423	494
Depreciation Expense	589	596	538	551	589
Amortization of Other Intangibles	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Other Non-Cash Adjustments to Operating Income	9	102	134	—	—
Deferred Income Taxes & Other Adjustments to Net Income	403	207	212	250	250
Changes in Operating Assets and Liabilities					
(Increase) Decrease in Accounts Receivable	259	-244	220	98	-78
(Increase) Decrease in Inventory	129	103	-142	145	-78
(Increase) Decrease in Prepayments, other Current Assets	25	42	83	55	-30
Increase (Decrease) in Accounts Payable	-192	38	-155	-137	97
Increase (Decrease) in Other Current Liabilities	481	-359	-269	-25	75
Cash from Operations	1,921	777	920	1,360	1,320
(Capital Expenditures)	-777	-804	-1,125	-1,400	-1,380
(Acquisitions)	—	—	—	—	—
Asset Sales & Dispositions of Discontinued Operations	6	1	9	—	—
Other Investing Cash Flows (Outlays)	117	-140	-34	23	-18
Cash from Investing	-655	-844	-1,149	-1,378	-1,398
Common Stock (Purchase) or Sale	8	13	21	425	54
Common Stock (Dividends)	-253	-256	-258	-273	-308
Preferred Stock Issue/(Purchase)/(Dividends)	—	—	—	—	—
Short Term Debt Issuance and (Retirement)	-1,061	1,280	-23	-187	—
Long Term Debt Issuance and (Retirement)	290	-821	541	233	250
Minority Interest Addback of Income (Loss) Distribution	—	—	—	—	—
Other Financing Cash Flows (Outlays)	—	—	—	—	—
Cash From Financing	-1,016	216	281	198	-4
Benefit (Loss) from Exchange Rates/Discontinued Operations, etc.	-234	-57	-50	—	—
Net Change in Cash	16	-8	2	180	-82
Change in Cash on Balance Sheet	191	21	-40	180	-82
Difference, from analyst adjustments and restatements	-175	-29	42	—	—

NiSource Inc NI (NYSE) | ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
26.78 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

NiSource Posts Solid 2012 Results; Continues to Leverage Strategic Position in Shale Gas Regions

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Analyst Note 19 Feb 2013

On Tuesday, NiSource NI reported 2012 operating EPS of \$1.46 versus \$1.32 in 2011, \$0.01 higher than our estimate and the consensus estimate. NiSource initiated a 2013 operating earnings guidance range of \$1.50-\$1.60 per share. We are reaffirming our 2013 EPS estimate of \$1.56. We believe the solid results and in line guidance indicate that management continues to leverage the company's strategic position in the Marcellus and Utica shale gas production areas. We are reaffirming our narrow moat and stable moat trend ratings and our fair value estimate of \$25 per share.

NiSource indicated it is moving forward with the 5-year, \$1.5 billion Columbia Pipeline modernization program after receiving FERC approval on Jan. 24. In addition, management indicated that the test wells drilled as part of the Hilcorp J.V. had liquids content consistent with other area wells. These positive comments give us additional confidence in our five-year annual EPS growth estimate of 8%, slightly higher than management's target of 5%-7%.

The primary analyst covering this company does not own its stock.

Research as of 19 Feb 2013
 Estimates as of 15 Jan 2013
 Pricing data through 18 Feb 2013
 Rating updated as of 15 Feb 2013

Currency amounts expressed with "\$" are in U.S. dollars (USD) unless otherwise denoted.

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Vital Statistics

Market Cap (USD Mil)	8,295
52-Week High (USD)	27.31
52-Week Low (USD)	22.71
52-Week Total Return %	21.6
YTD Total Return %	8.6
Last Fiscal Year End	31 Dec 2011
5-Yr Forward Revenue CAGR %	5.1
5-Yr Forward EPS CAGR %	9.3
Price/Fair Value	1.07

Valuation Summary and Forecasts

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Price/Earnings		14.4	17.6	18.5	17.2
EV/EBITDA		8.1	10.1	10.2	9.3
EV/EBIT		13.5	16.1	15.7	14.0
Free Cash Flow Yield %		-0.4	-3.1	0.1	-1.7
Dividend Yield %		5.2	3.9	3.3	3.8

Financial Summary and Forecasts (USD Mil)

	Fiscal Year:	2010	2011	2012(E)	2013(E)
Revenue		6,422	6,019	5,526	6,096
Revenue YoY %		-3.4	-6.3	-8.2	10.3
EBIT		908	907	1,031	1,150
EBIT YoY %		12.8	-0.1	13.6	11.6
Net Income, Adjusted		341	389	426	496
Net Income YoY %		15.6	14.1	9.6	16.4
Diluted EPS		1.22	1.35	1.45	1.56
Diluted EPS YoY %		13.8	10.8	7.5	7.5
Free Cash Flow		135	7	384	161
Free Cash Flow YoY %		-90.9	-95.1	NM	-58.2

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

NiSource is an energy holding company whose subsidiaries distribute natural gas and electricity to more than 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. The company owns and operates 15,000 miles of natural gas transmission pipeline and one of the nation's largest underground natural gas storage systems. Northern Indiana Public Service Company, or NIPSCO, NiSource's wholly owned electric and gas utility, owns coal, natural gas, and hydroelectric power plants.

NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
26.78 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in December

	3-Year Hist. CAGR	Forecast					5-Year Proj. CAGR
		2009	2010	2011	2012	2013	
Growth (% YoY)	—	—	-3.4	-6.3	-8.2	10.3	5.1
Revenue	—	—	12.8	-0.1	13.6	11.6	9.6
EBIT	—	—	7.9	-4.0	9.4	10.0	7.6
EBITDA	—	—	15.6	14.1	9.6	16.4	12.1
Net Income	—	—	13.8	10.8	7.5	7.5	9.3
Diluted EPS	—	—	3.7	-0.1	5.5	2.1	6.1
Earnings Before Interest, after Tax	—	—	-90.9	-95.1	NM	-58.2	151.4
Free Cash Flow	—	—					

	3-Year Hist. Avg						5-Year Proj. Avg
		2009	2010	2011	2012	2013	
Profitability							
Operating Margin %	13.8	12.1	14.1	15.1	18.7	18.9	18.7
EBITDA Margin %	22.8	21.0	23.4	24.0	28.6	28.5	27.9
Net Margin %	5.4	4.4	5.3	6.5	7.7	8.1	8.4
Free Cash Flow Margin %	8.2	22.2	2.1	0.1	7.0	2.6	5.6
ROIC %	6.5	6.6	6.6	6.3	6.5	6.4	6.8
Adjusted ROIC %	9.0	9.3	9.1	8.6	8.7	8.5	9.0
Return on Assets %	1.8	2.3	1.5	1.5	2.0	2.3	2.4
Return on Equity %	7.0	9.1	6.0	6.0	8.1	8.8	9.3

	3-Year Hist. Avg						5-Year Proj. Avg
		2009	2010	2011	2012	2013	
Leverage							
Debt/Capital	0.60	0.58	0.60	0.61	0.59	0.59	0.57
Total Debt/EBITDA	5.08	4.87	4.88	5.50	4.98	4.71	4.50
EBITDA/Interest Expense	3.72	3.50	3.84	3.84	4.05	4.28	4.50

Valuation Summary and Forecasts

	2010	2011	2012(E)	2013(E)
Price/Fair Value	1.04	1.40	—	—
Price/Earnings	14.4	17.6	18.5	17.2
EV/EBITDA	8.1	10.1	10.2	9.3
EV/EBIT	13.5	16.1	15.7	14.0
Free Cash Flow Yield %	-0.4	-3.1	0.1	-1.7
Dividend Yield %	5.2	3.9	3.3	3.8

Key Valuation Drivers

Cost of Equity %	10.0
Pre-Tax Cost of Debt %	5.0
Weighted Average Cost of Capital %	7.2
Long-Run Tax Rate %	35.0
Stage II EBI Growth Rate %	6.0
Stage II Investment Rate %	66.7
Perpetuity Year	15

Additional estimates and scenarios available for download at <http://select.morningstar.com>.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	1,494	10.0	4.71
Present Value Stage II	2,616	17.4	8.24
Present Value Stage III	10,909	72.6	34.36
Total Firm Value	15,019	100.0	47.30
Cash and Equivalents	172	—	0.54
Debt	-7,954	—	-25.05
Preferred Stock	—	—	—
Other Adjustments	380	—	1.20
Equity Value	7,618	—	23.99
Projected Diluted Shares	318		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.



NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
26.78 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Revenue	6,649	6,422	6,019	5,526	6,096
Cost of Goods Sold	3,318	2,974	2,556	1,897	2,248
Gross Profit	3,331	3,448	3,463	3,629	3,849
Selling, General & Administrative Expenses	1,653	1,656	1,723	1,760	1,814
Other Operating Expense (Income)	284	287	295	287	295
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	589	596	538	551	589
Operating Income (ex charges)	805	908	907	1,031	1,150
Restructuring & Other Cash Charges	19	2	17	—	—
Impairment Charges (if reported separately)	—	—	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	786	906	891	1,031	1,150
Interest Expense	399	392	377	390	407
Interest Income	10	-78	-47	15	19
Pre-Tax Income	397	436	467	655	763
Income Tax Expense	166	142	163	229	267
Other After-Tax Cash Gains (Losses)	—	—	—	—	—
Other After-Tax Non-Cash Gains (Losses)	-11	-3	-5	—	—
(Minority Interest)	—	—	—	—	—
(Preferred Dividends)	—	—	—	—	—
Net Income	221	292	299	426	496
Weighted Average Diluted Shares Outstanding	276	280	289	294	318
Diluted Earnings Per Share	0.80	1.04	1.03	1.45	1.56
Adjusted Net Income	295	341	389	426	496
Diluted Earnings Per Share (Adjusted)	1.07	1.22	1.35	1.45	1.56
Dividends Per Common Share	0.92	0.92	0.92	0.94	0.98
EBITDA	1,376	1,503	1,429	1,581	1,739
Adjusted EBITDA	1,395	1,505	1,446	1,581	1,739



NiSource Inc NI (NYSE: **NI**) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
26.78 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in December

	2009	2010	2011	Forecast	
				2012	2013
Cash and Equivalents	191	212	172	332	309
Investments	—	—	—	—	—
Accounts Receivable	809	1,079	855	833	919
Inventory	547	428	566	421	499
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	677	730	655	553	610
Current Assets	2,224	2,449	2,248	2,138	2,336
Net Property Plant, and Equipment	10,684	11,097	11,800	12,650	13,441
Goodwill	3,677	3,677	3,677	3,677	3,677
Other Intangibles	320	309	298	298	298
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	1,810	1,851	2,183	2,200	2,310
Long-Term Non-Operating Assets	557	556	502	502	502
Total Assets	19,272	19,939	20,708	21,465	22,564
Accounts Payable	502	582	435	323	382
Short-Term Debt	822	1,417	1,687	1,050	1,500
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	1,826	1,651	1,525	1,500	1,575
Current Liabilities	3,150	3,649	3,646	2,873	3,457
Long-Term Debt	5,965	5,936	6,267	6,820	6,700
Deferred Tax Liabilities (Long-Term)	2,018	2,210	2,542	2,800	3,000
Other Long-Term Operating Liabilities	1,559	1,596	1,810	2,000	2,200
Long-Term Non-Operating Liabilities	1,726	1,625	1,445	1,445	1,445
Total Liabilities	14,418	15,016	15,711	15,938	16,803
Preferred Stock	—	—	—	—	—
Common Stock	4,854	4,923	4,997	4,997	4,997
Additional Paid-in Capital	—	—	—	380	430
Retained Earnings (Deficit)	—	—	—	150	334
(Treasury Stock)	—	—	—	—	—
Other Equity	—	—	—	—	—
Shareholder's Equity	4,854	4,923	4,997	5,527	5,761
Minority Interest	—	—	—	—	—
Total Equity	4,854	4,923	4,997	5,527	5,761



