COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN ADJUSTMENT OF GAS RATES OF COLUMBIA GAS OF KENTUCKY, INC.	)))	CASE NO. 2007-00008

VOLUME 3

FILING REQUIREMENTS

Columbia Gas of Kentucky
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Volume 3

Columbia Gas of Kentucky
Case No. 2007-00008
Historical Test Period Filing Requirements
Filing Requirement #6-s

Description of Filing Requirement:

Securities and Exchange Commission's annual report for the most recent two (2) years, Form 10-Ks and any Form 8-Ks issued within the past two (2) years, and Form 10-Qs issued during the past six (6) quarters updated as current information becomes available.

Response:

Please refer to Volumes 3, 4 and 5 of the Company's application.

Responsible Witness:

Kelly L. Humrichouse

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from_____ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York
Preferred Share Purchase Rights	New York

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☑

The aggregate market value of Common Stock (based upon the June 30, 2005, closing price of $24.73 on the New York Stock Exchange) held by non-affiliates was approximately $6,653,656,819.

There were 272,642,948 shares of Common Stock, $0.01 Par Value outstanding as of February 28, 2006.

Documents Incorporated by Reference
Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 10, 2006.

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DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Atlantic Trading	Columbia Atlantic Trading Corporation
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Service Partners	Columbia Service Partners, Inc
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
IWC	Indianapolis Water Company
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
Primary Energy	Primary Energy, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

AFUDC	Allowance for funds used during construction
APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (Also known as Superfund)

DEFINED TERMS (continued)

Corporate PIES	Corporate Premium Income Equity Securities
DOT	United States Department of Transportation
Dth	Dekatherm
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EITF	Emerging Issues Task Force
EITF No. 00-19	Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"
EITF No. 02-03	Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"
EITF No. 96-16	Emerging Issues Task Force Issue No. 96-16, "Investor's Accounting for an Investee when the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights"
EITF No. 98-10	Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities"
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 45	FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
Mahonia	Mahonia II Limited
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
Mcf	Thousand cubic feet
MGP	Manufactured gas plant
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
MMI	Midwest Market Initiative
MOU	Memorandum of Understanding
MSCP	Morgan Stanley Dean Witter Capital Partners IV, L.P.
mw	Megawatts
NAAQS	National Ambient Air Quality Standards

DEFINED TERMS (continued)

NOV	Notice of Violation
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OPSB	Ohio Power Siting Board
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
PRB	Powder River Basin
Private Power	Private Power, LLC
PSC	Kentucky Public Service Commission
PUC	Public Utilities Commission
PUCO	Public Utilities Commission of Ohio
QPAI	Qualified production activities income
RAM	Retainage Adjustment Mechanism
RCRA	Resource Conservation and Recovery Act
SAB No. 92	Staff Accounting Bulletin No. 92, "Accounting and Disclosures Relating to Loss Contingencies"
SAILS[sm]	Stock Appreciation Income Linked Securities[sm]
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 5	Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies"
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 101	Statement of Financial Accounting Standards 101, "Regulated Enterprises – Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions"
SFAS No. 109	Statement of Financial Accounting Standards No. 109, "Accounting for Uncertain Tax Positions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 140	Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Asset and Extinguishments of Liabilities"
SFAS No. 142	Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets"
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 144	Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
SIP	State Implementation Plan
SO2	Sulfur dioxide
SOP	Statement of Position
SOP 96-1	Statement of Position 96-1, "Environmental Remediation Liabilities"

DEFINED TERMS (continued)

SOP 98-1	Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"
Tcf	Trillion cubic feet
Triana	Triana Energy Holdings
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

PART I

ITEM 1. BUSINESS

NISOURCE INC.

NiSource is an energy holding company whose subsidiaries provide natural gas, electricity and other 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. NiSource is the successor to an Indiana corporation organized in 1987 under the name of NIPSCO Industries, Inc., which changed its name to NiSource Inc. on April 14, 1999. In connection with the acquisition of Columbia on November 1, 2000, NiSource became a Delaware corporation registered under the Public Utility Holding Company Act of 1935. Effective February 8, 2006, the Public Utility Holding Company Act of 1935 was repealed. NiSource is now a holding company under the Public Utility Holding Company Act of 2005.

NiSource is the largest natural gas distribution company operating east of the Rocky Mountains, as measured by number of customers. NiSource's principal subsidiaries include Columbia, a vertically-integrated natural gas distribution, transmission and storage holding company whose subsidiaries provide service to customers in the Midwest, the Mid-Atlantic and the Northeast; Northern Indiana, a vertically-integrated gas and electric company providing service to customers in northern Indiana; and Bay State, a natural gas distribution company serving customers in New England. NiSource derives substantially all of its revenues and earnings from the operating results of its 16 direct subsidiaries.

NiSource's business segments are: Gas Distribution Operations; Gas Transmission and Storage Operations; Electric Operations; and Other Operations. During the third quarter of 2003, NiSource sold its exploration and production operations. Previous to this sale, NiSource reported these operations in an Exploration and Production Operations segment. In addition, during the fourth quarter of 2003, NiSource sold certain subsidiaries of PEI (formerly Primary Energy). Previously, the operations of the PEI subsidiaries were reported in the Other Operations segment. All periods have been adjusted to reflect the PEI subsidiaries and the Exploration and Production Operations segment as discontinued operations.

Gas Distribution Operations

NiSource's natural gas distribution operations serve more than 3.3 million customers in 9 states and operate approximately 57 thousand miles of pipeline. Through its wholly owned subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky and Maryland. NiSource also distributes natural gas to approximately 789 thousand customers in northern Indiana through three subsidiaries: Northern Indiana, Kokomo Gas and Northern Indiana Fuel and Light. Additionally, NiSource's subsidiaries Bay State and Northern Utilities distribute natural gas to approximately 338 thousand customers in Massachusetts, Maine and New Hampshire.

Gas Transmission and Storage Operations

NiSource's Gas Transmission and Storage Operations subsidiaries own and operate approximately 16 thousand miles of interstate pipelines and operate one of the nation's largest underground natural gas storage systems capable of storing approximately 646 Bcf of natural gas. Through its subsidiaries, Columbia Transmission, Columbia Gulf, Crossroads Pipeline and Granite State Gas, NiSource owns and operates an interstate pipeline network extending from offshore in the Gulf of Mexico to Lake Erie, New York and the eastern seaboard. Together, these companies serve customers in 19 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Gas Transmission and Storage Operations subsidiaries are engaged in several projects that will expand their facilities and throughput. The largest such project is the proposed Millennium Pipeline. The Millennium Pipeline is a project proposed by a partnership of energy companies including Columbia Transmission, which would replace parts of an existing Columbia Transmission pipeline. Another project is Hardy Storage, a Columbia Transmission partnership to develop a storage field in West Virginia to provide additional natural gas storage for the eastern United States. Columbia Transmission recently held open seasons for two additional projects, the central and southern Virginia expansion and the Eastern Market expansion. Market interest for both projects was encouraging and Columbia Transmission has signed precedent agreements with four East Coast customers for the Eastern Market expansion. Customer negotiations are ongoing for the central and southern Virginia expansion. Columbia Transmission currently anticipates filing appropriate regulatory applications during 2006.

NISOURCE INC.

Electric Operations

NiSource generates and distributes electricity through its subsidiary Northern Indiana to approximately 450 thousand customers in 21 counties in the northern part of Indiana and engages in wholesale and transmission transactions. Northern Indiana owns and has the ability to operate four coal-fired electric generating stations with a net capability of 3,059 mw, six gas-fired generating units with a net capability of 323 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system net capability of 3,392 mw. Northern Indiana's transmission system, with voltages from 34,500 to 345,000 volts, consists of 3,184 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

Northern Indiana now operates three coal-fired generation stations with a net capacity of 2,574 mw, six gas-fired generating units with a net capacity of 323 mw and two hydroelectric plants with a net capability of 10 mw, totaling a net capability of 2,907 mw. During the year ended December 31, 2005, Northern Indiana generated 87.1% and purchased 12.9% of its electric requirements. Northern Indiana's Mitchell Station, indefinitely shut down in 2002, is not included in the net capacity above. Northern Indiana's generating requirements are currently under review. Northern Indiana's Integrated Resource Plan, filed with the IURC in November 2005, indicated a gap between customer demand projections and company owned generating capability, primarily in peak hours during the summer. Northern Indiana is also considering capacity requirements associated with its varying load.

Other Operations

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, including a cogeneration facility, fuel cells and storage systems. PEI operates the Whiting Clean Energy project at BP's Whiting, Indiana refinery, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Divestiture of Non-Core Assets

In recent years, NiSource sold certain businesses judged to be non-core to NiSource's strategy. In 2003, NiSource sold CER, Transcom, Columbia Service Partners, and all of the steel-related, inside-the-fence assets of PEI. Refer to "Discontinued Operations" included in Item 7, and Note 4, "Discontinued Operations and Assets Held for Sale," in the Notes to Consolidated Financial Statements for additional information.

Business Strategy

NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with virtually 100% of its operating income generated from the rate-regulated businesses. With the nation's fourth largest natural gas pipeline, the largest natural gas distribution network east of the Rocky Mountains and one of the nation's largest natural gas storage networks, NiSource operates throughout the energy-intensive corridor that extends from the supply areas in the Gulf Coast through the consumption centers in the Midwest, Mid-Atlantic, New England and Northeast. This corridor includes 30% of the nation's population and 40% of its energy consumption. NiSource continues to position its assets to meet the corridor's growing energy needs.

Competition and Changes in the Regulatory Environment

The regulatory frameworks applicable to NiSource's operations, at both the state and federal levels, continue to evolve. These changes have had and will continue to have an impact on NiSource's operations, structure and profitability. Management continually seeks new ways to be more competitive and profitable in this changing environment, including providing gas customers with increased choices for products and services, and developing new energy-related products and services for residential, commercial and industrial customers.

Natural Gas Competition. Open access to natural gas supplies over interstate pipelines and the deregulation of the commodity price of gas has led to tremendous change in the energy markets. LDC customers and marketers began to purchase gas directly from producers and marketers and an open, competitive market for gas supplies has emerged. This separation or "unbundling" of the transportation and other services offered by pipelines and LDC's allows customers to purchase the commodity independent of services provided by the pipelines and LDC's. The LDC's continue to purchase gas and recover the associated costs from their customers. NiSource's Gas Distribution Operations' subsidiaries are involved in programs that provide customers the opportunity to purchase their natural gas requirements from third parties and use the NiSource Gas Distribution Operations' subsidiaries for transportation services.

Electric Competition. In 1996, the FERC ordered that all public utilities owning, controlling or operating electric transmission lines file non-discriminatory, open-access tariffs and offer wholesale electricity suppliers and marketers the same transmission service they provide to themselves. In 1997, the FERC accepted for filing Northern Indiana's open-access transmission tariff and issued an opinion on December 31, 2002. In December 1999, the FERC issued Order 2000, a final rule addressing the formation and operation of Regional Transmission Organizations. The rule was intended to eliminate pricing inequities in the provisioning of wholesale transmission service. In compliance with the rule, Northern Indiana transferred functional control of its electric transmission assets to MISO on October 1, 2003. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff, as the Northern Indiana Open Access Transmission Tariff was retired. (See "Electric Operations – Regulatory Matters" included in Item 7.)

NiSource's Other Operations subsidiaries also experience competition for energy sales and related services from third party providers. NiSource meets these challenges through innovative programs aimed at providing energy products and services at competitive prices while also providing new services that are responsive to the evolving energy market and customer requirements.

Financing Subsidiary

NiSource Finance is a wholly-owned, consolidated finance subsidiary of NiSource that engages in financing activities to raise funds for the business operations of NiSource and its subsidiaries. NiSource Finance was incorporated in February 2000 under the laws of the state of Indiana. NiSource Finance's obligations are fully and unconditionally guaranteed by NiSource.

Other Relevant Business Information

NiSource's customer base is broadly diversified, with no single customer accounting for a significant portion of revenues.

As of December 31, 2005, NiSource had 7,822 employees of whom 3,405 were subject to collective bargaining agreements.

For a listing of certain subsidiaries of NiSource refer to Exhibit 21.

NiSource files various reports with the SEC. The reports include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. NiSource makes all SEC filings available without charge to the public on its web site at http://www.nisource.com.

ITEM 1A. RISK FACTORS

NISOURCE INC.

There are many factors that could have a material adverse effect on NiSource's operating results and financial condition. New risks may emerge at any time, and NiSource cannot predict those risks or estimate the extent to which they may affect financial performance. Each of the risks described below could adversely impact the value of NiSource's securities.

NiSource has substantial indebtedness, which could adversely affect its financial condition.

NiSource has a significant amount of indebtedness outstanding as a result of the acquisition of Columbia. NiSource had total consolidated indebtedness of approximately $6,610 million outstanding as of December 31, 2005. The substantial indebtedness could have important consequences to investors. For example, it could:

- limit the ability to borrow additional funds or increase the cost of borrowing additional funds;
- reduce the availability of cash flow from operations to fund working capital, capital expenditures and other general corporate purposes;
- limit the flexibility in planning for, or reacting to, changes in the business and the industries in which the company operates;
- lead parties with whom NiSource does business to require additional credit support, such as letters of credit, in order for NiSource to transact such business;
- place NiSource at a competitive disadvantage compared to competitors that are less leveraged; and
- increase vulnerability to general adverse economic and industry conditions.

Some of NiSource's debt obligations contain financial covenants related to debt-to-capital ratios and cross-default provisions. NiSource's failure to comply with any of these covenants could result in an event of default, which if not cured or waived, could result in the acceleration of outstanding debt obligations.

NiSource's costs of compliance with environmental laws are significant. The costs of compliance with future environmental laws and the incurrence of environmental liabilities could impact cash flow and profitability.

NiSource's subsidiaries are subject to extensive federal, state and local environmental requirements that, among other things, regulate air emissions, water usage and discharges, remediation and the management of chemicals, hazardous waste and solid waste. Compliance with these legal requirements requires NiSource to commit significant expenditures for installation of pollution control equipment, remediation, environmental monitoring, emissions fees and permits at many of NiSource's facilities. These expenditures are significant, and NiSource expects that they will continue to be significant in the future.

If NiSource's subsidiaries fail to comply with environmental laws and regulations or causes harm to the environment or persons, even if caused by factors beyond NiSource's control, that failure or harm may result in the assessment of civil or criminal penalties and damages against NiSource and its subsidiaries. In September 2004, the EPA issued an NOV to Northern Indiana alleging violations of the new source review provisions of the Clean Air Act. An adverse outcome in this matter could require capital expenditures beyond the EPA requirements that cannot be determined at this time and could require payment of substantial penalties.

Existing environmental laws and regulations may be revised, and new laws and regulations seeking to protect the environment may be adopted or become applicable to NiSource's subsidiaries. Revised or additional laws and regulations could result in significant additional expense and operating restrictions on NiSource's facilities or increased compliance costs, which may not be fully recoverable from customers and would therefore reduce net income. The cost impact of any new or amended legislation would depend upon the specific requirements enacted and cannot be determined at this time.

NISOURCE INC.

A significant portion of the gas and electricity NiSource sells is used by residential and commercial customers for heating and air conditioning. Accordingly, the operating results fluctuate depending on the weather and, to a certain extent, the price of gas or electricity.

Energy sales are sensitive to variations in weather. Forecasts of energy sales are based on normal weather, which represents a long-term historical average. Significant variations from normal weather could have, and have had, a material impact on energy sales. Additionally, residential usage, and to some degree commercial usage, have shown to be sensitive to fluctuations in commodity costs for gas and electricity, whereby usage declines with increased energy costs, thus affecting NiSource's financial results.

NiSource's electric operations are subject to economic conditions in certain industries.

Electric operations in northern Indiana have been and may continue to be adversely affected by events in the steel and steel related industries. In particular, sales to large industrial customers in these industries have been impacted by economic downturns generally, and may be affected by consolidation and globalization within such industries.

The majority of NiSource's net revenues are subject to economic regulation and are exposed to the impact of regulatory rate reviews and proceedings.

Virtually all of NiSource's net revenues are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. Two NiSource companies are currently obligated to participate in rate reviews, which determine the energy rates charged to customers, and directly impacts revenues. As part of a settlement reached in other regulatory proceedings, Northern Indiana has agreed to file an electric base rate case with the IURC on or before July 1, 2008. The outcome for the rate case could have a material effect on NiSource's financial results. Also, Columbia of Virginia has been directed to file schedules normally associated with a rate case by May 1, 2006, as part of the VSCC's investigation into the justness and reasonableness of Columbia of Virginia's rates.

Certain events that are beyond NiSource's control have increased the level of public and regulatory scrutiny of the industry. Regulatory authorities', governmental and market reactions to these events may have negative impacts on NiSource's business, financial condition and access to capital.

As a result of the energy crisis in California during the summer of 2001, the recent volatility of natural gas prices in North America, the bankruptcy filing by Enron Corporation, the blackout in the Northeast in 2003, accounting irregularities at public companies in general and energy companies in particular, and investigations by governmental authorities into energy trading activities, companies in the regulated and unregulated utility business have been under a generally increased amount of public and regulatory scrutiny and suspicion. All of the above-mentioned factors have caused regulators and legislators to review current regulatory practices, operating practices and accounting practices. The capital markets and ratings agencies also have increased their level of scrutiny. NiSource believes that it is complying with all applicable laws and accounting standards, but it is difficult or impossible to predict or control what effect these types of events may have on the business, financial condition or access to the capital markets.

NiSource's recent outsourcing initiative and service agreement with IBM may not achieve the level of savings that was originally anticipated. Additionally, many associated changes in systems and personnel are being made, increasing operational and control risk during transition, which may have an impact on the business and its financial condition.

NiSource expects the 10-year agreement with IBM to deliver upwards of $530 million in gross savings in operating and capital costs. This cost savings is dependent upon many factors, and unanticipated changes in operations may cause actual cost savings to be substantially less than expected. Many functions are being transitioned to IBM and many new personnel are assuming responsibilities across these functions, increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition. Additionally, new information technology systems and process changes are also being put into place increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition.

NISOURCE INC.

NiSource's Whiting merchant energy project is operating at a loss.

NiSource owns and operates a merchant energy facility, Whiting Clean Energy, at BP's Whiting, Indiana refinery. This facility uses natural gas to generate electricity for sale in the wholesale markets and to generate steam for industrial use by BP's refinery and as such, the profitability of this facility is dependant upon the market prices for electricity and natural gas, regional load dispatch patterns and the steam requirements of BP's refinery. It is anticipated that the facility will operate at a loss in the near term based on the current market view of forward pricing for gas and electricity. The after-tax loss for Whiting Clean Energy was approximately $21.5 million for 2005 and $29.6 million for 2004.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

NISOURCE INC.

Discussed below are the principal properties held by NiSource and its subsidiaries as of December 31, 2005.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 56,642 miles of pipelines and certain related facilities. This includes: (i) for the five distribution subsidiaries of its Columbia system, 34,444 miles of pipelines, 1,350 reservoir acres of underground storage, eight storage wells and one compressor station with 800 hp of installed capacity, (ii) for its Northern Indiana system, 14,690 miles of pipelines, 27,129 reservoir acres of underground storage, 82 storage wells and two compressor stations with a total of 6,000 hp of installed capacity, (iii) for its Bay State system, 5,774 miles of pipelines, (iv) for its Northern Indiana Fuel and Light system, 935 miles of pipelines, and (v) for its Kokomo Gas system, 799 miles of pipelines. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, Massachusetts, Maine and New Hampshire.

Gas Transmission and Storage Operations. Columbia Transmission has 870,058 reservoir acres of underground storage, 3,549 storage wells, 11,480 miles of interstate pipelines and 87 compressor stations with 592,904 hp of installed capacity. These operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia and West Virginia. Columbia Gulf has 4,130 miles of transmission pipelines and 13 compressor stations with 465,884 hp of installed capacity. Columbia Gulf's operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas, Wyoming, and the offshore Gulf of Mexico. Granite State Gas has 82 miles of transmission pipeline with operations located in Maine, Massachusetts and New Hampshire. Crossroads Pipeline has 202 miles of transmission pipeline and one compressor station with 3,000 hp of installed capacity. Crossroads Pipeline's operations are located in Indiana and Ohio.

Electric Operations. Northern Indiana owns and has the ability to operate four coal-fired electric generating stations with a net capability of 3,059 mw, six gas-fired generating units with a net capability of 323 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system net capability of 3,392 mw. It has 291 substations with an aggregate transformer capacity of 23,182,800 kilovolt-amps. Its transmission system, with voltages from 34,500 to 345,000 volts, consists of 3,184 circuit miles of line. The electric distribution system extends into 21 counties and consists of 7,739 circuit miles of overhead and 1,940 cable miles of underground primary distribution lines operating at various voltages from 2,400 to 12,500 volts. Northern Indiana has distribution transformers having an aggregate capacity of 12,426,163 kilovolt-amps and 471,936 electric watt-hour meters.

Northern Indiana now operates three coal-fired generation stations with a net capacity of 2,574 mw, six gas-fired generating units with a net capacity of 323 mw and two hydroelectric plants with a net capability of 10 mw, totaling a net capability of 2,907 mw. Northern Indiana's Mitchell Station, indefinitely shut down in 2002, is not included in the net capacity above. Northern Indiana's generating requirements are currently under review. Northern Indiana's Integrated Resource Plan, filed with the IURC in November 2005, indicated a gap between customer demand projections and company owned generating capability, primarily in peak hours during the summer. Northern Indiana is also considering capacity requirements associated with its varying load.