NiSource Inc NI (NYSE) ★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Morningstar Credit Rating	Industry Group
26.78 USD	25.00 USD	17.50 USD	33.75 USD	Medium	Narrow	Stable	Standard	BBB	Utilities - Regulated

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in December	Forecast				
	2009	2010	2011	2012	2013
Net Income	217	283	299	426	496
Depreciation	590	597	538	551	589
Amortization	—	—	—	—	—
Stock-Based Compensation	10	31	39	40	41
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	378	194	178	258	200
Other Non-Cash Adjustments	25	78	128	—	—
(Increase) Decrease in Accounts Receivable	259	-244	220	22	-86
(Increase) Decrease in Inventory	129	103	-142	145	-78
Change in Other Short-Term Assets	2	23	90	103	-57
Increase (Decrease) in Accounts Payable	-191	38	-155	-112	60
Change in Other Short-Term Liabilities	503	-320	-276	-25	75
Cash From Operations	1,921	783	920	1,408	1,241
(Capital Expenditures)	-777	-804	-1,125	-1,400	-1,380
Net (Acquisitions), Asset Sales, and Disposals	6	1	9	—	—
Net Sales (Purchases) of Investments	—	—	—	—	—
Other Investing Cash Flows	109	-140	-34	173	90
Cash From Investing	-662	-944	-1,149	-1,228	-1,290
Common Stock Issuance (or Repurchase)	8	13	21	380	50
Common Stock (Dividends)	-253	-256	-258	-276	-312
Short-Term Debt Issuance (or Retirement)	-1,061	1,280	-23	-637	450
Long-Term Debt Issuance (or Retirement)	290	-826	541	553	-120
Other Financing Cash Flows	—	—	—	-40	-41
Cash From Financing	-1,016	211	281	-20	27
Exchange Rates, Discontinued Ops, etc. (net)	-247	-57	-50	—	—
Net Change in Cash	-4	-8	2	160	-23

March 26, 2013

ENERGY: Electric Utilities / Multi- Utilities

Industry Update / Price Target Change

KeyBanc
Capital Markets



Utilities: Updating Price Targets

KeyBanc Capital Markets Inc.
Member NYSE/FINRA/SIPC

Paul T. Ridzon: (216) 689- 0270 — pridzon@key.com

Sym	Cur Rtg	Prv Rtg	Cur Target	Prv Target	FC		Current EPS			Previous EPS		
					2013	2014	2012	2013	2014	2012	2013	2014
AEP	BUY	BUY	\$49.50	\$47.00	\$3.16	\$3.31	\$3.09	\$3.10	--	\$3.09	\$3.10	--
ALE	BUY	BUY	\$50.00	\$48.00	\$2.74	\$3.01	\$2.58	\$2.70	--	\$2.58	\$2.70	--
CMS	BUY	BUY	\$28.50	\$27.00	\$1.65	\$1.74	\$1.55	\$1.65	--	\$1.55	\$1.65	--
CNL	BUY	BUY	\$46.50	\$45.00	\$2.52	\$2.83	\$2.46	\$2.55	--	\$2.40	\$2.55	--
IDA	BUY	BUY	\$49.50	\$48.00	\$3.26	\$3.37	\$3.37	\$3.25	--	\$3.35	\$3.25	--
NI	BUY	BUY	\$30.50	\$28.50	\$1.56	\$1.68	\$1.46	\$1.55	--	\$1.45	\$1.55	--

ACTION STATEMENT

We are revisiting price targets on some of our **BUY**-rated names after the strength in the markets has lifted the overall valuation of the utility group. On a relative basis, we still find value in these names despite the fact that several of them have traded through our prior price targets. We are raising our price targets on American Electric Power Company, Inc. (AEP-NYSE), ALLETE, Inc. (ALE-NYSE), CMS Energy Corporation (CMS-NYSE), Cleco Corporation (CNL-NYSE), IDACORP, Inc. (IDA-NYSE) and NiSource, Inc. (NI-NYSE). Given the nature of how the utility sector historically trades as a group, we use essentially the same valuation methodology, grounded against a higher group multiple. Since we last revisited our price targets in mid-February, the Philadelphia Utility index has risen by over 5%.

KEY INVESTMENT POINTS

Given recent market strength, including in the utilities sector, we are revisiting several price targets for our **BUY**-rated names. Since the end of 2012, the S&P 500 is up 8.8%, while the Philadelphia Utility Index (UTY) has also risen by 8.9%.

We are raising price targets on **BUY**-rated AEP, ALE, CMS, CNL, IDA and NI to reflect a higher group multiple. Some of these names have traded through our previous price targets given a strong overall market. Our coverage universe currently trades at a P/E multiple of 16.1x 2013 earnings. We continue to view these names favorably based on relative valuation.

Below we discuss the characteristics that attract us to these companies:

American Electric Power Company, Inc. (AEP- NYSE; BUY; \$49.50 price target; \$3.10 EPS 2013E) - We continue to view AEP as a core large cap holding. At its recent Analyst Day, AEP issued 2013 and 2014 guidance ranges of \$3.05- \$3.25 and \$3.15- \$3.45 per share, respectively. The dividend policy was raised from a 50- 60% payout ratio to 60- 70%, supported by regulated earnings. The Company's 4- 6% growth rate was reaffirmed. We believe AEP offers investment opportunity on generally reasonable regulatory environments and offers upside in a tightening commodity market. **We have increased our price target to \$49.50 from \$47.00 per share.** Our valuation is based upon a modest discount to large cap regulated peers.

ALLETE, Inc. (ALE- NYSE; BUY; \$50.00 price target; \$2.70 EPS 2013E) - We believe ALE offers above- average growth prospects through investment in renewables, environmental, transmission and potentially new generation, all in a constructive regulatory environment. Potential near- to medium- term catalysts include incremental wind capacity and possible monetization of Florida real estate assets. **We have increased our price target to \$50.00 from \$48.00 per share.** We add back the Florida real estate losses and apply a premium valuation, and then add back 70% of the real estate book value in our valuation.

FOR IMPORTANT DISCLOSURES AND CERTIFICATIONS, PLEASE REFER TO PAGE 3 OF THIS NOTE.

CMS Energy Corporation (CMS- NYSE; BUY; \$28.50 price target; \$1.65 EPS 2013E) - In our view, CMS offers solid capital opportunities in a constructive regulatory environment. CMS has potential investment in renewables and baseload natural gas generation. NOLs (net operating loss carry forwards) allow investment without meaningful equity needs. **We have increased our price objective to \$28.50 from \$27.00 per share.** We use a valuation premium of 6% to a peer group of larger regulated names.

Cleco Corporation (CNL- NYSE; BUY; \$46.50 price target; \$2.55 EPS 2013E) - CNL has successfully completed its large capital program and represents a free cash flow story. We estimate CNL can generate roughly \$90 million of free cash annually. Management has indicated it would utilize this free cash to seek investment opportunities with utility- like risk and returns and/or return cash to shareholders through higher dividend payments or share repurchases. **Our new \$46.50 price target (prior \$45.00)** is derived from the value of a premium utility, including earnings from rate- basing the Coughlin plant, and adding the cash generated by leveraging the plant to the utility's capital structure.

IDACORP, Inc. (IDA- NYSE; BUY; \$49.50 price target; \$3.25 EPS 2013E) - IDA has investment opportunities around large transmission projects and potential generation to fill the needs caused by expiring power contracts. We believe Idaho regulation continues to improve as evidenced by recent constructive settlements that act to put a 9.5% floor on IDA's earned ROE. **We have raised our price target to \$49.50 from \$48.00 per share,** based upon our view that shares should trade at a 5% discount to the group given lingering risk that improvement in Idaho regulation stalls.

NiSource, Inc. (NI- NYSE; BUY; \$30.50 price target; \$1.55 EPS 2013E) - We view NI as a portfolio of attractive assets in the gas distribution, electric utility and gas midstream businesses, coupled with a meaningful (100,000- 200,000 acres) position in the Utica/ Marcellus. Our valuation is based on a sum- of- the- parts of companies in respective peer groups. **We have raised our price objective to \$30.50 from \$28.50 per share.**

VALUATION TABLE FOR COMPANIES WITH PRICE TARGET CHANGES

Pricing: March 25, 2013 Close Pricing

Company	TKR	Rating	2013E EPS	2013 P/E	Price Tgt P/E	Price Target
Allete, Inc.	ALE	Buy	\$2.70	16.0x	17.8x	\$50.00
American Electric Power, Inc.	AEP	Buy	\$3.10	14.4x	15.2x	\$49.50
CMS Energy Corp.	CMS	Buy	\$1.65	15.6x	16.4x	\$28.50
Cleco Corp.	CNL	Buy	\$2.55	16.2x	17.6x	\$46.50
IDACORP, Inc.	IDA	Buy	\$3.25	14.1x	14.8x	\$49.50
NiSource, Inc.	NI	Buy	\$1.55	16.9x	18.4x	\$30.50
KBCM Utility Peer Group Average Multiple = 16.1x						

Source: KeyBanc Capital Markets Inc.

KeyBanc Capital Markets Inc. Disclosures and Certifications

Important disclosures for the companies mentioned in this report can be found at <https://key2.bluematrix.com/sellside/Disclosures.action>.

Please refer to the analysts' recently published reports for company- specific valuation and risks.

Reg AIC Certification

The research analyst(s) responsible for the preparation of this research report certifies that:(1) all the views expressed in this research report accurately reflect the research analyst's personal views about any and all of the subject securities or issuers; and (2) no part of the research analyst's compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this research report.

Rating Disclosures

Distribution of Ratings/IB Services Firmwide and by Sector									
KeyBanc Capital Markets					ENERGY				
Rating	Count	Percent	IB Serv/Past 12 Mos.		Rating	Count	Percent	IB Serv/Past 12 Mos.	
			Count	Percent				Count	Percent
BUY [BUY]	224	44.98	46	20.54	BUY [BUY]	28	44.44	15	53.57
HOLD [HOLD]	263	52.81	64	24.33	HOLD [HOLD]	35	55.56	18	51.43
SELL [UND]	11	2.21	1	9.09	SELL [UND]	0	0.00	0	0.00

Rating System

BUY - The security is expected to outperform the market over the next six to 12 months; investors should consider adding the security to their holdings opportunistically, subject to their overall diversification requirements.

HOLD - The security is expected to perform in line with general market indices over the next six to 12 months; no buy or sell action is recommended at this time.