Other Operations. PEI owns and operates the Whiting Clean Energy project at BP's Whiting, Indiana refinery, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Through other subsidiaries, NiSource owns the Southlake Complex, its 325,000 square foot headquarters building located in Merrillville, Indiana and other residential and development property that it holds for resale in Indiana.

ITEM 2. PROPERTIES (continued)

NiSource Inc.

Character of Ownership. The principal offices and properties of NiSource and its subsidiaries are held in fee and are free from encumbrances, subject to minor exceptions, none of which are of such a nature as to impair substantially the usefulness of such properties. Many of the offices in various communities served are occupied by subsidiaries of NiSource under leases. All properties are subject to liens for taxes, assessments and undetermined charges (if any) incidental to construction. It is NiSource's practice regularly to pay such amounts, as and when due, unless contested in good faith. In general, the electric lines, gas pipelines and related facilities are located on land not owned in fee but are covered by necessary consents of various governmental authorities or by appropriate rights obtained from owners of private property. NiSource does not, however, generally have specific easements from the owners of the property adjacent to public highways over, upon or under which its electric lines and gas distribution pipelines are located. At the time each of the principal properties was purchased a title search was made. In general, no examination of titles as to rights-of-way for electric lines, gas pipelines or related facilities was made, other than examination, in certain cases, to verify the grantors' ownership and the lien status thereof.

ITEM 3. LEGAL PROCEEDINGS

NISOURCE INC.

1. Virginia Natural Gas, Inc. v. Columbia Gas Transmission Corporation, Federal Energy Regulatory Commission

On January 13, 2004, VNG filed with the FERC a "Complaint Seeking Compliance with the Natural Gas Act and with Regulations and Certificate Orders of the Federal Energy Regulatory Commission and Seeking Remedies" in Docket No. RP04-139. VNG alleged various violations during the winter of 2002-2003 by Columbia Transmission of its firm service obligations to VNG. VNG sought monetary damages and remedies (exceeding $37 million), and also sought certain prospective remedies. On July 29, 2004, the FERC issued an order in which it refused to grant VNG any monetary damages and said such claims are best determined by a court of law. The FERC also agreed with Columbia Transmission that Columbia Transmission had not abandoned its obligation to provide service and that it had not inappropriately continued interruptible service to the detriment of firm service. However, the FERC did find that Columbia Transmission had failed to exercise sufficient due diligence in its modifications to or its operation of vaporization equipment at its Chesapeake LNG facility and that Columbia Transmission had failed to deliver gas to VNG at 250 pounds per square inch gauge (psig) as called for by the agreement between VNG and Columbia Transmission. The FERC declined VNG's request to award damages in this case and, as noted above, stated that any claim for damages could best be determined by a court of law. Both VNG and Columbia Transmission sought rehearing of the FERC order, but the FERC denied the requests for rehearing. Both Columbia Transmission and VNG have appealed the FERC's decision to the United States Court of Appeals for the D.C. Circuit, where the appeals are currently pending.

2. Stand Energy Corporation, et al. v. Columbia Gas Transmission Corporation, et al., Kanawha County Court, West Virginia

On July 14, 2004, Stand Energy Corporation filed a complaint in Kanawha County Court in West Virginia. The complaint contains allegations against various NiSource companies, including Columbia Transmission and Columbia Gulf, and asserts that those companies and certain "select shippers" engaged in an "illegal gas scheme" that constituted a breach of contract and violated state law. The "illegal gas scheme" complained of by the plaintiffs relates to the Columbia Transmission and Columbia Gulf gas imbalance transactions that were the subject of the FERC enforcement staff investigation and subsequent settlement approved in October 2000. Columbia Transmission and Columbia Gulf filed a Notice of Removal with the Federal Court in West Virginia on August 13, 2004 and a Motion to Dismiss on September 10, 2004. In October 2004, however, the plaintiffs filed their Second Amended Complaint, which clarified the identity of some of the "select shipper" defendants and added a federal antitrust cause of action. On January 6, 2005, the Court denied the Columbia companies' motion to strike the Second Amended Complaint and granted the plaintiffs leave to amend. To address the issues raised in the Second Amended Complaint, the Columbia companies revised their briefs in support of the previously filed motions to dismiss. In June 2005, the Court granted in part and denied in part the Columbia companies' motion to dismiss the Second Amended Complaint. The Columbia companies have filed an answer to the Second Amended Complaint. One of the plaintiffs, Atlantigas Corporation, has been dismissed from the case, and has appealed the dismissal to the Court of Appeals. On December 1, 2005, Plaintiffs filed a motion to certify this case as a class action. The Court has ordered that discovery will proceed on the issue of class certification as well as the merits.

3. Vivian K. Kershaw et al. v. Columbia Natural Resources, Inc., et al., Chautauqua County Court, New York

Plaintiffs filed a complaint in 2000 against CNR a former subsidiary, Columbia Transmission, Columbia and CER. The complaint alleges that plaintiffs own an interest in oil and gas leases in New York and that the defendants have underpaid royalties on those leases by, among other things, failing to base royalties on the price at which natural gas is sold to the end-user and by improperly deducting post-production costs. Plaintiffs seek the alleged royalty underpayment and punitive damages. The complaint also seeks class action status on behalf of all royalty owners in oil and gas leases owned by the defendants. Discovery is proceeding regarding class certification issues.

NiSource Inc.

4. United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana

The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. The decision of the Special Master has been briefed and argued by the parties and presented to the Federal District Court Judge for a final ruling, which is expected in the first quarter of 2006.

5. Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against CNR alleging that CNR underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that CNR fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. All claims by the government of the United States are excluded from the class. CNR appealed the decision certifying the class and the West Virginia Supreme Court of Appeals denied the appeal. Although NiSource sold CNR in 2003, NiSource remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial was originally scheduled for the first quarter of 2006, but has been continued indefinitely, pending review by the West Virginia Supreme Court of Appeals on one of the material issues in the case.

6. Environmental Protection Agency Notice of Violation

On September 29, 2004, the EPA issued an NOV to Northern Indiana for alleged violations of the Clean Air Act and the Indiana SIP. The NOV alleges that modifications were made to certain boiler units at three of Northern Indiana's generating stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana is currently in discussions with the EPA regarding possible resolutions to this NOV.

Refer to Note 17-D, "Other Legal Proceedings," in the Notes to Consolidated Financial Statements for additional information regarding legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

NISOURCE INC.

None.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

NISOURCE INC.

The following is a list of the Executive Officers of the Registrant, including their names, ages, years with NiSource and offices held, as of February 1, 2006.

Name	Age	Years with NiSource	Office(s) Held in Past 5 Years
Robert C. Skaggs, Jr.	51	5	Chief Executive Officer of NiSource since July 2005.
			President of NiSource since October 2004.
			Executive Vice President, Regulated Revenue of NiSource from October 2003 to October 2004.
			President of Columbia of Ohio from February 1997 to October 2003 and Columbia of Kentucky from January 1997 to October 2003.
			President of Bay State and Northern Utilities from November 2000 to October 2003.
			President of Columbia of Virginia, Columbia of Maryland, and Columbia of Pennsylvania from December 2001 to October 2003.
Michael W. O'Donnell	61	5	Executive Vice President and Chief Financial Officer of NiSource since November 2000.
Peter V. Fazio, Jr.	66	5	Executive Vice President and General Counsel of NiSource since November 2000.
			Partner in the law firm of Schiff Hardin LLP since 1984.
Christopher A. Helms	51	-	Pipeline Group President of NiSource since April 2005.
			Principal of Helms & Company LP from December 2003 to March 2005.
			President of CMS Panhandle Companies from March 1999 to June 2003.
			Executive Vice President of CMS Gas Transmission Corp. from March 1999 to June 2003.
Jeffrey W. Grossman	54	5	Vice President and Controller of NiSource since November 2000.
David J. Vajda	50	29	Vice President and Treasurer of NiSource since January 2003.
			Vice President, Finance, Indiana Energy Group of NiSource Corporate Services from August 2002 to December 2002.
			Vice President, Finance and Administration, Merchant Energy of NiSource Corporate Services from October 2000 to August 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NISOURCE INC.

NiSource's common stock is listed and traded on the New York Stock Exchange. The table below indicates the high and low sales prices of NiSource's common stock, on the composite tape, during the periods indicated.

	2005		2004	
	High	**Low**	High	Low
First Quarter	**23.18**	**21.81**	22.53	20.80
Second Quarter	**25.00**	**22.28**	21.72	19.65
Third Quarter	**25.50**	**22.78**	21.70	20.42
Fourth Quarter	**24.66**	**20.44**	22.82	20.76

As of December 31, 2005, NiSource had 46,451 common stockholders of record and 272,622,905 shares outstanding.

On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{sm}. NiSource received approximately $144.4 million in satisfaction of the SAILS^{sm} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the debt component of the SAILS^{sm} was reset to 3.628% per annum. The debentures mature November 1, 2006.

In February 2003, NiSource issued approximately 13.1 million shares of common stock associated with the settlement of forward equity agreements comprising a component of the Corporate PIES. Concurrently with the settlement of the forward agreements, NiSource remarketed the underlying debentures, due February 19, 2005, and reset the interest rate to 4.25%. NiSource received net proceeds of $344.1 million from the remarketing in satisfaction of the Corporate PIES holders' obligation under the forward equity agreements. The sole purchaser of the remarketed debentures purchased newly-offered 6.15% notes of NiSource Finance due March 1, 2013, using the remarketed debentures as consideration.

Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by NiSource's Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. Beginning with the November 2003 dividend, NiSource reduced its annual dividend to $0.92 per share from $1.16 per share in line with the company's objectives of ongoing debt reduction, cash flow and core business reinvestment for the future. This decision was also influenced by the fact that its dividend yield and payout ratio prior to the dividend reduction were higher than industry averages. NiSource paid quarterly common dividends totaling $0.92 per share for the year ended December 31, 2005 and 2004. At its January 6, 2006 meeting, the Board declared a quarterly common dividend of $0.23 per share, payable on February 20, 2006 to holders of record on January 31, 2006.

Although the Board currently intends to continue the payment of regular quarterly cash dividends on common shares, the timing and amount of future dividends will depend on the earnings of NiSource's subsidiaries, their financial condition, cash requirements, regulatory restrictions, any restrictions in financing agreements and other factors deemed relevant by the Board.

NISOURCE INC.

As a holding company, NiSource depends on dividends received from its operating subsidiaries. Dividends from those subsidiaries may be subject to regulatory limitations. Northern Indiana's charter provides that so long as any shares of Northern Indiana's cumulative preferred stock are outstanding, no cash dividends shall be paid or declared on its common stock in excess of 75% of the net income available for the preceding calendar year, unless the aggregate of the capital applicable to stocks subordinate as to assets and dividends to the cumulative preferred stock plus the surplus, after giving effect to such common stock dividends, would equal or exceed 25% of the sum of all obligations evidenced by bonds, notes, debentures or other securities, plus the total capital and surplus. At December 31, 2005, the sum of the capital applicable to stocks subordinate to the cumulative preferred stock plus the surplus was equal to 55% of the total capitalization including surplus.

ITEM 6. SELECTED FINANCIAL DATA

NISOURCE INC.

Selected Supplemental Information

Year Ended December 31, ($ in millions except per share data)	2005	2004	2003	2002	2001
Gross Revenues					
Gas Distribution	**4,600.4**	3,801.8	3,554.5	2,890.4	3,849.9
Gas Transportation and Storage	**1,000.0**	1,013.4	1,033.5	1,014.1	997.1
Electric	**1,248.6**	1,121.0	1,115.9	1,103.6	1,060.2
Other	**1,050.1**	725.3	538.1	307.1	358.7
Total Gross Revenues	**7,899.1**	6,661.5	6,242.0	5,315.2	6,265.9
Net Revenues (Gross Revenues less Cost of Sales)	**3,149.8**	3,051.8	3,056.4	3,066.4	3,122.1
Operating Income	**952.8**	1,077.5	1,122.3	1,154.0	969.8
Net Income	**306.5**	436.3	85.2	372.5	216.2
Shares outstanding at the end of the year (000's)	**272,623**	270,625	262,630	248,860	207,492
Number of common shareholders	**46,451**	50,020	42,034	47,472	49,589
Basic Earnings (Loss) Per Share ($)					
Continuing operations	**1.05**	1.63	1.64	1.89	0.93
Discontinued operations	**0.08**	0.02	(1.28)	(0.12)	0.10
Change in accounting principles	**-**	-	(0.03)	-	0.02
Basic Earnings Per Share	**1.13**	1.65	0.33	1.77	1.05
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	**1.04**	1.62	1.63	1.88	0.91
Discontinued operations	**0.08**	0.02	(1.27)	(0.13)	0.10
Change in accounting principles	**-**	-	(0.03)	-	0.02
Diluted Earnings Per Share	**1.12**	1.64	0.33	1.75	1.03
Return on average common equity	**6.3%**	9.5%	2.0%	9.7%	6.3%
Times interest earned (pre-tax)	**2.16**	2.51	2.31	2.04	1.47
Dividends paid per share	**0.92**	0.92	1.10	1.16	1.16
Dividend payout ratio	**81.4%**	55.8%	333.3%	65.5%	110.5%
Market values during the year:					
High	**25.50**	22.82	21.97	24.99	32.55
Low	**20.44**	19.65	16.39	14.51	18.25
Close	**20.86**	22.78	21.94	20.00	23.06
Book value of common stock	**18.09**	17.69	16.81	16.78	16.72
Market-to-book ratio at year end	**115.3%**	128.8%	130.5%	119.2%	137.9%
Total Assets	**17,958.5**	16,987.8	16,623.5	17,941.8	17,893.7
Capital expenditures	**590.4**	517.0	574.2	531.9	525.3
Capitalization					
Common stockholders' equity	**4,933.0**	4,787.1	4,415.9	4,174.2	3,469.4
Preferred stock	**81.1**	81.1	81.1	84.9	88.6
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	**-**	-	-	345.0	345.0
Long-term debt, excluding amounts due within 1-year	**5,271.2**	4,835.9	5,993.4	4,849.5	6,065.1
Total Capitalization	**10,285.3**	9,704.1	10,490.4	9,453.6	9,968.1
Number of employees	**7,822**	8.628	8,614	9,307	12,501

In 2002, NiSource discontinued the amortization of goodwill consistent with SFAS No. 142.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource's plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

CONSOLIDATED REVIEW

Executive Summary

NiSource is an energy holding company whose subsidiaries are engaged in the transmission, storage and distribution of natural gas and the generation, transmission and distribution of electricity in the high-demand energy corridor stretching from the Gulf Coast through the Midwest to New England. NiSource generates virtually 100 percent of its operating income through these rate-regulated businesses. A significant portion of NiSource's operations is subject to seasonal fluctuations in sales. During the heating season, which is primarily from November through March, net revenues from gas are more significant, and during the cooling season, which is primarily from June through September, net revenues from electric sales and transportation services are more significant than in other months.

NiSource had been registered as a holding company under the Public Utility Holding company Act of 1935, as amended. On August 8, President Bush signed the "Energy Policy Act of 2005" into law which, among other things, effectively repealed the Public Utility Holding company Act of 1935. NiSource is now a holding company under the Public Utility Holding Company Act of 2005, which was issued as part of the Energy Policy Act of 2005.

The effective date for this change was February 8, 2006. Through this new law, the FERC was granted many of the oversight provisions previously held by the SEC.

For the year ended December 31, 2005, NiSource reported income from continuing operations before the cumulative effect of a change in accounting principle of $283.6 million, or $1.05 per basic share, compared with income from continuing operations before the cumulative effect of a change in accounting principle of $431.0 million, or $1.63 per basic share, for 2004. The decrease in earnings was primarily the result of $82.8 million of pre-tax restructuring and transition costs incurred in connection with an outsourcing agreement with IBM initiated during 2005, a $108.6 million pre-tax loss on early extinguishment of long-term debt, asset impairment charges of $21.8 million and other factors discussed below.

Operating results for 2005 were also adversely impacted by higher depreciation expense, primarily from the 2004 expiration of the prior regulatory stipulation for Columbia of Ohio; decreased usage of natural gas by utility customers, driven in part by higher gas prices; incremental costs associated with the MISO in NiSource's Indiana electric market; and lower net revenues in the gas transmission and storage business due primarily to the 2004 renegotiation of contracts with NiSource pipelines' major customers, net of remarketing activities. These impacts were partially offset by increases in net revenues from Gas Distribution and Electric Operations, primarily driven by favorable weather versus a year ago, regulatory initiatives including trackers and increased electric sales to residential and commercial customers, and improved results from Whiting Clean Energy. These factors are discussed in more detail within the following discussions of "Results of Operations" and "Results and Discussion of Segment Operations."

Natural gas prices on the wholesale market hit all-time highs in late 2005 due to a national imbalance between supply and demand that was complicated by the unusually active hurricane season. The higher natural gas prices contributed to lower natural gas usage by customers, which in turn affected NiSource's results, particularly in Gas Distribution Operations.

While Hurricanes Katrina and Rita were disruptive, they did not cause severe damage to NiSource's pipelines, and the costs of repairing damage to pipeline facilities did not have a material impact on NiSource's 2005 results.

Contributing to the decline in EPS was an increase in the average number of shares outstanding at December 31, 2005, compared to the year earlier, due primarily to the issuance of approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts associated with the SAILS^{sm} on November 1, 2004.

Four-Point Platform for Growth

NiSource made significant progress during 2005 on each of its four key initiatives to build a platform for long-term, sustainable growth: expansion and commercial growth in the pipeline and storage business; regulatory and commercial initiatives; financial management; and process and expense management.

Expansion and Commercial Growth in the Pipeline and Storage Business. NiSource's Columbia Transmission launched an open season for a proposed expansion of its natural gas transmission system in the growing Mid-Atlantic markets. This Eastern Market expansion is moving forward to a 2009 in-service date, based on definitive agreements with four East Coast customers. The Eastern Market expansion is a development project to expand existing Mid-Atlantic storage and transmission assets to provide almost 100,000 Dth/day of storage for eastern growth markets. Millennium, which is targeting a fourth quarter of 2007, in-service date, filed an amended certificate application with the FERC in August 2005. Also in August, Millennium signed Consolidated Edison and KeySpan as anchor customers. The Hardy Storage project is on track to develop a natural gas storage field from a depleted natural gas production field in Hardy and Hampshire Counties, West Virginia. Hardy Storage, which is being jointly developed by Columbia Transmission and a subsidiary of Piedmont, filed its formal project application with the FERC in April 2005, and received a favorable order on November 1, 2005. Construction should begin as scheduled early in 2006 and storage injections by project customers are scheduled as early as the spring of 2007.

NISOURCE INC.

Regulatory and Commercial Initiatives. As a regulated company, NiSource is exposed to regulatory risk and manages this risk by monitoring its operations and working with various regulatory bodies to maintain a business that continues to provide value for its customers and stockholders in this changing environment. During 2005, NiSource continued to make progress with regulatory and commercial initiatives.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice^{sm} Program. The renewed program provides residential and small commercial customers the option to choose their natural gas supplier while avoiding the stranded costs to Columbia of Kentucky that would have resulted under the previous pilot. In addition, Columbia of Kentucky received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State's request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

Refer to the "Results and Discussion of Segment Operations" for a complete discussion of Regulatory matters.

Financial Management. During 2005, NiSource refinanced $2.4 billion in long-term debt that will yield approximately $43 million in annual interest savings beginning in 2006. In September 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds were used in part to redeem $900 million of NiSource Finance notes on November 15, 2005. Additionally, on November 28, 2005, NiSource Finance issued $900 million in senior notes, the proceeds of which, along with other funding sources, were used to refinance $1.1 billion of Columbia senior unsecured notes that became callable on November 28, 2005.

In March 2005, NiSource entered into a $1.25 billion revolving credit agreement to fund future working capital requirements and other corporate needs. The new five-year agreement replaced previous agreements and reduced interest expense by approximately $0.5 million during 2005. It is expected to reduce interest expense by approximately $1.2 million annually beginning in 2006.

In addition, NiSource put in place a new $300 million short-term credit facility during November 2005. This new facility has significantly bolstered the company's liquidity position. NiSource ended the year with $626.5 million of unused credit facilities.

Process and Expense Management. In June 2005, NiSource Corporate Services and IBM signed a definitive agreement to provide a broad range of business process and support services to NiSource. The 10-year agreement is expected to deliver approximately $395 million in net savings, after costs to achieve this transition and transformation of systems, in operating and capital costs across NiSource's 15 primary operating subsidiaries over the course of the contract, as well as provide new tools and technology advances and enhanced service capabilities. Included in the transformation process during 2005 and 2006 are major projects in Human Resources, Finance and Accounting, Supply Chain, Gas Management, Operations and Meter to Cash. The identified net savings do not include efficiencies and other benefits from a three-year project to implement common work management solutions (WMS) and geographical information systems (GIS) across operations.

During December 2005 and extending into 2006, NiSource initiated a corporate streamlining effort that will include reducing office locations, realigning executive compensation and reducing executive positions.

NISOURCE INC.

2006 Outlook
Consistent with the 2006 guidance included within the press release issued on January 31, 2006, NiSource's 2006 projection for income from continuing operations is in the range of $1.42 to $1.52 basic earnings per share. This projection is based on typical assumptions such as normal weather, customer growth offsetting usage declines, and customary increases in costs such as depreciation, taxes and employee and administrative expenses. Other factors built into NiSource's business plan include: the successful completion of key regulatory and commercial initiatives; achieving expected savings from the outsourcing to IBM; deferral of MISO costs beginning August 1, 2006, and modest deterioration of results from Whiting Clean Energy, which benefited from a strong market during the summer 2005 period.

NiSource expects additional transition costs associated with the outsourcing initiative with IBM of approximately $14 - $15 million, or 3 cents per basic share. This expectation is included in the earnings projection above.