UNDERWEIGHT - The security is expected to underperform the market over the next six to 12 months; investors should reduce their holdings opportunistically.

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Investors should assume that we are seeking or will seek investment banking or other business relationships with the company described in this report.

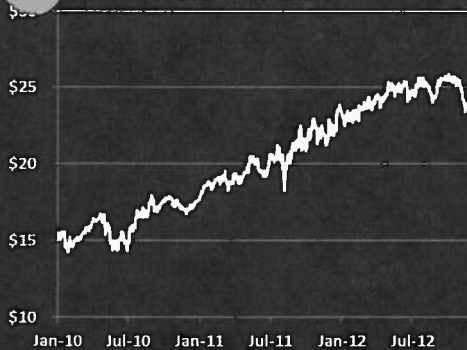


NISOURCE INC	(NI)
CURRENT PRICE:	\$24.19
TARGET PRICE:	\$26.00
RECOMMENDATION:	HOLD

Key Stats

Market Cap:	\$7.5B
Enterprise Value:	\$15.3B
EPU (2011A):	\$1.32
EPU (2012E):	\$1.44
P/E (2011A):	18.4x
P/E (2012E):	16.8x
EV/EBITDA (2012E):	9.6x
DPS (2012E):	\$0.94
Current Yield:	4.0%
3-Yr DPS Growth Rate:	4.7%
Beta:	.68

NI Stock Price Performance
2010 - YTD 2012



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Initiating Coverage of NI (Hold - \$26 PT)

Summary

- Initiating coverage of NI with a Hold recommendation and a \$26 price target.
- **Turned around and on track for steady growth:** Over the past five years management has turned around an overlevered, underperforming utility through innovative regulatory means and capitalizing on well-positioned assets. NI is now targeting 5-7% annual EPS growth and 3-5% annual dividend growth with associated payout ratio of 60-70% – targets which have visibility and should be easily achieved and likely exceeded. However, we think those growth expectations are already reflected in the stock.
- **Our Estimates Slightly Higher than NI:** NiSource plans \$1.5-\$1.8B/yr on infrastructure investment over the next 10 years, with spending fairly ratable. So we see higher near-term EPS growth as they start from a smaller base – we’re at 7-9%/yr EPS growth over the next three years. We see dividend growth at 4-5%, within NI’s guidance range, but see payout ratio falling below 60% by 2015. We don’t think NI accelerates dividend growth and instead opts for a more conservative fiscal policy in order to ensure funding for growth projects.
- **MLP Unlikely But Potential Kicker:** About 30% of NI’s net plant and 1/3rd of its operating income consists of MLP-qualifying assets (pipes, storage and midstream). NI has stated that formation of an MLP is very much on the back burner right now, with the priority being building an inventory of projects and executing on them. With ~\$600mm of cap ex spend targeted for the Pipeline & Storage segment, we think NI will revisit the issue in a couple of years. We estimate that an MLP could be value additive by ~\$5/sh (+19%).
- **Limited Utica Acreage Upside for Now:** Lot of excitement about NI having potential Utica acreage a few months ago. Given the location of NI’s acreage and Utica results to date, we are reluctant to give them any value beyond the 14,000 acres contributed to the Hilcorp E&P joint venture (JV). We view the JV primarily as a vehicle to capture midstream infrastructure opportunities.
- **Limited Catalysts:** NI outlined their growth strategy at a recent analyst meeting and is largely through major rate cases. As such, over the next six months, we think the stock has minimal catalysts, and the story is primarily about execution.

Business Segment Overview

Gas Distribution (~45% of Operating Income)

NiSource’s gas distribution operations serve >3.3mm customers in seven states (OH, IN, PA, MA, VA, KY, MD). Ohio and Indiana are their two largest jurisdictions, representing ~2/3 of their customer base. Customer mix is ~50% residential/commercial, 40% industrial and 11% power generation. However margin is ~90% residential /commercial, and of that ~80% of revenues are fixed recovery (receive revenues regardless of throughput). Customer growth has been basically flat with the exception of 1-2% declines in ‘08 and ‘09 due to recessionary pressure.



The company has worked hard on the regulatory front the past several years to boost returns and pave the way for minimal revenue variability by seeking various trackers, decoupling, etc. NiSource now has accelerated infrastructure trackers in all of its jurisdictions except IN (don't necessarily need as basically all of system has been replaced). A table outlining NI's utility stats is shown below.

NiSource Gas Distribution	Customers (000)	Rate Base (\$mm)	Decoupling	Infrastructure Tracker	Uncollectible Tracker	Pension Tracker	Environmental Tracker	Low-Income Program	Energy Eff. Program
Columbia Gas of OH	1,400	\$1,300	☑	☑	☑	☑	☑	☑	☑
NIPSCO Gas	795	\$800			☑		☑	☑	☑
Columbia Gas of PA	413	\$784		☑	☑	☑		☑	☑
Columbia Gas of MA	300	\$465	☑	☑	☑	☑		☑	☑
Columbia Gas of VA	240	\$417	☑	☑	☑		☑	☑	☑
Columbia Gas of KY	142	\$173		☑	☑			☑	☑
Columbia Gas of MD	33	\$54		☑	☑	☑	☑	☑	☑
Total Gas	3,323	\$3,993							
NIPSCO Electric	458	\$2,300			☑		☑	☑	☑

Source: NI

That regulatory groundwork has set the stage for NI to be able to spend \$600-\$650mm annually over the next 10 years at their gas utilities, primarily on system modernization. For utilities, spending = rate base growth = earnings. Assuming NI spends ~\$625mm annually over the next three years on a \$4B current rate base, we see rate base growing by 8-11%, which is consistent with NI's targeted 7-9%/yr operating income growth in the distribution segment.

Gas Transmission & Storage (~35% of Operating Income)

NiSource's Gas Transmission & Storage (Pipelines) consists of 15,000 miles of pipelines and 300 bcf of gas storage primarily through three systems:

- **Columbia Gas Transmission** – a regional gas pipeline serving the Mid-Atlantic and overlaying the Utica and Marcellus shale regions.
- **Columbia Gulf** – heavily depreciated long-haul pipeline from the Gulf of Mexico to West Virginia.
- **Millennium Pipeline** – a fairly new, yet low earning pipeline that runs between S. Central NY and SE NY; NI owns a 47.5% interest.



Source: SNL Financial



Pipelines	NI Ownership	Rate Base (2011, \$mm)	ROE (2011)	EBITDA (\$mm)			Throughput (mmcf/d)		
				2009	2010	2011	2009	2010	2011
Columbia Gas Transmission	100%	\$2,114	11.4%	\$467	\$369	\$357	2,821	2,993	3,062
Columbia Gulf Transmission	100%	\$275	15.2%	\$43	\$53	\$59	2,455	2,324	2,871
Millenium Pipeline	48%	\$988	5.0%	\$87	\$93	\$104	173	176	401
Total		\$3,377	9.8%	\$597	\$515	\$520	5,450	5,493	6,334

Source: FERC, USCA

NiSource is targeting 10-12% annual operating income growth driven by \$500-\$700mm/yr of capital investment. Assuming that spend from an estimated '12 rate base of \$3.7B, we see rate base growth of 10-13.5%/yr, consistent with NI's targeted 10-12%/yr operating income growth target. Beyond maintenance capex, the spend consists of two primary buckets: 1) \$300mm annually for a Columbia Gas pipeline modernization program (more below); and 2) the remainder for Marcellus and Utica infrastructure.

Columbia Gas Transmission Pipeline Modernization Program: This fall, Columbia Gas filed an unprecedented settlement with the FERC that will allow for the recovery of a \$4-5B pipeline modernization program to be spent over a 10-15 year period. In exchange for earning a return of and on the capital invested, Columbia agreed to a \$50mm refund, a \$35mm rate reduction retroactive to Jan. 1, 2012 and another \$25mm annual rate reduction beginning Jan. 1, 2014. In addition, Columbia agreed to share 75% of revenues earned in excess of a \$750mm threshold (base, not including surcharge for modernization). The agreement has an initial 5-yr settlement term, with a mandatory rate filing by Feb. 1, 2019. Columbia was able to broker this settlement as they were not wildly overearning a reasonable ROE (earned 11.4% in '11), greater than 10% of their pipe is bare steel that needs to be replaced soon, and ~40% of their system is >50 years old.

Even though there is a refund and rate reduction, we like the settlement as it is positive on an NPV basis (~\$1/sh), and we think there are additional, non-quantified benefits, such as replacing low-pressure pipe in shale areas with high-pressure systems that can act as both supply and market-driven systems.

Marcellus/Utica Infrastructure Plus Reconfiguring System: While NiSource has a pipeline system that overlays the Marcellus and Utica, they were initially slow to capitalize on the region given that: 1) they have a low-pressure system, designed more for gas delivery than handling high-pressure shale wells; and 2) their financial position left them capital constrained. With their financial house now in order, they are now aggressively pursuing Marcellus and Utica projects as well as working to creatively reconfigure their system to accommodate changing pipeline flows.

NI has ~\$700mm of firm projects under way with planned cap ex spend between 2012 and 2014. Plus they see another \$3-4B of potential projects, such as reversing flow on Columbia Gulf to send Marcellus gas to southern Louisiana for LNG export.

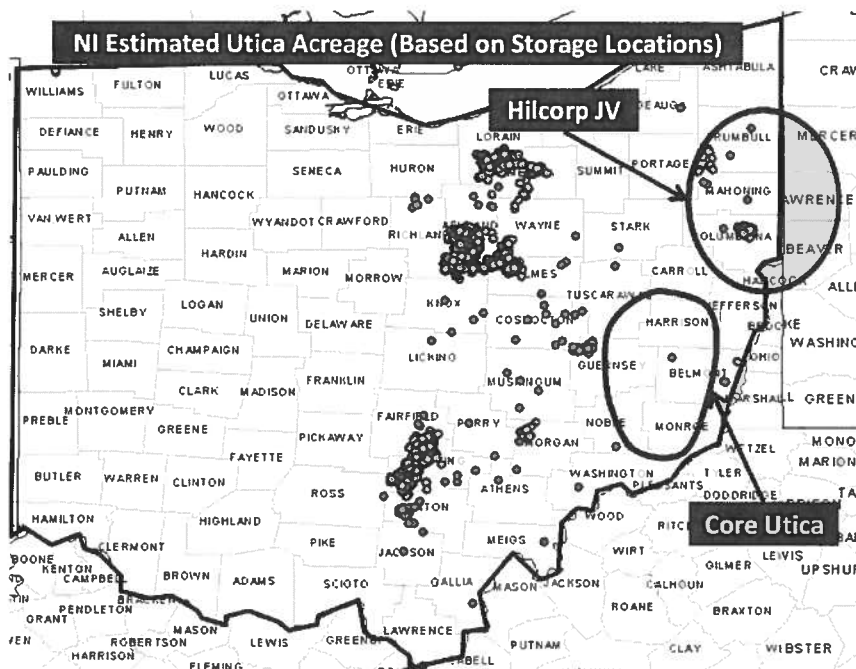
Included in the \$700mm of firm projects is their midstream joint venture with Hilcorp, Pennant Midstream, to build Utica infrastructure. Initially the two companies plan to spend \$300mm gross to build a 200 mmcf/d processing plant and ~50 miles of wet gas gathering with capacity of up to 400 mmcf/d. Potential JV spend could be as high as \$1B gross, depending on drilling activity and resulting production.

Hilcorp E&P JV: NiSource has extensive mineral rights in Ohio via their legacy gas storage fields and has estimated they have 100,000 to 200,000 prospective Utica acres. In July they formed a joint venture with private Hilcorp to develop a combined 100k acres. NiSource contributed to the JV 14,000 acres in five Ohio and Pennsylvania counties and in exchange received an unquantified 50% cash/50% carry value, a 5% working interest and a 0.7% overriding royalty interest. We estimate the total cash and carry at ~\$40mm, which covers NI's working interest for ~3 years. Applying an



acreage multiple similar to the recent Halcon Energy/NCL Appalachian Partners transaction (~\$6,100/acre), values NI's 14k acres at ~\$85mm. We are reluctant to give any value to NI's remaining acreage beyond that given its remote location relative to current well results. We see value of the JV to NI as primarily what it brings in terms of potential midstream opportunities.

The chart below shows the location of NI's gas storage fields, which should roughly correspond to their Ohio mineral rights. We have also highlighted what is currently considered to be the southern Utica core. The bulk of NI's acreage lies outside this core area. Since May, Hilcorp has filed for 20 drilling permits, the majority of which we think are on the JV acreage in the Ohio counties of Mahoning and Columbiana and the Pennsylvania counties of Mercer and Lawrence. A list of those permits is included at the end of this report.



Source: NI, DI Desktop, USCA, Company reports

Electric Utility (~20% of Operating Income)

NIPSCO is NiSource's electric utility, with 450,000 customers in northern Indiana, 3,300 mw of generation (~80% coal fired) and a ~\$2.3B rate base. NIPSCO's service territory is ~43% industrial (~64% of that to steel-related industries). That load accounts for ~22% of electric margin, so NIPSCO does have some moderate economic exposure. During the bottom of the economic downturn in '08-'09, NIPSCO saw a ~\$35mm (4%) reduction in gross margin.

NIPSCO is targeting 7-9% annual operating growth based on a four-pronged strategy that assumes \$400-\$450mm/yr of capital investment or \$6-8B over 15-20 years. At that pace, we see rate base growth of 6-8%/yr through 2015. The added kicker to get to 7-9% annual operating growth comes from earning higher returns. NIPSCO's four-pronged strategy consists of :

1. **Tracked environmental investments (\$900mm-\$1.4B):** \$775mm of that spend is approved with associated trackers. NI will file in Indiana for trackers to recover \$80-\$200mm for installation of enhanced mercury and particulate controls. NI also has slated \$125-\$400mm for water treatment and ash handling compliance. Indiana's S.B. 251 allows for recovery of federally mandated costs incurred in connection with environmental



compliance (80% through tracker and 20% deferred to next rate case). Once the EPA rules are clear on these issues, NI will move forward on the spend.

2. **Tracked Transmission System Enhancements (\$500mm-\$1B):** Two projects totaling ~\$600mm have been identified, but are still in the preliminary planning phases and are projected to come online in the latter part of the decade.
3. **Modernize Transmission and Distribution Infrastructure (\$3-4B):** Higher risk as involves getting legislation passed to recover modernization costs (poles, power lines, undergrounding systems) in a timely manner as opposed to rate cases. NI is working with other utilities in Indiana to develop legislation similar to what was passed in PA last year.
4. **New gas fired generation:** End of decade and into early 2020s, so way too early to factor in.

Financial

- **Debt Ratings:** Senior unsecured debt rated BBB- by S&P and Baa3 by Moody's with stable outlooks. NI's debt/EBITDA (trailing 12 month) is running near 5.0x for YE'12, down from 5.3x at the end of '11. We see that ratio trending down to 4.8x by year-end '15.
- **Liquidity:** At September 30, NiSource had \$12mm of cash and \$1.4B available on their \$1.5B credit facility. They had \$315mm of debt which matured in November and \$420mm matures in March '13. We assume NI issues new debt to replace the current maturities.
- **Need for Equity:** In September, NI settled a forward equity agreement for the sale of 24.3mm shares and received cash proceeds of \$339mm. NI has said they will need to do a similarly sized equity deal in 2015 to help fund cap ex and maintain their investment grade credit ratings.

Valuation

We value NI using a sum of the parts methodology. We apply a 8x EBITDA multiple to the utilities and 9.5x to Gas Transportation and Storage, net out the debt and add \$85mm for their Utica acreage. The result is a value of \$26/sh. With a 4% current yield, we see 9% total return potential.

On a peer comparison basis, NI trades at a P/E multiple of 14.5x ('14E) vs. a peer group at 14.1x and on a EV/EBITDA basis, trades at 8.0x '14 vs. our peer group at 7.7x (comparison table shown on page 7). However, NI is more levered, trading at 4.8x current net Debt/EBITDA vs. our peer group at 3.6x.

From a dividend and EPS growth standpoint, consensus calls for our peer group to grow earnings by 8%/yr and dividends by 4%/yr over the next three years. This is in line with NI's targeted 5-7%/yr EPS and 3-5%/yr dividend growth.

Risks

- **Company specific:**
 - **Pending rate case:** NiSource filed for a \$77mm revenue increase in their PA jurisdiction. The case incorporates a forward test year. A decision is expected by June 30, 2013.
 - **Economic sensitivity:** Economic sensitive industrial load accounts for 22% of NI's electric utility margin and their electric utility contributes ~20% of operating income, for ~4% net exposure. During the bottom of the economic downturn in '08-'09, NIPSCO saw a ~\$35mm (4%) reduction in gross margin.
- **Industry wide:** Regulatory decisions and rulings, environmental decisions and rulings, project execution, interest rates, access to capital markets, competition for infrastructure projects, weather, commodity prices.



Hilcorp Utica/Marcellus Permits

Company	County	Lease Name	Depth (ft)	Permit Granted	Spud Date
Hilcorp Energy Company	Columbiana (OH)	Hanover-Mountz	7,773	8/13/2012	
Hilcorp Energy Company	Mahoning (OH)	Poland-CLL1	14,775	10/24/2012	11/26/2012
Hilcorp Energy Company	Lawrence (PA)	Mahoning Leeper	7,980	11/2/2012	
Hilcorp Energy Company	Lawrence (PA)	Mahoning Leeper	7,980	11/2/2012	
Hilcorp Energy Company	Lawrence (PA)	Mahoning Leeper	7,980	11/2/2012	
Hilcorp Energy Company	Lawrence (PA)	North Beaver-NC Development	10,200	5/14/2012	
Hilcorp Energy Company	Lawrence (PA)	North Beaver-NC Development	7,975	5/14/2012	
Hilcorp Energy Company	Lawrence (PA)	North Beaver-NC Development	7,975	5/14/2012	
Hilcorp Energy Company	Lawrence (PA)	North Beaver-NC Development	8,035	5/16/2012	
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Kinkela	7,530	5/23/2012	10/2/2012
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Kinkela	7,550	10/25/2012	
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Kinkela	7,480	10/25/2012	
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Kinkela	7,503	10/29/2012	
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Kinkela	7,497	10/29/2012	
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Kinkela	7,530	10/31/2012	
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Whiting	10,100	5/8/2012	6/28/2012
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Whiting	7,790	5/8/2012	8/2/2012
Hilcorp Energy Company	Lawrence (PA)	Pulaski-Whiting	7,790	5/8/2012	8/24/2012
Hilcorp Energy Company	Mckean (PA)	Pymatuning-Drake	7,100	11/2/2012	
Hilcorp Energy Company	Mercer (PA)	Pymatuning Drake	na	10/25/2012	

Source: DI Desktop, USCA

NI Peer Comparisons

Company Name	Ticker	Price 12/4/2012	Yield	Mkt Cap (\$mm)	Net Debt (\$mm)	EV (\$mm)	Consensus PE Ratios				Consensus EV/EBITDA Ratio				Net Debt/EBITDA Current
							2011	2012E	2013E	2014E	2011	2012E	2013E	2014E	
Comps															
AGL Resources Inc	GAS	\$ 38.81	4.74%	\$ 4,571	\$ 4,777	\$ 9,041	13.4x	14.7x	12.9x	12.4x	13.7x	8.3x	7.6x	7.4x	4.4x
Centerpoint Energy Inc	CNP	\$ 19.63	4.13%	\$ 8,391	\$ 8,581	\$ 17,017	17.2x	16.4x	15.5x	14.6x	7.7x	8.1x	7.7x	7.2x	4.1x
Dominion Resources Inc	D	\$ 50.40	4.19%	\$ 28,960	\$ 20,444	\$ 49,897	16.2x	16.5x	14.9x	14.1x	10.4x	10.5x	9.5x	9.0x	4.3x
OGE Energy Corp	OGE	\$ 56.50	2.96%	\$ 5,579	\$ 3,010	\$ 9,141	16.5x	15.9x	15.0x	14.1x	9.6x	9.1x	8.5x	8.0x	3.0x
NiSource Inc	NI	\$ 24.19	3.97%	\$ 7,493	\$ 7,782	\$ 15,349	17.9x	17.0x	15.5x	14.5x	10.1x	9.4x	8.7x	8.0x	4.8x
Sempra Energy	SRE	\$ 68.24	3.52%	\$ 16,504	\$ 10,565	\$ 28,953	15.8x	16.3x	16.0x	14.8x	9.9x	9.7x	8.7x	8.0x	3.5x
Questar Corp	STR	\$ 19.51	3.49%	\$ 3,416	\$ 1,292	\$ 4,782	17.1x	16.5x	16.0x	15.4x	9.1x	8.6x	8.6x	8.0x	2.3x
UGI Corp	UGI	\$ 33.12	3.26%	\$ 3,733	\$ 3,357	\$ 8,178	15.1x	18.3x	13.1x	12.3x	9.7x	9.7x	6.7x	6.4x	4.0x
WGL Holdings Inc	WGL	\$ 38.78	4.13%	\$ 2,002	\$ 827	\$ 2,856	18.0x	15.4x	15.6x	14.6x	8.6x	8.1x	7.8x	7.2x	2.3x
Average			3.82%				16.3x	16.3x	15.0x	14.1x	9.8x	9.1x	8.2x	7.7x	3.6x

Period	Peer Comparison				Commodity/Index Performance				
	NI	NI-Defined Peers			NG1	CL1	UTY	XNG	S&P
		Electric Utes	Gas Utes	Combo Utes					
3 month	-2%	-4%	0%	-1%	24%	-7%	-5%	0%	0%
6 month	-2%	0%	9%	1%	47%	5%	-5%	12%	10%
2011 ytd	2%	-3%	4%	5%	19%	-11%	-6%	1%	12%
% from 52-wk Hi	-6%	-10%	-9%	-6%	-9%	-20%	-11%	-7%	-4%
% from 52-wk Lo	11%	7%	18%	13%	86%	14%	2%	13%	17%

NI-Defined Peers			
Electric Utes	Gas Utes	Combo Utes	
AEE	POM	GAS	CMS
AEP	PNM	EQT	DTE
CNP	PPL	STR	PCG
D	PEG	SRE	SCG
FE	SO	WGL	