Higher natural gas prices that contributed to the natural gas usage decline during 2005 may continue to impact 2006 results.

NiSource also intends to increase the level of capital expenditures and other investing activities during 2006. For 2006, the projected capital program is expected to be $638.2 million, which is $39.2 million higher than the 2005 level. This higher spending is mainly due to an increase in expenditures for integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Ethics and Controls
NiSource has always been committed to providing accurate and complete financial reporting as well as requiring a strong commitment to ethical behavior by its employees. During 2005, NiSource tested all significant controls across its financial processes and NiSource's management has concluded that the company's internal control over financial reporting was effective as of the end of the period covered by this Form 10-K. Refer to "Management's Report on Internal Controls Over Financial Reporting" included in Item 9A. NiSource's senior management takes an active role in the development of this Form 10-K and the monitoring of the company's internal control structure and performance. In addition, NiSource will continue the mandatory ethics-training program in which employees at every level and in every function of the organization participate.

Results of Operations

The Consolidated Review information should be read taking into account the critical accounting policies applied by NiSource and discussed in "Other Information" of this Item 7.

Income from Continuing Operations and Net Income
For the twelve months ended December 31, 2005, NiSource reported income from continuing operations before cumulative effect of change in accounting principle of $283.6 million, or $1.05 per basic share, compared to $431.0 million, or $1.63 per basic share in 2004. Income from continuing operations before the cumulative change in accounting principle for the twelve months ended December 31, 2003 was $426.9 million, or $1.64 per basic share.

Including results from discontinued operations and the change in accounting principle, NiSource reported 2005 net income of $306.5 million, or $1.13 per basic share, 2004 net income of $436.3 million, or $1.65 per basic share, and 2003 net income of $85.2 million, or $0.33 per basic share.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the twelve months ended December 31, 2005 were $3,149.8 million, a $98.0 million increase compared with 2004. The change was driven by $64.3 million increase in Gas Distribution Operations net revenues, $34.9 million increase in Electric Operations net revenues and $20.4 million in increased net revenues from Other Operations, partially offset by decreased revenues of $21.9 million from Gas Transmission and Storage Operations. Favorable weather during 2005 as compared to 2004 drove approximately $24 million and $27 million of the increases for Gas Distribution Operations and Electric Operations, respectively. Net revenues also improved due to overall increased regulatory and non-regulatory tracker revenues of $33.6 million which are offset in operating expenses, increased residential and commercial customers and increased

overall customer usage within Electric Operations contributing approximately $24.4 million, improved results from Whiting Clean Energy of $17.6 million, increased residential customers for Gas Distribution Operations contributing approximately $8 million, and $12.1 million recognized on the buyout of a large customer gas contract. These increases in revenues were partially offset by a decline in customer usage within gas operations of approximately $33.1 million, lower Gas Transmission and Storage Operations revenues of $20.3 million attributable to the 2004 renegotiation of firm service contracts with major pipeline customers, net of remarketing activities, and increases in the cost of service for Electric Operations associated with MISO amounting to $15.7 million.

Total consolidated net revenues for the twelve months ended December 31, 2004 were $3,051.8 million, a $4.6 million decrease compared with 2003. Gas Distribution Operations net revenues decreased $36.0 million, primarily as a result of reduced residential and commercial natural gas deliveries due to warmer weather of approximately $33 million compared to the previous year and lower revenues from contract cost reduction programs, reduced sales of retail products, releases of capacity and gas cost incentives that amounted to $33.1 million partially offset by increased revenues from regulatory strategies of approximately $25.8 million from the stipulation agreement granted for Columbia of Ohio and the recovery for conservation measures granted to Bay State. The reduction in Gas Distribution Operations net revenue was partially offset by a $31.6 million increase in electric net revenue for 2004 as compared to 2003. This was the result of higher net revenues from environmental trackers, increased customer usage and the effect of reserves recorded for regulatory refunds in the comparable 2003 period.

Expenses

Operating expenses were $2,197.0 million in 2005, a $222.7 million increase from 2004 due to higher operation and maintenance expenses of $124.7 million, higher depreciation and amortization of $36.6 million, higher other taxes of $36.1 million and an impairment and loss on sale of assets of $22.2 million during 2005 compared to a gain on sale of assets of $3.1 million in 2004. The increase in operation and maintenance expenses was primarily due to restructuring charges, including a pension and other postretirement benefit charge, transition costs and consulting fees related to the outsourcing initiative and service agreement with IBM which totaled $82.8 million, increased expense for uncollectible accounts of $4.6 which are partly offset in revenues, increased tracked expenses of $33.6 million which are offset in revenues, and higher electric generation expenses of $7.2 million. Depreciation expense increased approximately $30 million as a result of the expiration in November 2004 of the prior Columbia of Ohio regulatory stipulation that allowed for deferral of certain depreciation amounts. The 2004 period benefited from a reduction in estimated property tax accruals amounting to $33.0 million, while gross receipts tax increased $16.0 million in 2005, which is offset in revenue. In addition, goodwill associated with Kokomo Gas was impaired by $10.9 million and certain software systems were impaired totaling $10.9 million due to the outsourcing initiative and service agreement with IBM.

Operating expenses of $1,974.3 million for 2004 increased $40.2 million over 2003 due primarily to the comparable 2003 period being favorably impacted by insurance recoveries, recovery of previously uncollected accounts receivable under the Columbia of Ohio bad debt tracker, and the reversal of legal, environmental, and other accrued expenses of approximately $40.5 million and a $16.6 million gain on the sale of Columbia Service Partners. Operating expenses for 2004 were favorably impacted by a reduction in estimated property taxes of $29.3 million partially offset by an increase in depreciation expense of approximately $13 million.

Other Income (Deductions)

Other Income (Deductions) in 2005 reduced income $519.8 million compared to a reduction of $405.1 million in 2004. A loss on early extinguishment of long-term debt of $108.6 million during 2005 compared to a $4.1 million loss on early extinguishment of long-term debt during 2004 was the primary reason for the increase in other deductions. Interest expense, net increased $17.1 million from 2004 primarily due to the impact of higher short-term interest rates on variable rate debt and higher average long-term debt balances due to the prefunding of November 2005 debt maturities. Other, net increased $6.7 million primarily as the result of higher interest income.

Other Income (Deductions) in 2004 reduced income $405.1 million compared to a reduction of $460.5 million in 2003. Interest expense, net decreased $60.8 million from 2003 primarily due to lower long-term interest rates and a decrease in total debt of $354 million from December 31, 2003.

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Income Taxes

Income taxes decreased $92.0 million in 2005 as compared with 2004 primarily due to lower pre-tax income from the prior year. Income taxes increased $6.5 million in 2004 over 2003 primarily as a result of higher pre-tax income. The effective income tax rates were 34.5%, 35.9%, and 35.5 % in 2005, 2004 and 2003, respectively. Contributing to the reduction in the effective tax rate for 2005 versus 2004 is the impact of the tax benefit associated with the electric production deduction (discussed below), an adjustment to deferred taxes at Northern Indiana related to a reduction in deferred income tax requirements and a reduction in deferred state income tax liabilities resulting from a revised estimate of consolidated state income tax apportionment factors. Offsetting these reductions is an increase in the effective tax rate associated with the non-deductible goodwill impairment charge recorded at Kokomo Gas and increased taxes related to Ohio income tax law changes enacted on June 30, 2005.

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana and Whiting Clean Energy's electric production activities qualify for this deduction. The deduction is equal to 3% of QPAI for the taxable year, with certain limitations. This deduction increases to 6% of QPAI beginning in 2007 and 9% of QPAI beginning in 2010 and thereafter. The 2005 tax benefit associated with the Section 199 domestic production deduction is estimated to be $1.9 million and will be finalized prior to inclusion in NiSource's 2005 consolidated federal income tax return to be filed in 2006.

Discontinued Operations

Discontinued operations reflected income of $23.2 million, or $0.08 per basic share, in 2005, $5.3 million, or $0.02 per basic share, in 2004 and a loss of $332.9 million, or loss of $1.28 per basic share, in 2003. Current year's income from discontinued operations, net-of-taxes, is due to a gain on discontinued operations of $43.5 million offset by a loss of $20.3 million. The gain on disposition of discontinued operations, net-of-taxes, resulted from changes to reserves for contingencies related primarily to the previous sales of IWC, former Primary Energy subsidiaries and other dispositions. The loss from discontinued operations included changes to reserves for contingencies primarily related to CER and an impairment of assets related to Transcom. In 2004, income from discontinued operations, net-of-taxes, is primarily from a reduction in estimated income taxes associated with NiSource's former exploration and production subsidiary, CER. In 2003, an after-tax loss of $301.2 million was related to the sale of CER, while a loss of $29.1 million was recognized on the sale of six PEI subsidiaries and a loss of $1.3 million on the sale of Transcom.

Cumulative Effect of Change in Accounting Principle

The cumulative effect of change in accounting principle in 2005 of $0.3 million, net-of-taxes, resulted from the cumulative effect of adopting FIN 47. The cumulative effect of change in accounting principle in 2003 of $8.8 million, net-of-taxes, resulted from the cumulative effect of adopting SFAS No. 143. Refer to Note 10, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statement for additional information regarding the cumulative effect of adopting FIN 47.

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Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric distribution businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas.

Operating Activities

Net cash from operating activities for the twelve months ended December 31, 2005 was $712.3 million, a decrease of $343.6 million from a year ago. This decrease was due primarily to the impact of accounts receivable balances which were $267 million higher due mainly to the impact of higher gas prices, and the additional $114 million of cash required for deferred tax payments mostly due to the expiration in 2004 of "bonus" tax depreciation enacted under the Job Creation and Worker Assistance Act of 2002.

Investing Activities

On October 20, 2003, NiSource sold all of the steel-related, "inside-the-fence" assets of its subsidiary, PEI, to Private Power. The sale included six PEI operating subsidiaries and the name "Primary Energy". Private Power paid approximately $325.4 million, comprised of $113.1 million in cash and the assumption of debt-related liabilities and other obligations. The assumption of such liabilities and the after-tax cash proceeds from the sale reduced NiSource's debt by $273.6 million, of which $67.3 million was off balance sheet. NiSource has accounted for the assets sold as discontinued operations and has adjusted all periods presented accordingly.

On August 29, 2003, NiSource sold its exploration and production subsidiary, CER, to a subsidiary of Triana for $330 million, plus Triana's assumption of obligations to deliver approximately 94.0 Bcf of natural gas pursuant to existing forward sales contracts. On January 28, 2003, NiSource's former subsidiary, CNR, sold its interest in certain natural gas exploration and production assets in New York for approximately $95 million. NiSource has accounted for CER as discontinued operations and has adjusted all periods presented accordingly. During 2003, NiSource recognized an after-tax loss of $301.2 million related to the sales.