NI NAV Summary

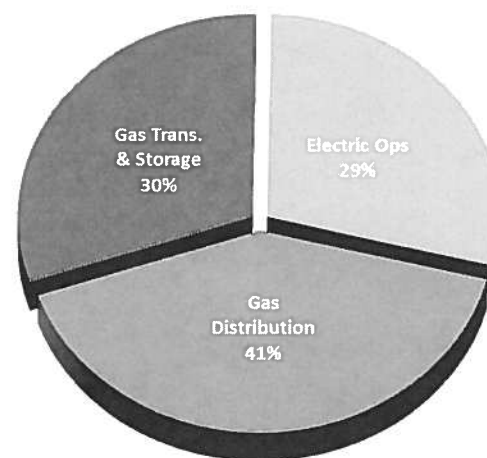
Net Asset Value

Shares outstanding 313mm

Segment	'14 EBITDA (\$mm)	Multiple	Value	Value/sh
Gas Distribution	\$759	8.0x	\$6,073	\$19.40
Gas Trans. & Storage	\$580	9.5x	\$5,506	\$17.59
Electric Ops	\$527	8.0x	\$4,217	\$13.47
Net Debt			(\$7,868)	(\$25.14)
NAV			\$7,927	\$25
Utica Acreage / Hilcorp JV			\$85	\$0.27
Total Value			\$8,013	\$26

NI Business Mix

2013E EBITDA by Segment



Largest Shareholders	Position (000)	Change (000)	% O/S
T Rowe Price	19,226	(81)	6.2%
Vanguard Group Inc	17,023	334	5.5%
State Street Corp	14,584	31	4.7%
JP Morgan Chase & Co	10,347	9,688	3.3%
Neuberger Berman	9,806	23	3.2%
Deutsche Bank AG	8,456	(214)	2.7%
Blackrock Institutional	7,838	375	2.5%
Systematic Financial	6,754	(542)	2.2%
Blackrock Fund Advisors	5,762	103	1.9%
Cramer Rosenthal Mcg	5,380	(100)	1.7%
Fidelity Management	5,182	(2,436)	1.7%
Miller Howard Investments	4,860	(184)	1.6%
Munder Capital Management	4,689	23	1.5%
Thrivent Financial	4,288	1,742	1.4%
Jennison Associates	4,131	186	1.3%
W H Reaves & Company	3,731	627	1.2%
Northern Trust Corp	3,680	97	1.2%
Bank Of New York Mellon	3,632	88	1.2%
Rainier Investment	3,191	(69)	1.0%
Massachusetts Financial	3,104	970	1.0%



Analyst Certification:

We, Becca Followill and James Carreker, do hereby certify that the recommendations and opinions expressed in this presentation accurately reflect our personal views about any and all of the subject securities or issues discussed herein. Furthermore, no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed herein. As of the date of this presentation Becca Followill does hold shares, within a managed account, of Kinder Morgan Inc (KMI - \$33.92 – Hold - \$34PT). Becca Followill does not own shares directly of KMP or KMR. Neither we nor any member of our households serves as an officer, director or advisory board member of any company that is subject to this presentation.

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Important Disclosures:

Analysts’ compensation is not based on investment banking revenue and the analysts are not compensated by the subject companies. In the past 12 months, USCA has not received investment banking or other revenue from the companies mentioned in this report. However, within the next three months USCA may attempt to seek compensation for investment banking services from the companies mentioned within this report.

Opinion Key:

USCA uses a Buy, Overweight, Hold, Underweight and Sell rating system.

BUY - The stock has among the best combination of risk/reward and positive company specific catalysts within the sector. Stock is expected to trade higher on an absolute basis and be a top performer relative to peer stocks over the next 12 months.

OVERWEIGHT - The stock has above average risk/reward and is expected to outperform peer stocks over the next 12 months.

HOLD - The stock has average risk/reward and is expected to perform in line with peer stocks over the next 12 months.

UNDERWEIGHT - The stock has below average risk/reward and is expected to underperform peer stocks over the next 12 months.

SELL - The stock's risk/reward is skewed to the downside with possible negative company specific catalysts or excessive valuation. The stock is expected to trade lower on an absolute basis and be among the worst performers relative to peer stocks over the next 12 months.

Risks that may impede achievement of price target(s):

Industry wide risks include but are not limited to environmental and regulatory for both pipeline and E&P, aging infrastructure and availability of midstream infrastructure to accommodate new production. Competition for and availability of service crews and drilling rigs. Commodity prices, the economic outlook, access to capital markets. Interest rates. Asset recontracting. Cost overruns.



Price Target Methodology:

For C-Corps, our price targets are, generally, based on a traditional sum of the parts analysis. For companies with E&P assets, we perform a discounted cash flow analysis where we produce out proved developed producing reserves, put in capital to develop proved undeveloped reserves within the 5-yr SEC window and estimate development plans for probables and possibles using current and projected rig counts, EURs and decline curves. For traditional pipes and midstream assets, we value at 7-9x EBITDA multiples (usually current year unless it doesn't represent a good run rate). LP units are marked to current market price. GP values are determined using a discounted cash flow of projected distributions and then tax effected.

Distribution of Ratings (as of December 5, 2012):

Recommendation	Count	Percent	Investment Banking Relationship	Count	Percent
Overweight/Buy	32	63%	Overweight/Buy	0	0%
Hold	18	35%	Hold	0	0%
Underweight/Sell	1	2%	Underweight/Sell	0	0%

Historical Ratings and Price Targets may be found by clicking the link below:

[USCA Rating and Price Target History](#)

For hard a hard copy of our price target/ratings history, please call 888-601-USCA (8722), or write to U.S. Capital Advisors, 1330 Post Oak Blvd., Suite 900, Houston, TX, 77056.

A list of common terms and abbreviations may be found by clicking the link below:

<http://www.uscallc.com/assets/pdf/Glossary.pdf>

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UBS Investment Research

NiSource Inc.

Americas	
Electric Utilities	
12-month rating	Neutral
	Unchanged
12m price target	US\$23.00
	Unchanged
Price	US\$24.65

RIC: NI.N BBG: NI US

1 May 2012

Continuing to Leverage the Footprint

Weather strikes Distribution results, driving a sizable EPS miss

NI realized recurring 1Q12 EPS of \$0.65 (excluding items), well short of our \$0.69 estimate and the Street's \$0.71 consensus expectation. We note that ~23% warmer than normal temps (~25% warmer y/y) negatively impacted Gas and Electric utility results which, along with above-forecast Depreciation and Interest expense, and a higher than anticipated share count, propelled the EPS miss. Fig. 1 has more detail.

Utica JV discussions in advanced stage; CMA filed base rate case

On the call, mgmt noted it is in 'advanced discussions' with an individual producer counterparty regarding a potential JV to optimize ~15k acres of its Utica mineral position; an agreement is expected by midyear. Separately, in April, Columbia Gas of MA filed a \$29mm base rate case request and a decision is expected by late Oct.

Trimming '12-'14 EPS estimates; '12 EPS guidance (non-GAAP) affirmed

Incorporating 1Q results and a slightly higher expected share count, we are cutting our '12-14 EPS estimates to \$1.38, \$1.47, and \$1.53, from \$1.43, \$1.48, and \$1.54, respectively. Along with 1Q results, management affirmed its '12 EPS guidance of \$1.40-\$1.50; however, this is a non-GAAP estimate which excludes the impact of actual weather and includes only basic shares outstanding. We note that this approach is fundamentally different than that employed by any other company under our coverage.

Valuation: Reiterate Neutral rating

While we acknowledge NI's deep inventory of organic growth opportunities, its enviable infrastructure footprint in OH, WV, and PA, and the prospect for resumed dividend growth, we believe shares fully reflect these attributes at current levels. Our \$23 price target is DCF and SOP derived.

Trading data

52-wk range	US\$24.65-18.27
Market cap.	US\$6.95bn
Shares o/s	282m (COM)
Free float	99%
Avg. daily volume ('000)	738
Avg. daily value (m)	US\$17.6

Balance sheet data 12/12E

Shareholders' equity	US\$5.48bn
P/BV (UBS)	1.4x
Net Cash (debt)	(US\$7.96bn)

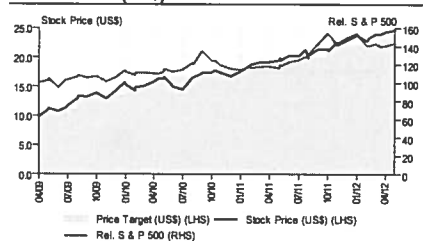
Forecast returns

Forecast price appreciation	-6.7%
Forecast dividend yield	3.8%
Forecast stock return	-2.9%
Market return assumption	5.3%
Forecast excess return	-8.2%

EPS (UBS, US\$)

	12/12E			12/11
	From	To	Cons.	Actual
Q1	0.69	0.65	0.71	0.72
Q2E	0.21	0.17	0.19	0.16
Q3E	0.18	0.18	0.16	0.13
Q4E	0.35	0.37	0.38	0.28
12/12E	1.43	1.38	1.44	
12/13E	1.48	1.47	1.52	

Performance (US\$)



Source: UBS

www.ubs.com/investmentresearch

Highlights (US\$m)	12/10	12/11	12/12E	12/13E	12/14E
Revenues	6,034.80	5,853.50	5,565.05	5,878.89	6,061.85
EBIT (UBS)	921.60	941.00	1,022.66	1,111.82	1,159.59
Net Income (UBS)	339.99	370.43	409.23	458.34	477.75
EPS (UBS, US\$)	1.22	1.29	1.38	1.47	1.53
Net DPS (UBS, US\$)	0.92	0.92	0.92	0.96	1.00

Profitability & Valuation	5-yr hist av.	12/11	12/12E	12/13E	12/14E
EBIT margin %	13.3	16.1	18.4	18.9	19.1
ROIC (EBIT) %	8.3	8.3	8.7	9.1	9.2
EV/EBITDA (core) x	8.7	9.7	10.0	8.0	7.7
PE (UBS) x	14.1	15.8	17.9	16.7	16.1
Net dividend yield %	5.6	4.5	3.7	3.9	4.1

Source: Company accounts, Thomson Reuters, UBS estimates. (UBS) valuations are stated before goodwill-related charges and other adjustments for abnormal and economic items at the analysts' judgement.

Valuations: based on an average share price that year, (E): based on a share price of US\$24.65 on 30 Apr 2012 19:39 EDT

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ANALYST CERTIFICATION AND REQUIRED DISCLOSURES BEGIN ON PAGE 3.

UBS does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may

Figure 1: NI 1Q12 Results Review

Recurring Operating Income by Division	Actual 1Q12A	UBS Estimates 1Q12E		Year-over-Year 1Q11A	
Gas Distribution	\$212.0	\$234.5	-9.6%	\$241.6	-12.3%
Transmission & Storage	\$138.6	\$134.6	3.0%	\$118.5	17.0%
Electric Operations	\$43.1	\$46.3	-7.0%	\$43.2	-0.2%
Corporate, Other, and Eliminations	\$1.0	(\$3.8)	NA	(\$3.5)	128.6%
Total Operating Income	\$394.7	\$411.7	-4.1%	\$399.8	-1.3%
Depreciation	(\$146.1)	(\$140.9)	3.7%	(\$134.7)	8.5%
Other Income / (Expenses)	\$1.0	\$0.5	NM	\$3.3	NM
Interest Expense	(\$103.3)	(\$101.4)	1.9%	(\$89.8)	15.0%
Income Tax Benefit (Expense)	(\$102.4)	(\$108.8)	-5.9%	(\$107.6)	-4.9%
Recurring Net Income	\$190.0	\$202.0	-5.9%	\$205.7	-7.6%
Avg Diluted Shares Outstanding	293.1	291.5	0.5%	285.0	2.8%
Earnings Per Diluted Share	\$0.65	\$0.69	-6.4%	\$0.72	-10.2%

Source: NI reports and UBS estimates

Note: Adjusted results exclude the impact of items deemed to be one-time in nature; however, we do include the impact of share dilution and weather as there really is no such thing as 'normal weather' and this is the approach we employ with every other company under our coverage.

■ NiSource Inc.

NiSource is an energy holding company whose subsidiaries are engaged in natural gas transmission, storage, and distribution, as well as electric generation, transmission, and distribution. NiSource operating companies deliver energy products and services to approximately 3.8 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England.

■ Statement of Risk

Risks to our NI earnings estimates and price target include: 1) lower customer usage; 2) customer attrition; 3) non-normal weather; 4) higher bad debt expense; 5) unfavorable regulatory/legislative decisions; 6) rising interest rates; and 7) unfavorable pension asset performance.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage ¹	IB Services ²
Buy	Buy	51%	34%
Neutral	Hold/Neutral	40%	35%
Sell	Sell	9%	15%
UBS Short-Term Rating	Rating Category	Coverage ³	IB Services ⁴
Buy	Buy	less than 1%	25%
Sell	Sell	less than 1%	17%

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 March 2012.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	Definition
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.

Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).

Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.

Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.

Equity Price Targets have an investment horizon of 12 months.

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UBS Securities LLC: Ronald J. Barone; Christopher P. Sighinolfi, CFA; Corey Goldman.

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Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
NiSource Inc. ^{6, 7, 16, 18}	NI.N	Neutral	N/A	US\$24.65	30 Apr 2012

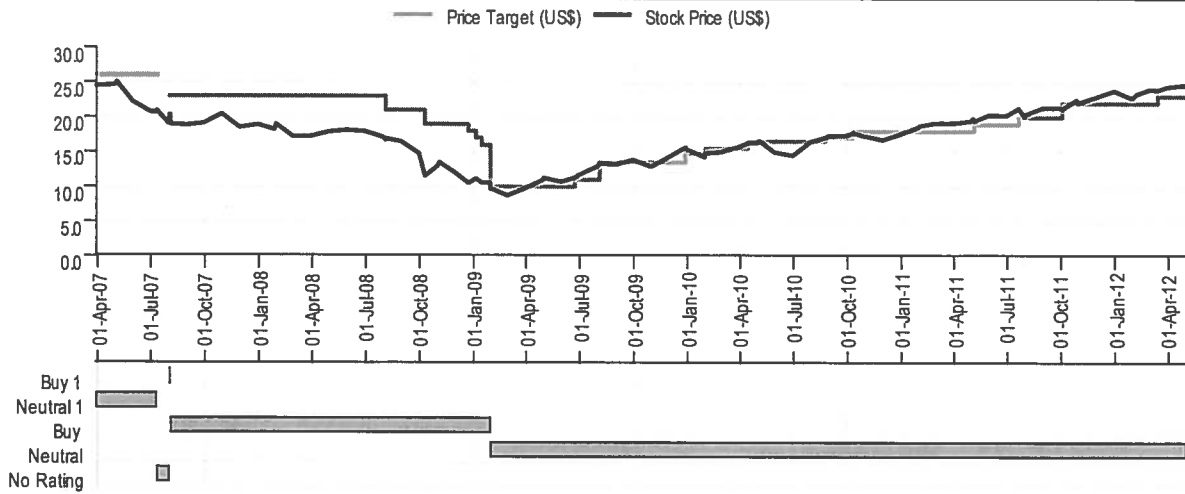
Source: UBS. All prices as of local market close.

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Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

NiSource Inc. (US\$)



Source: UBS; as of 30 Apr 2012

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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NISOURCE INC. (NI: \$25.35)

September 13, 2012

Company Update
Rating: Hold
Price Target: \$26.00

Market Data					
12-18 Month Price Target					\$26.00
52-Week Range					\$26.15 - \$20.31
ADTV - 90Day (000s)					2,399.6
Market Cap (\$MM)					\$7,222.4
Shares Out (MM)					281.9
Public Market Float (MM)					282.3
Dividend					\$0.96
Dividend/Yield					3.79%
EPS (\$)					
FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	\$0.74A	-	\$0.76A	-	-
Q2	\$0.17A	-	\$0.23A	-	-
Q3	\$0.11A	-	\$0.13E	-	-
Q4	\$0.32A	-	\$0.35E	-	-
YEAR	\$1.35A	-	\$1.47E	-	\$1.56E
<i>2009 and 2010 actuals are non-GAAP, operating earnings. GAAP EPS for '09 and '10 were \$0.84 and \$1.06, respectively.</i>					
Valuation Ratio					
	FY11	FY12	FY13		
P/E	18.8x	17.2x	16.3x		
PEG	4.7x	4.3x	4.1x		
EV/EBITDA	10.4x	9.5x	9.0x		
Leverage Ratio	5.2x	4.9x	4.9x		
EV/FCF	152.4x	NM	NM		
FCF Yield	1.4%	NM	NM		
P/FCF	73.0x	(43.0)x	(45.2)x		
EV/S	2.5x	2.3x	2.2x		
Financial Data					
	FY11	FY12	FY13		
Revenue	\$6,019.1A	\$6,624.3E	\$6,757.0E		
EBIT	\$905.1A	\$1,026.2E	\$1,093.1E		
EBITDA	\$1,443.0A	\$1,590.5E	\$1,671.6E		
FCF(Mil)	\$98.9E	\$(167.8)E	\$(159.7)E		
Debt/Capital	58.6%E	56.9%E	56.9%E		
BV/Share	\$18.07E	\$18.59E	\$19.16E		
CapEx	\$1,050.0E	\$1,370.0E	\$1,400.0E		
Balance Sheet					
	FY11	FY12	FY13		
PPE	\$11,674.3E	\$12,480.0E	\$13,301.6E		
Total Assets	\$20,658.7E	\$21,551.8E	\$22,424.5E		
Total Debt	\$7,552.8E	\$7,752.8E	\$8,152.8E		
Long Term Debt	\$6,136.1E	\$6,336.1E	\$6,736.1E		
Total SOE and Liab.	\$20,658.7E	\$21,551.8E	\$22,424.5E		

Company Description

NiSource is a large regulated electric and gas utility, with most of its earnings derived from the gas distribution, transmission, and storage businesses. The company owns the Columbia gas system, serving gas in Ohio, Pennsylvania, Massachusetts, Virginia, Maryland, and Kentucky. The company has electric utility operations in northern Indiana.

Analyst Meeting Discloses Higher EPS Growth Rate; Maintain Hold
Summary

NiSource (NI) hosted an analyst meeting yesterday and disclosed higher capital spending plans that would lead to 5%-7% EPS growth annually over the next five years. This includes the need for equity in 2015, which slows the net income growth of 8%-10% to EPS growth of 5%-7%. The growth is led by investment in the gas distribution, electric utility and gas transmission and storage businesses. As NI funds the EPS growth, the company committed to 3%-5% dividend growth. We expect NI to actively review ways to reduce the cost of equity. This could include a forward sale of equity, assets sales or alternative equity structures. However, we believe NI is committed to maintaining its balance sheet strength. NI maintained 2012 EPS guidance.

Key Points

- Annual capital spending raised, driving growth.** NI indicated that capital spending would range between \$1.5-\$1.8B annually over the next five years. This is up from \$1.4B previously. The higher capital spending is spread across the three business lines almost evenly, diversifying the growth risk. The most exciting growth is the downstream and midstream gas infrastructure opportunities around the Utica and Marcellus shale gas regions. NI's existing gas pipeline assets almost perfectly overlay the region, creating the opportunity.
- Pipeline modernization advancing.** NI continues to pursue a \$4B modernization of its gas pipeline infrastructure. The company recently negotiated a settlement with shippers that provides a modest rate reduction and a tracking mechanism for the modernization capital spending. The settlement requires FERC approval, which we expect by year-end. If approved, NI will book a \$50mm pre-tax charge, reflecting the 2012-2013 refunds (\$25mm/year). NI indicated this charge is included in 2012 EPS guidance.
- 2013 aided by MA case; 2015 by West Side expansion.** NI indicated that a decision in the \$29mm MA rate case is expected in October, which should add to earnings in 2013 assuming a reasonable outcome. NI continues to pursue a \$220mm expansion to carry gas from the Marcellus region to the Gulf Coast. The project should drive additional earnings growth in 2015. NI will pursue legislation in IN to expedite investment recovery, and reduce the need for frequent rate cases. This could be completed in 2013. A PA rate case is expected later this year.
- Maintaining our 2012/2013/2014 EPS estimates.** NI reiterated 2012 weather normalized EPS guidance of \$1.40-\$1.50. Further, NI indicated comfort with the mid-point of the 2012 range; twelve month trailing earnings are \$1.42. We are maintaining our 2012/2013/2014 EPS estimates of \$1.47/\$1.56/\$1.67. NI closed its 24 million share equity forward transaction earlier in September, which will increase the average share count in 2012 and 2013.
- Maintain price target and Hold rating.** NI currently trades at 16.3x our 2013E EPS estimate and 15.2x our 2014E EPS. This compares with 15.0x and 14.1x for comparable electric peers, but 17.3x and 15.7x for gas LDC peers. Our sum-of-the-parts (SOTP) value suggests \$26-\$27 excluding MLPs and \$28-\$29 including MLPs. Given NI's gas business, we expect the stock will trade at a premium to its electric peers, but may not fully reflect the MLP SOTP valuation. Coupled with our DCF this supports our target price of \$26.

Disclosures:

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I James L. Dobson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Valuation/Risks

- NI faces regulatory risk, operational risks in its gas and electric business, adequate access to capital markets, and financial risk as a result of its leverage.
- We value utilities based on a comparable company analysis, a sum-of-the-parts (SOTP) analysis and a discounted cash flow (DCF) analysis.

General disclosures:

Prices are as of the close of 09/12/12.