Capital Expenditures and Other Investing Activities. The table below reflects actual capital expenditures and other investing activities by segment for 2005, 2004 and 2003 and an estimate for year 2006:

(in millions)	2006E	2005	2004	2003
Gas Distribution Operations	$ 252.9	$ 278.5	$ 225.2	$ 195.1
Transmission and Storage Operations	230.7	167.9	133.3	120.5
Electric Operations	140.1	135.6	154.0	225.1
Other Operations	14.5	17.0	10.9	31.8
Total	$ 638.2	$ 599.0	$ 523.4	$ 572.5

For 2005, capital expenditures and certain other investing activities were $599.0 million, an increase of $75.6 million over 2004. This increase was primarily due to construction of the Columbus Northern Loop Pipeline project at the Gas Distribution Operations segment and incremental pipeline expenditures at the Gas Transmission and Storage Operations segment in compliance with the DOT's Integrity Management Rule.

The Gas Distribution Operations segment's capital program in 2005 included new business initiatives to extend service to new areas and develop future markets through new services that may be added to the existing business and to create a potential new pool of customers, as well as expenditures to ensure safe, reliable and improved service to customers and modernize and upgrade facilities. The Gas Transmission and Storage Operations segment invested primarily on modernizing and upgrading facilities and new business initiatives to maintain and expand market share in storage and transportation interstate commerce by meeting the demands of consumers who will use gas for electric power generation and meeting the needs of existing, new or growing customers through the construction of significant new facilities, either wholly-owned by NiSource or in partnership with other qualified project participants. The Electric Operations segment capital program included improvements related to the operational integrity of generation, transmission and distribution assets, expenditures related to environmental compliance regarding NOx reduction, and additions to electric distribution systems related to new business. Capital expenditures in the Other Operations segment mainly comprise partnership investments and enterprise-wide information technology infrastructure improvement.

For 2006, the projected capital program is expected to be $638.2 million, which is $39.2 million higher than the 2005 level. This higher spending is mainly due to an increase in expenditures for integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of December 31, 2005, NiSource's shelf capacity is currently $850 million.

Long-term Debt. On November 29, 2005, Columbia redeemed $1.1 billion of its senior unsecured notes that became callable on November 28, 2005, having an average interest rate of 7.34%. On November 28, 2005, Columbia redeemed $281.5 million of its senior unsecured notes with an average interest rate of 6.80%. The associated charges included an $86 million non-cash charge relating to the write-off of the unamortized portion of a fair market value adjustment made at the time of the NiSource Columbia merger, an $8 million non-cash charge associated with the unamortized portion of swap termination charges, and a $14 million cash charge for call premiums, all of which were charged to loss on early extinguishment of long-term debt.

On November 28, 2005, NiSource Finance issued, in the private placement market, $900 million in unregistered senior unsecured notes in four tranches: $315 million of 7-year notes at a coupon rate of 5.21%; $230 million of 10-year notes at a coupon rate of 5.36%; $90 million of 11-year notes at a coupon rate of 5.41%; and $265 million of 20-year notes at a coupon rate of 5.89%. The proceeds, along with other funding sources, were used to refinance the above mentioned Columbia senior unsecured notes.

On November 15, 2005, NiSource Finance redeemed $900 million of its senior unsecured notes having an average interest of 7.625%.

On September 16, 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds were used in part to redeem $900 million of NiSource Finance notes due November 15, 2005. Contemporaneously with the pricing of the 5.25% and 5.45% notes, NiSource Finance settled $900 million of forward starting swaps resulting in a $35.5 million payment to NiSource's swap counterparties. The swap termination payments are being amortized over the life of the new debt issues, resulting in an effective interest rate of 5.67% and 5.88% respectively.

During July 2005, Northern Indiana redeemed $34 million of its medium-term notes with an average interest rate of 6.62%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, Capital Markets redeemed $30 million of its medium-term notes, with an average interest rate of 7.67%.

On November 23, 2004, NiSource Finance issued $450 million of five-year floating rate unsecured notes that mature November 23, 2009. The notes are callable, at par, on or after November 23, 2006. Subsequently, on December 10, 2004, NiSource Finance used $250 million of the proceeds from the $450 million floating rate note offering to redeem $250 million of existing floating rate notes that were due May 2005. The remaining proceeds were used to repay a portion of NiSource Finance short-term borrowings.

On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{sm}. NiSource received approximately $144.4 million in satisfaction of the SAILS^{sm} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the debt component of the SAILS^{sm} was reset to 3.628% per annum. The debentures mature November 1, 2006.

During July 2004, Northern Indiana redeemed $32 million of its medium-term notes, with an average interest rate of 6.53%.

During April 2004, Capital Markets redeemed $80 million of its medium-term notes, with an average interest rate of 7.39%.

During February 2004, Northern Indiana redeemed $111.1 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes, with an average interest rate of 7.49% and 7.63%, respectively. The associated redemption premium was $4.5 million, of which $4.1 million was charged to loss on early extinguishment of long-term debt and $0.4 million was recorded as a regulatory asset.

Credit Facilities. On November 30, 2005, NiSource Finance entered into a new $300 million 9-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC. The new facility will further improve NiSource's available liquidity in the current environment of volatile natural gas prices.

During March 2005, NiSource Finance obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007.

As of February 28, 2006, there were $717.5 million of borrowings under the existing facilities. NiSource had short-term cash investments of $7.1 million as of that date.

NiSource had outstanding credit facility advances of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%, and advances of $307.6 million at December 31, 2004, at a weighted average interest rate of 3.04%. As of December 31, 2005 and December 31, 2004, NiSource had $101.6 million and $111.6 million of stand-by letters of credit outstanding, respectively. At December 31, 2005, $72.7 million of the $101.6 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource obtained during February 2004. Of the remaining $28.9 million of stand-by letters of credit outstanding at December 31, 2005, $25.5 million resided under NiSource's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of December 31, 2005, $626.5 million of credit was available under both credit facilities.

Debt Covenants. NiSource is subject to one financial covenant under both its five-year revolving credit facility and its nine-month revolving credit agreement. NiSource must maintain a debt to capitalization ratio that does not exceed 70%. As of December 31, 2005, NiSource was in compliance with this financial covenant in both of its credit agreements.

NiSource is also subject to certain negative covenants under the revolving credit facilities. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket equal to 5% of NiSource's consolidated net tangible assets. An asset sale covenant generally restricts the sale, lease and/or transfer of NiSource's assets to no more than 10% of its consolidated total assets. The revolving credit facilities also include a cross-default provision, which triggers an event of default under the credit facility in the event of an uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of $50 million or more.

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NiSource's bond indentures generally do not contain any financial maintenance covenants. However, NiSource's bond indentures are generally subject to cross default provisions ranging from uncured payment defaults of $5 million to $50 million, and limitations on the incurrence of liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket capped at either 5% or 10% of NiSource's consolidated net tangible assets.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement has a scheduled expiration date of May 12, 2006, and can be renewed if mutually agreed to by both parties. As of December 31, 2005, $175 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of December 31, 2005, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Credit Ratings. NiSource's credit ratings continue to be affirmed by the major rating agencies. Both Moody's Investors Services and Standard and Poor's affirmed their ratings in December of 2005. Moody's Investors Service affirmed the senior unsecured ratings of NiSource at Baa3, and the existing ratings of all other subsidiaries. Moody's ratings outlook for NiSource and its subsidiaries is stable. Standard and Poor's affirmed its senior unsecured ratings of NiSource at BBB, and the existing ratings of all other subsidiaries. Standard and Poor's outlook for NiSource and all of its subsidiaries is stable. Fitch Ratings affirmed their BBB senior unsecured rating for NiSource and the BBB+ ratings for Columbia and Northern Indiana. Fitch's outlook for NiSource and all of its subsidiaries is stable.

Certain TPC gas trading agreements contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard and Poor's or Baa3 by Moody's. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $20 million to $25 million. In addition to agreements with ratings triggers, there are other gas trading agreements that contain "adequate assurance" or "material adverse change" provisions. The collateral requirement for those agreements would amount to approximately $170 million to $175 million.

Columbia Energy Services is the principal for two surety bonds issued to guarantee performance in two separate long-term gas supply agreements. The surety, in accordance with the terms of its indemnity agreements, required NiSource to post a letter of credit in the face amount of approximately $131 million, declining over time, to support the bonds. At December 31, 2005, the total amount of letters of credit required with respect to this transaction was $72.7 million. The agreement will expire on December 31, 2008.

Columbia was the principal for surety bonds issued to guarantee performance under forward gas sales agreements. The surety bonds related to forward gas sales under agreements with Mahonia and had indemnity values, which declined over time and had ratings triggers based on Columbia's credit rating. In the third quarter of 2005, these bonds expired. In February 2006, the forward sales agreements guaranteed by Columbia were completed.

Contractual Obligations and Commercial Commitments. NiSource has certain contractual obligations that extend beyond 2006. The obligations include long-term debt, lease obligations, and purchase obligations for various services including pipeline capacity and IBM outsourcing. The total contractual obligations in existence at December 31, 2005 and their maturities were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Long-term debt	$ 5,692.3	$ 438.0	$ 89.2	$ 33.4	$ 465.8	$ 1,015.2	$ 3,650.7
Capital leases	10.2	2.0	2.0	2.6	2.7	0.1	0.8
Operating leases	248.1	48.4	43.5	38.2	29.1	23.1	65.8
Purchase obligations:							
Pipeline service obligations	1,137.1	222.7	204.9	173.8	113.0	100.7	322.0
IBM service obligations	1,484.4	142.1	164.3	165.2	165.1	167.3	680.4
Pure Air service obligations	107.9	15.2	15.8	16.3	16.8	17.2	26.6
Total contractual obligations	$ 8,680.0	$ 868.4	$ 519.7	$ 429.5	$ 792.5	$ 1,323.6	$ 4,746.3

The long-term debt amounts shown above represent payment of principal and do not include associated interest costs. For 2006, NiSource projects that it will be required to make interest payments of approximately $381 million, which includes $338 million of interest payments related to its long-term debt. NiSource also has obligations associated with various taxes and expects to make tax payments of approximately $638 million in 2006.

NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2006 to 2019, require NiSource to pay fixed monthly charges.

In June 2005, NiSource Corporate Services and IBM signed a definitive agreement to provide a broad range of business process and support services to NiSource. As part of this agreement, IBM will operate a broad range of business support functions for NiSource, including processes within the Human Resources, Finance and Accounting, Supply Chain (procurement), Customer Contact, Meter to Cash (billing and collections) and Information Technology areas. The agreement also includes a broad array of transformational consulting services and emerging technology expertise. The contract has a 10-year term and NiSource has the right to renew it for up to three additional years. NiSource will pay for the services under a combination of fixed and variable charges. The variable charge component can fluctuate to reflect NiSource's actual usage of service and service levels. Fees may be adjusted to reflect economic changes such as inflation or business changes that both parties agree to.

Upon any termination of the agreement by NiSource for any reason (other than material breach by IBM), NiSource must pay IBM a termination charge that will include a breakage fee, repayment of IBM's un-recovered capital investments, and IBM wind-down expense. This termination fee can be a material amount depending on the events giving rise to termination and the timing of the termination.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

Due to strong equity markets, the fair value of NiSource's pension fund assets as of September 30, 2005, have increased for the third year in a row. Additionally, $9.1 million in employer contributions were made during 2005 to certain of NiSource's qualified and non-qualified pension plans. NiSource expects market returns to revert to normal levels as demonstrated in historical periods and expects to contribute approximately $7.1 million in 2006 to certain pension plans. However, NiSource may provide additional funding for the pension plans. As a result of the increase in the fair value of the plan assets and certain changes to the pension plans and benefits provided, NiSource expects pension expense for 2006 to decrease approximately $15.7 million from the amount recognized in 2005. Also, NiSource expects to make contributions of $54.2 million to its postretirement medical and life plans in 2006.

See Note 9, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

NiSource has made certain commercial commitments that extend beyond 2006. The commitments include lines of credit, letters of credit and guarantees, which support commercial activities. The total commercial commitments in existence at December 31, 2005, including commercial commitments for discontinued operations, and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Lines of credit	$ 898.0	$ 898.0	$ -	$ -	$ -	$ -	$ -
Letters of credit	101.6	27.0	1.0	73.6	-	-	-
Guarantees	6,219.5	1,101.2	53.4	60.1	513.6	1,004.3	3,486.9
Total commercial commitments	$ 7,219.1	$ 2,026.2	$ 54.4	$ 133.7	$ 513.6	$ 1,004.3	$ 3,486.9

Of the commercial commitments outstanding shown above, NiSource had approximately $5.3 billion of debt and capital lease obligations recorded on its Consolidated Balance Sheets at December 31, 2005.

Market Risk Disclosures

Risk is an inherent part of NiSource's energy businesses. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal trading and non-trading risks that are involved in NiSource's energy businesses: commodity market risk, interest rate risk and credit risk. Risk management at NiSource is a multi-faceted process with committee oversight that requires constant communication, judgment and knowledge of specialized products and markets. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the energy business, NiSource's risk management policies and procedures continue to evolve and are subject to ongoing review and modification.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

As a result of the fixed-to-variable interest rate swap transactions referenced below, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during 2005 and 2004, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $20.1 million and $20.5 million for the years 2005 and 2004, respectively.

Between October 27, 2004 and November 1, 2004, NiSource Finance entered into $900 million of forward starting interest rate swaps, hedging the future interest payments of long-term debt. The $900 million of forward starting swaps included $450 million notional value of 12-year forward starting swaps entered into with three counterparties and $450 million notional value of 15-year forward starting swaps entered into with three additional counterparties.

During September 2005, NiSource Finance settled these forward starting swaps resulting in a $35.5 million payment to NiSource's swap counterparties. The swap termination payments are being amortized over the life of the new debt issues, resulting in an effective interest rate of 5.67% and 5.88% respectively.

On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

On April 11, 2003, Columbia entered into fixed-to-variable interest rate swap agreements in a notional amount of $100 million with two counterparties. Columbia received payments based upon a fixed 7.42% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 2.39% per annum. There was no exchange of premium at the initial date of the swaps. These interest rate swap agreements were terminated on May 12, 2004.

On April 4, 2003, Columbia terminated a fixed-to-variable interest rate swap agreement in a notional amount of $100 million. Columbia received a settlement payment from the counterparty amounting to $8.2 million, which is being amortized as a reduction to interest expense over the remaining term of the underlying debt.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards. As of December 31, 2005, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy, which may not qualify for hedge treatment as determined by SFAS No. 133.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

The fair values of the contracts related to NiSource's trading operations and the activity affecting the changes in the fair values during 2005 are:

(in millions at December 31)		2005
Fair value of trading contracts outstanding at the beginning of the period	$	(3.0)
Contracts realized or otherwise settled during the period (including net option premiums received)		(0.4)
Fair value of new contracts entered into during the period		(1.3)
Other changes in fair values during the period		4.7
Fair value of contracts outstanding at the end of the period	$	-

Market Risk Measurement
Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was less than $0.1 million, $0.4 million and zero, during 2005, respectively. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.2 million, $0.8 million and $0.1 million during 2005, respectively. Prospectively, management has set the VaR limit at $0.5 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Should TPC enter into power derivative contracts in the future to manage price risk associated with Whiting Clean Energy, those contracts would be limited to the physical generation capacity of Whiting Clean Energy.

Refer to "Critical Accounting Policies" included in this Item 7 and Note 1-S, "Accounting for Risk Management and Energy Trading Activities," and Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Items

NiSource has issued guarantees that support up to approximately $1.1 billion of commodity-related payments for its current subsidiaries involved in energy marketing and to satisfy requirements under forward gas sales agreements of a former subsidiary. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets. In addition, NiSource has other guarantees, purchase commitments, operating leases, lines of credit and letters of credit outstanding. Refer to Note 6, "Risk Management and Energy Trading Activities," and Note 17, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

In addition, NiSource has sold certain accounts receivable. NiSource's accounts receivable programs qualify for sale accounting because they meet the conditions specified in SFAS No. 140. In the agreements, all transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. NiSource does not retain any interest in the receivables under these programs. Refer to Note 16, "Fair Value of Financial Instruments," in the Notes to Consolidated Financial Statements for additional information on these agreements.

NISOURCE INC.

Other Information

Critical Accounting Policies

NiSource applies certain accounting policies based on the accounting requirements discussed below that have had, and may continue to have, significant impacts on NiSource's results of operations and Consolidated Balance Sheets.

Basis of Accounting for Rate-Regulated Subsidiaries. SFAS No. 71, provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. NiSource's rate-regulated subsidiaries follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected on the Consolidated Balance Sheets were $1,203.1 million and $1,386.1 million at December 31, 2005, and $998.4 million and $1,222.3 million at December 31, 2004, respectively. For additional information, refer to Note 1-F, "Basis of Accounting for Rate-Regulated Subsidiaries," in the Notes to Consolidated Financial Statements.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery is approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of SFAS No. 71, NiSource would be required to apply the provisions of SFAS No. 101. In management's opinion, NiSource's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Certain of the regulatory assets reflected on NiSource's Consolidated Balance Sheets require specific regulatory action in order to be included in future service rates. Although recovery of these amounts is not guaranteed, NiSource believes that these costs meet the requirements for deferral as regulatory assets under SFAS No. 71. Regulatory assets requiring specific regulatory action amounted to $49.8 million at December 31, 2005. If NiSource determined that the amounts included as regulatory assets were not recoverable, a charge to income would immediately be required to the extent of the unrecoverable amounts.

Accounting for Risk Management Activities. Under SFAS No. 133 the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. Unrealized and realized gains and losses are recognized each period as components of other comprehensive income, earnings, or regulatory assets and liabilities depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to other comprehensive income and are recognized in earnings concurrent with the disposition of the hedged risks. For fair value hedges, the gains and losses are recorded in earnings each period along with the change in the fair value of the hedged item. As a result of the rate making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered in revenues through rates.

In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recorded currently in earnings.

Although NiSource applies some judgment in the assessment of hedge effectiveness to designate certain derivatives as hedges, the nature of the contracts used to hedge the underlying risks is such that there is a high risk correlation of the changes in fair values of the derivatives and the underlying risks. NiSource generally uses NYMEX exchange-traded natural gas futures and options contracts and over-the-counter swaps based on published indices to hedge the risks underlying its natural-gas-related businesses. NiSource had $376.0 million and $209.4 million of price risk management assets, of which $338.1 million and $200.0 million related to hedges, at December 31, 2005 and 2004, respectively, and $94.5 million and $52.4 million of price risk management liabilities, of which $85.6 million and $26.7 million related to hedges, at December 31, 2005 and 2004, respectively. The amount of unrealized gains recorded to other comprehensive income, net-of-taxes, was $150.7 million and $93.7 million at December 31, 2005 and 2004, respectively.

Accounting for Energy Trading Activities. NiSource is not presently involved in energy trading activities. Energy trading activities refers to energy contracts entered into with the objective of generating profits on or from exposure to shifts or changes in market prices. NiSource evaluates the contracts of its trading operations in accordance with the criteria for derivative contracts under SFAS No. 133.

Pursuant to EITF No. 98-10, when certain trading criteria are met, energy contracts, including "energy-related contracts" such as tolling, transportation and storage contracts, should be accounted for at fair value (marked to market) along with any related derivative contracts, recognizing related gains and losses currently in earnings. In the October 2002 EITF meeting, EITF No. 98-10 was rescinded and only contracts meeting the definition in SFAS No. 133 can be marked to market. Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statement for further information.

While the assessment of fair values for NiSource's trading contracts have been mainly based on pricing information for exchange-traded contracts, transportation and storage agreements related to gas trading deals entered into prior to the cessation of gas trading activities were marked to fair value based on the results of internal models. No estimates of fair values on transportation and storage contracts related to gas trading activities remained as of December 31, 2002 due to the sale or expiration of all gas-trading related agreements during the year. In addition, power trading options were marked to fair value through earnings based on internal calculations of fair value employing the widely-used Black-Scholes option pricing model. The fair value of the "mark-to-fair-value" options outstanding was zero and a loss of $3.0 million at December 31, 2005 and 2004, respectively.

NiSource's Consolidated Balance Sheets contained price risk management assets of zero and $8.8 million and price risk management liabilities of zero and $11.9 million, at December 31, 2005 and 2004, respectively, related to unrealized gains and losses on trading activities.

Pensions and Postretirement Benefits. NiSource has defined benefit plans for both pensions and other postretirement benefits. The plans are accounted for under SFAS No. 87 and SFAS No. 106. The calculation of the net obligations and annual expense related to the plans requires a significant degree of judgment regarding the discount rates to be used in bringing the liabilities to present value, long-term returns on plan assets and employee longevity, among other assumptions. Due to the size of the plans and the long-term nature of the associated liabilities, changes in the assumptions used in the actuarial estimates could have material impacts on the measurement of the net obligations and annual expense recognition. For further discussion of NiSource's pensions and other postretirement benefits see Note 9, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 10, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

SFAS No. 123 (revised 2004) – Share-Based Payment. In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after December 15, 2005, as directed by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation

S-X. NiSource will adopt this standard on January 1, 2006, using a modified prospective application as described in the statement. Under this method, NiSource will begin to amortize compensation costs for the remaining portion of the outstanding awards for which the requisite service has not yet been rendered. Compensation costs for these awards will be based on the fair value of those awards as disclosed on a pro-forma basis under SFAS No. 123. NiSource will account for awards that are granted, modified or settled after December 31, 2005 in accordance with SFAS No. 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource expects to recognize an immaterial cumulative effect of change in accounting principle which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

Accounting for Uncertain Tax Positions. On July 14, 2005, the FASB issued an Exposure Draft, "Accounting for Uncertain Tax Positions," an interpretation of SFAS No. 109. This proposal seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, the proposal would require that a tax position meet a "probable recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements. The proposal would require recognition in the financial statements of the best estimate of the effects of a tax position only if that position is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of the Exposure Draft to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. The release of a final interpretation is scheduled for March or April of 2006, with an effective date of the first fiscal year beginning after December 15, 2006.