Ratings Distribution (in Percentages) & Investment Banking Disclosure Chart Information

Ratings Distribution & Investment Banking Disclosure				
Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	148	61.92	26	17.57
Hold -rated	88	36.82	9	10.23
Sell -rated	3	1.26	2	66.67

* Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.
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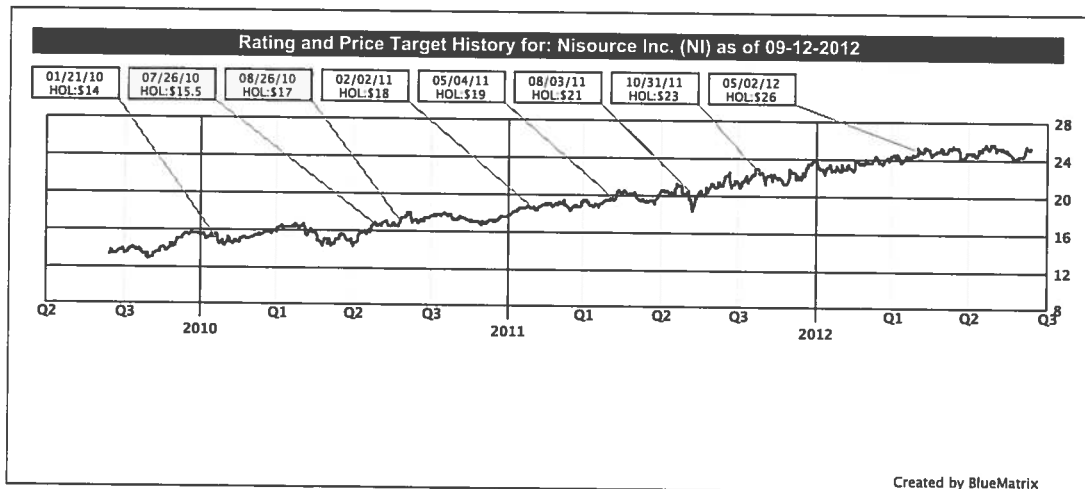
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I James L. Dobson, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject companies and their underlying securities. I further certify that I have not and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this research report.

Valuation/Risks

- NI faces regulatory risk, operational risks in its gas and electric business, adequate access to capital markets, and financial risk as a result of its leverage.
- We value utilities based on a comparable company analysis, a sum-of-the-parts (SOTP) analysis and a discounted cash flow (DCF) analysis.

General disclosures:

Prices are as of the close of 04/30/13.

Ratings Distribution (in Percentages) & Investment Banking Disclosure Chart Information

Ratings Distribution & Investment Banking Disclosure				
Rating	Count	Ratings Distribution*	Count	Investment Banking**
Buy -rated	135	60.81	35	25.93
Hold -rated	86	38.74	10	11.63
Sell -rated	1	0.45	1	100.00

* Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.
 ** Percentage of companies within Wunderlich-rated Buy, Hold, and Sell categories for which Wunderlich or an associated firm provided investment banking services within the past 12 months.

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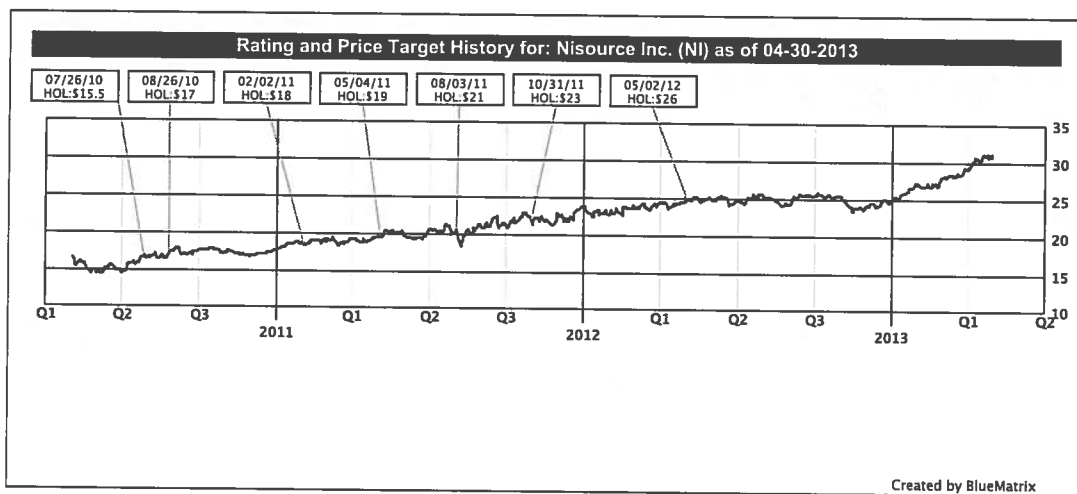
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NISOURCE INC. (NI: \$25.33)

May 2, 2012

**Raising Price Target
Rating: Hold**
Price Target: Old - \$23.00; New - \$26.00

Market Data			
12-18 Month Price Target			\$26.00
52-Week Range			\$25.79 - \$17.95
ADTV - 90Day (000s)			2,934.6
Market Cap (\$MM)			\$7,196.1
Shares Out (MM)			281.9
Public Market Float (MM)			281.6
Dividend			\$0.92
Dividend/Yield			3.63%

EPS (\$)						
FY DEC	2011		2012		2013	
	Estimate	Previous	Current	Previous	Current	
Q1	\$0.74A	\$0.75	\$0.76A	-	-	
Q2	\$0.17A	-	-	-	-	
Q3	\$0.11A	-	-	-	-	
Q4	\$0.32A	-	-	-	-	
YEAR	\$1.35A	-	\$1.46E	\$1.52	\$1.55E	

2009 and 2010 actuals are non-GAAP, operating earnings. GAAP EPS for '09 and '10 were \$0.84 and \$1.06, respectively.

Valuation Ratio			
	FY11	FY12	FY13
P/E	18.8x	17.3x	16.3x
PEG	4.7x	4.3x	4.1x
EV/EBITDA	10.5x	9.5x	9.1x
Leverage Ratio	5.2x	4.9x	4.9x
EV/FCF	153.1x	NM	NM
FCF Yield	1.4%	NM	NM
P/FCF	72.8x	(42.9)x	(45.1)x
EV/S	2.5x	2.3x	2.2x

Financial Data			
	FY11	FY12	FY13
Revenue	\$6,019.1A	\$6,624.3E	\$6,757.0E
EBIT	\$905.1A	\$1,026.2E	\$1,093.1E
EBITDA	\$1,443.0A	\$1,590.5E	\$1,671.6E
FCF(Mil)	\$98.9E	\$(167.8)E	\$(159.7)E
Debt/Capital	58.6%E	56.9%E	56.9%E
BV/Share	\$18.07E	\$18.59E	\$19.16E
CapEx	\$1,050.0E	\$1,370.0E	\$1,400.0E

Balance Sheet			
	FY11	FY12	FY13
PPE	\$11,674.3E	\$12,480.0E	\$13,301.6E
Total Assets	\$20,658.7E	\$21,551.8E	\$22,424.5E
Total Debt	\$7,552.8E	\$7,752.8E	\$8,152.8E
Long Term Debt	\$6,136.1E	\$6,336.1E	\$6,736.1E
Total SOE and Liab.	\$20,658.7E	\$21,551.8E	\$22,424.5E

In-Line 1Q; Gas Infrastructure Opportunity Continues to Drive Value Increase Estimates and Target Price

Summary

NiSource (NI) reported 1Q EPS of \$0.76 versus \$0.74 a year ago (our/consensus was \$0.75/\$0.70). As expected, improved results from the gas transmission, storage and distribution business (on a weather normalized basis) drove the improvement in the consolidated results. NI continues to pursue gas infrastructure expansion in the Midwest, given NI's attractive proximity to the shale gas regions in OH and PA. NI also appears very close to a joint venture to exploit the value of its eastern Utica acreage; an announcement is expected by the end of May. Further, the company announced a \$220mm expansion to transport Marcellus gas to Gulf Coast markets. We are increasing our 2013 EPS estimate and our target price, but maintaining our Hold rating.

Key Points

- 1Q weather normalized results as expected.** Warm weather negatively impacted NI's GAAP net revenues by \$40mm in 1Q (about \$0.09 per share). However, NI reports adjusted earnings and provides annual earning guidance on a weather normal basis. Adjusted 1Q EPS were \$0.76 versus \$0.74 a year ago. Higher revenues from rate increases at the gas distribution segment coupled with higher revenues at the gas transmission business offset weaker electric segment results. Industrial gas sales were 10% higher, while industrial electric sales declined 2%.
- Company close to JV on eastern Utica position.** NI indicated that negotiations are ongoing on a JV with a Utica gas producer to exploit the value of 15,000 acres of NI's eastern-most Utica shale acreage. Our understanding of the JV framework is NI would contribute acreage to an existing acreage position of its JV partner. NI would get royalties from the production and build the associated gathering and pipeline infrastructure for the project. We expect an announcement on the JV by the end of May.
- 2013 helped by MA rate case; 2015 by West Side expansion.** On a conference call to discuss 1Q results, NI indicated that the company filed a \$29mm MA rate case in mid April, which should add to earnings in 2013 assuming a reasonable outcome. The company also announced a \$220mm project to carry gas from the Marcellus shale region to the Gulf Coast. Expected to be operational in late 2014, the project should drive additional earnings growth in 2015. NI continues to pursue its pipeline modernization plan, which should be advanced by 2013.
- Increasing our 2013 EPS estimate; maintain 2012.** NI reiterated 2012 weather normalized EPS guidance of \$1.40-\$1.50 based on the 1Q results. We are maintaining our 2012 EPS estimate of \$1.46, but increasing our 2013 EPS estimate to \$1.55 from \$1.52 to reflect the MA rate case. NI still expects to close the 24 million share equity forward transaction by September 2012. Our 2014 EPS estimate is increased to \$1.67 from \$1.65 previously. That remains premised upon \$1.3-\$1.4B capital spending annually.
- Increase price target, but maintain Hold rating.** NI currently trades at 16.3x our 2013E EPS estimate and 15.2 times our 2013E EPS. This compares with 14.7x and 13.6x for comparable electric peers, but 16.0x and 14.6x for gas peers. Our revised sum-of-the-parts (SOTP) value suggests \$25-\$26 excluding MLPs and \$27-\$28 including MLPs. Given NI's gas business, we expect the stock will trade at a premium to its electric peers, but may not fully reflect the MLP SOTP valuation. This coupled with our DCF supports our new target price of \$26.

Company Description

NiSource is a large regulated electric and gas utility, with most of its earnings derived from the gas distribution, transmission, and storage businesses. The company owns the Columbia gas system, serving gas in Ohio, Pennsylvania, Massachusetts, Virginia, Maryland and Kentucky. The company has electric utility operations in northern Indiana.

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- We value utilities based on a comparable company analysis, a sum-of-the-parts (SOTP) analysis and a discounted cash flow (DCF) analysis.

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Buy -rated	135	63.68	23	17.04
Hold -rated	68	32.08	6	8.82
Sell -rated	9	4.25	1	11.11

* Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.
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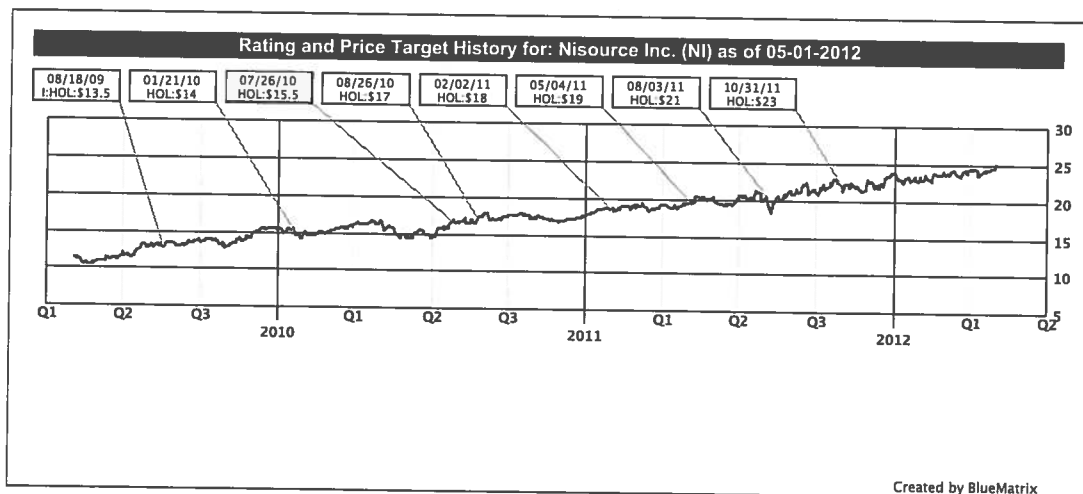
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NISOURCE INC. (NI: \$25.38)

August 2, 2012

Estimate Changes
Rating: Hold
Price Target: \$26.00

Market Data					
12-18 Month Price Target				\$26.00	
52-Week Range				\$26.15 - \$17.95	
ADTV - 90Day (000s)				2,424.1	
Market Cap (\$MM)				\$7,230.9	
Shares Out (MM)				281.9	
Public Market Float (MM)				282.3	
Dividend				\$0.96	
Dividend/Yield				3.78%	
EPS (\$)					
FY DEC	2011	2012		2013	
	Estimate	Previous	Current	Previous	Current
Q1	\$0.74A	—	\$0.76A	—	—
Q2	\$0.17A	—	\$0.23A	—	—
Q3	\$0.11A	—	\$0.13E	—	—
Q4	\$0.32A	—	\$0.35E	—	—
YEAR	\$1.35A	\$1.46	\$1.47E	\$1.55	\$1.56E
2009 and 2010 actuals are non-GAAP, operating earnings. GAAP EPS for '09 and '10 were \$0.84 and \$1.06, respectively.					
Valuation Ratio					
	FY11	FY12	FY13		
P/E	18.8x	17.3x	16.3x		
PEG	4.7x	4.3x	4.1x		
EV/EBITDA	10.5x	9.5x	9.0x		
Leverage Ratio	5.2x	4.9x	4.9x		
EV/FCF	152.5x	NM	NM		
FCF Yield	1.4%	NM	NM		
P/FCF	73.1x	(43.1)x	(45.3)x		
EV/S	2.5x	2.3x	2.2x		
Financial Data					
	FY11	FY12	FY13		
Revenue	\$6,019.1A	\$6,624.3E	\$6,757.0E		
EBIT	\$905.1A	\$1,026.2E	\$1,093.1E		
EBITDA	\$1,443.0A	\$1,590.5E	\$1,671.6E		
FCF(Mil)	\$98.9E	\$(167.8)E	\$(159.7)E		
Debt/Capital	58.6%	56.9%	56.9%		
BV/Share	\$18.07E	\$18.59E	\$19.16E		
CapEx	\$1,050.0E	\$1,370.0E	\$1,400.0E		
Balance Sheet					
	FY11	FY12	FY13		
PPE	\$11,674.3E	\$12,480.0E	\$13,301.6E		
Total Assets	\$20,658.7E	\$21,551.8E	\$22,424.5E		
Total Debt	\$7,552.8E	\$7,752.8E	\$8,152.8E		
Long Term Debt	\$6,136.1E	\$6,336.1E	\$6,736.1E		
Total SOE and Liab.	\$20,658.7E	\$21,551.8E	\$22,424.5E		

Better-Than-Expected 2Q; Raise Estimates; Maintain Hold Rating
Summary

NiSource (NI) reported 2Q EPS of \$0.23 versus \$0.17 a year ago (our/consensus was \$0.19/\$0.20). The results were driven by improved gas transmission and storage results, as well as progress in the other business segments. NI continues to pursue several growth opportunities accorded the company in light of its attractive geographic position near Midwest shale gas concentrations and keen expertise in gas infrastructure. The recently announced HilCorp JV will provide additional infrastructure development opportunities and a low risk way to monetize NI's acreage. NI maintained 2012 EPS guidance of \$1.40-\$1.50. Based on 2Q results, we are increasing our 2012/2013 EPS estimates, but maintaining our Hold rating and \$26 target price.

Key Points

- HilCorp infrastructure JV opportunities.** NI suggested its share of investment in the infrastructure JV could be \$500mm over the next 2-3 years, though about \$150mm of that has already been announced in a gathering and processing investment. The other JV with HilCorp provides a self-funding way for NI to monetize a portion of the Utica shale acreage the company controls. NI has committed 14,000 acres to the HilCorp JV. The partnerships appear well suited to NI's low-risk approach to investment.
- Pipeline modernization advancing.** NI continues to pursue a \$4B modernization of its gas pipeline infrastructure. The company is currently negotiating with shippers, but has committed to pursue the project in a FERC rate case if unsuccessful. NI would not comment on the status of the negotiations. However, we are optimistic the company will reach a settlement with shippers before the company's analyst meeting on September 12. The investment would drive earnings growth over the next 10 years.
- 2013 helped by MA rate case; 2015 by West Side expansion.** On a conference call to discuss 2Q results, NI indicated that a decision in the \$29mm Massachusetts rate case is expected in October, which should add to earnings in 2013 assuming a reasonable outcome. NI continues to pursue a \$220mm expansion to carry gas from the Marcellus region to the Gulf Coast. The project should drive additional earnings growth in 2015.
- Increasing our 2012/2013 EPS estimates; maintain 2014.** NI reiterated 2012 weather normalized EPS guidance of \$1.40-\$1.50 based on the 2Q results. Further, NI indicated comfort with the mid-point of the 2012 range; twelve month trailing earnings are \$1.42. We are increasing our 2012/2013 EPS estimate to \$1.47/\$1.56 from \$1.46/\$1.55 to reflect the 2Q results. NI still expects to close the 24 million share equity forward transaction by September 2012. Our 2014 EPS estimate is unchanged at \$1.67.
- Increase price target, but maintain Hold rating.** NI currently trades at 16.4x our 2013E EPS estimate and 15.2x our 2014E EPS. This compares with 15.4x and 14.4x for comparable electric peers, but 17.0x and 15.7x for gas peers. Our sum-of-the-parts (SOTP) value suggests \$26-\$27 excluding MLPs and \$28-\$29 including MLPs. Given NI's gas business, we expect the stock will trade at a premium to its electric peers, but may not fully reflect the MLP SOTP valuation. Coupled with our DCF this supports our target price of \$26.

Company Description

NiSource is a large regulated electric and gas utility, with most of its earnings derived from the gas distribution, transmission, and storage businesses. The company owns the Columbia gas system, serving gas in Ohio, Pennsylvania, Massachusetts, Virginia, Maryland and Kentucky. The company has electric utility operations in northern Indiana.

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Valuation/Risks

- NI faces regulatory risk, operational risks in its gas and electric business, adequate access to capital markets, and financial risk as a result of its leverage.
- We value utilities based on a comparable company analysis, a sum-of-the-parts (SOTP) analysis and a discounted cash flow (DCF) analysis.

General disclosures:

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Hold -rated	86	33.99	8	9.30
Sell -rated	11	4.35	2	18.18

* Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.
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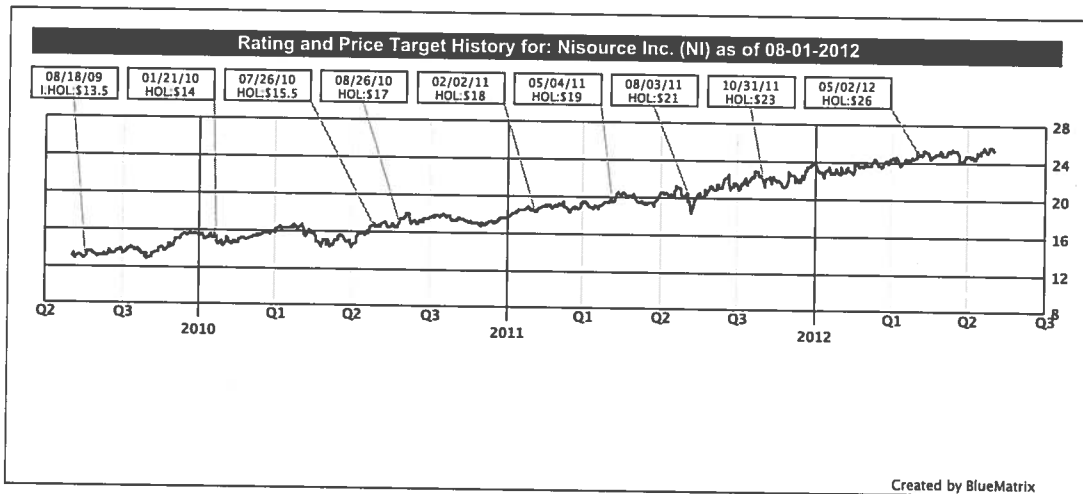
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Buy -rated	146	59.84	31	21.23
Hold -rated	96	39.34	12	12.50
Sell -rated	2	0.82	1	50.00

* Percentage of all Wunderlich-covered stocks assigned an equivalent Buy, Hold, or Sell rating.
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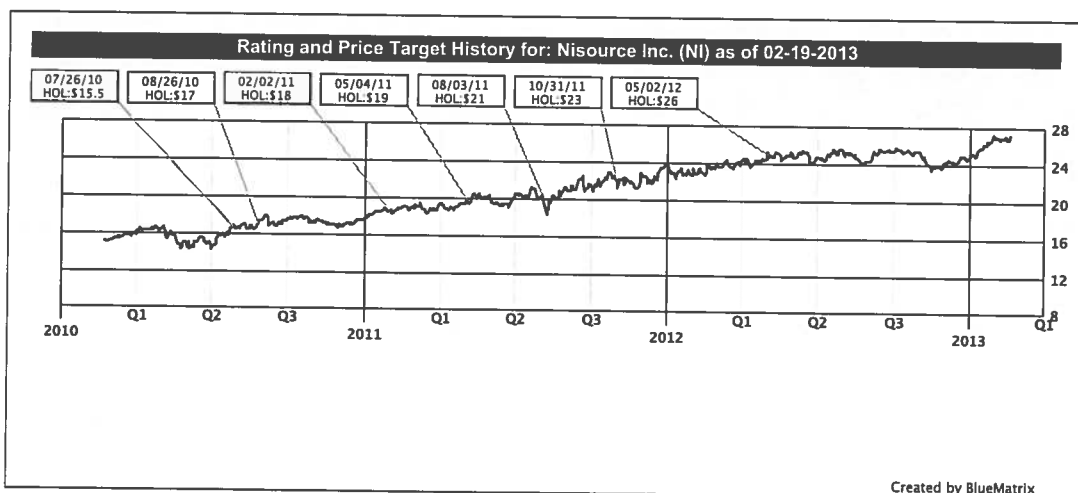
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