Environmental Matters

NiSource affiliates have retained environmental liability, including cleanup liability, associated with some of its former operations including those of propane operations, petroleum operations, certain LDCs and CER. Most significant environmental liability relates to former MGP sites whereas less significant liability is associated with former petroleum operations and metering stations using mercury-containing measuring equipment.

The ultimate liability in connection with the contamination sites will depend upon many factors including the extent of environmental response actions required, other potentially responsible parties and their financial viability, and indemnification from previous facility owners. Only those corrective action costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5 and consistent with SOP 96-1. As costs become probable and reasonably estimable, reserves will be recorded and adjusted as appropriate. NiSource believes that any environmental response actions required at former operations, for which it is ultimately liable, will not have a material adverse effect on NiSource's financial position.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in United States EPA's Climate Leaders program and will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Bargaining Unit Contract

As of December 31, 2005, NiSource had 7,822 employees of which 3,405 were subject to collective bargaining agreements. These agreements expire in various periods between 2006 and 2013. Northern Indiana's agreement, which covers over half of the total bargaining unit employees, expires on May 31, 2009.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

Year Ended December 31, *(in millions)*	2005	2004	2003
Net Revenues			
Sales Revenues	**$ 4,676.4**	$ 3,859.6	$ 3,659.9
Less: Cost of gas sold	**3,617.1**	2,850.8	2,625.3
Net Sales Revenues	**1,059.3**	1,008.8	1,034.6
Transportation Revenues	**445.6**	431.8	442.0
Net Revenues	**1,504.9**	1,440.6	1,476.6
Operating Expenses			
Operation and maintenance	**721.4**	639.5	615.4
Depreciation and amortization	**224.6**	194.6	190.2
Impairment and loss on sale of assets	**12.5**	-	-
Other taxes	**178.2**	165.3	164.6
Total Operating Expenses	**1,136.7**	999.4	970.2
Operating Income	**$ 368.2**	$ 441.2	$ 506.4
Revenues ($ in Millions)			
Residential	**$ 3,006.7**	$ 2,388.5	$ 2,356.2
Commercial	**1,021.9**	839.0	841.3
Industrial	**239.1**	197.4	194.0
Transportation	**445.6**	431.8	442.0
Off System Sales	**200.1**	214.2	86.1
Other	**208.6**	220.5	182.3
Total	**$ 5,122.0**	$ 4,291.4	$ 4,101.9
Sales and Transportation (MMDth)			
Residential sales	**224.6**	218.9	230.4
Commercial sales	**82.1**	85.3	89.7
Industrial sales	**21.5**	23.3	21.8
Transportation	**512.7**	534.5	522.9
Off System Sales	**22.6**	34.9	10.5
Other	**0.5**	0.9	0.9
Total	**864.0**	897.8	876.2
Heating Degree Days	**5,035**	4,887	5,134
Normal Heating Degree Days	**4,939**	4,967	4,949
% Colder (Warmer) than Normal	**2%**	(2%)	4%
Customers			
Residential	**2,464,350**	2,389,032	2,278,768
Commercial	**215,107**	215,633	210,967
Industrial	**5,255**	5,806	6,009
Transportation	**675,748**	722,379	779,802
Other	**59**	61	135
Total	**3,360,519**	3,332,911	3,275,681

NISOURCE INC.
Gas Distribution Operations (continued)

Competition
Gas Distribution Operations competes with investor-owned, municipal, and cooperative electric utilities throughout its service area, and to a lesser extent with other regulated natural gas utilities and propane and fuel oil suppliers. Gas Distribution Operations continues to be a strong competitor in the energy market as a result of strong customer preference for natural gas. Competition with providers of electricity is generally strongest in the residential and commercial markets of Kentucky, southern Ohio, central Pennsylvania and western Virginia where electric rates are primarily driven by low-cost, coal-fired generation. In Ohio and Pennsylvania, gas on gas competition is also common. Gas competes with fuel oil and propane in the New England markets mainly due to the installed base of fuel oil and propane-based heating which, over time, has comprised a declining percentage of the overall market.

Restructuring
Gas Distribution Operations recorded restructuring charges of $22.6 million in 2005 in connection with a NiSource outsourcing agreement with IBM, of which $18.3 million was an allocation from NiSource Corporate Services. Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $3.1 million during 2005 and the restructuring liability remaining at December 31, 2005, was $8.9 million. Refer to Note 3, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of December 2005, approximately 668 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The renewed program provides residential and small commercial customers the option to choose their natural gas supplier while avoiding the stranded costs to Columbia of Kentucky that would have resulted under the previous pilot. In addition, Columbia of Kentucky received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. As of December 31, 2005, Columbia of Ohio has $37.7 million of uncollected accounts receivable pending future recovery. On June 1, 2005, the PUCO approved Columbia of Ohio's application to decrease its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $26.3 million for the period ended March 31, 2006, reflecting a reduction of $11.4 million of uncollected accounts receivable pending future recovery.

On December 2, 2004, Columbia of Ohio filed two applications with the OPSB, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On August 3, 2005, the OPSB approved Columbia of Ohio's construction of the Northern Columbus Loop Natural Gas Pipeline project. Phase V of the project has been completed and the project is expected to be completed in the second quarter 2006.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during each succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to

Gas Distribution Operations (continued)

extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the forty-five day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf, to be effective with bills rendered on and after March 2, 2006.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State's request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to delay the filing of schedules in the Investigation until May 1, 2006.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC issued their final Order on August 24, 2005 permitting Northern Indiana full recovery of its gas costs and affirming its position on the regulatory pricing of gas in storage as decided in Northern Indiana's GCA5.

Northern Indiana's GCA7 annual demand cost recovery filing, covering the period November 1, 2005 through October 31, 2006 was made on August 29, 2005. The IURC approved the rates on an interim basis subject to refund on November 22, 2005. A final order approving this filing is expected in the second quarter of 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

Northern Indiana filed for an energy assistance program "Winter Warmth" in the fourth quarter of 2004, that provided customers $6.2 million for deposits and bill assistance targeted to low income and hardship customers. Northern Indiana contributed $0.7 million, and $5.5 million was collected from ratepayers through a volumetric

NISOURCE INC.
Gas Distribution Operations (continued)

surcharge. The one-year pilot program, for calendar year 2005, was approved by the IURC in the fourth quarter of 2004.

Northern Indiana filed, on October 3, 2005, to extend the Winter Warmth program to cover calendar year 2006 and expand funding to $7.9 million. The IURC issued an interim order on December 9, 2005 extending the 2005 program through January 31, 2006. On January 31, 2006, the IURC issued a final order approving the expanded program for the period February 1, 2006 through December 31, 2006. The total funding for 2006 will be $7.8 million, based upon the final order. Northern Indiana will contribute $1.0 million of the total funding.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of December 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-F, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Distribution Operations segment.

Market Conditions
Spot prices for the winter of 2004-2005 were primarily in the range of $6.00-$8.00/Dth. This was a significant increase from the prices experienced during the winter of 2003-2004 that were in the $4.00-$6.00/Dth range. Entering the 2004-2005 winter season, storage levels were at an all-time high since the Energy Information Administration began tracking weekly data with a level of 3,293 Bcf. Slightly warmer than normal weather for the 2004-2005 winter season left national storage levels at 1,249 Bcf, well above the prior five year average of 1,022 Bcf.

During the summer of 2005, prices ranged primarily between $6.00 and $15.00/Dth, with the months of September and October 2005 showing dramatic price increases over the summer months due to the devastating hurricane season. Hurricane Katrina and Rita caused severe damage to production platforms, processing facilities and the Gulf Coast pipeline system. However, gas storage reached 3,168 Bcf entering the winter heating season, slightly above the prior five-year average. Through December 2005, the winter of 2005-2006 price levels were primarily between $9.00 and $15.00/Dth, while price levels in January and February 2006 were primarily between $8.00 and $10.00/Dth.

All NiSource Gas Distribution Operations companies have state-approved recovery mechanisms that provide a means for full recovery of prudently incurred gas costs. Gas costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The gas costs included in revenues are matched with the gas cost expense recorded in the period and the difference is recorded on the Consolidated Balance Sheets to be included in future customer billings. During times of unusually high gas prices, throughput and net revenue have been adversely affected as customers may reduce their usage as a result of higher gas cost.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include both the sale of products and services upstream of their service territory, the sale of products and services in their service territories and gas supply cost incentive mechanisms for service to their core markets. The upstream products are made up of transactions that occur between an individual Gas Distribution Operations company and a buyer for the sales of unbundled or rebundled gas supply and capacity. The on-system services are offered by NiSource to customers and include products such as the transportation and balancing of gas on the Gas Distribution Operations company system. The incentive mechanisms give the Gas Distribution Operations companies an opportunity to share in the savings created from such things as gas purchase prices paid below an agreed upon benchmark and its ability to reduce pipeline capacity charges. The treatment of the revenues generated from these types of transactions vary by operating company with some sharing the benefits with customers and others using these revenues to mitigate transition costs occurring as the result of customer choice programs described above under "Regulatory Matters."

NISOURCE INC.
Gas Distribution Operations (continued)

Capital Expenditures and Other Investing Activities
The Gas Distribution Operations segment's net capital expenditure program was $278.5 million in 2005 and is projected to be approximately $252.9 million in 2006. This reduction in the capital expenditure budget is mainly due to an expected reduction in expenditures for modernizing and upgrading facilities. Capital expenditures required to provide service to new customers totaled approximately $96 million in 2005 and are expected to be approximately the same for 2006.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operations service territories for 2005 was approximately 2% colder than normal and 3% colder than 2004, increasing net revenues by approximately $24 million for the year ended December 31, 2005 compared to 2004.

Weather in the Gas Distribution Operations service territories for 2004 was approximately 2% warmer than normal and 5% warmer than 2003, decreasing net revenues by approximately $33 million for the year ended December 31, 2004 compared to 2003.

Throughput
Total volumes sold and transported for the year ended December 31, 2005 were 864.0 MMDth, compared to 897.8 MMDth for 2004. This decrease was primarily due to lower off-system and transportation sales resulting from fewer customers in these categories, partially offset by higher residential sales resulting from cooler weather and an increase in customers. Residential customers increased in part as a result of fewer customers participating in a CHOICE® program, where they would purchase gas from a third party supplier.

Total volumes sold and transported for the year ended December 31, 2004 were 897.8 MMDth, compared to 876.2 MMDth for 2003. This increase was primarily due to higher off-system, industrial, and transportation sales, partially offset by reduced residential and commercial sales as a result of warmer weather in 2004 as compared with 2003.

Net Revenues
Net revenues for 2005 were $1,504.9 million, an increase of $64.3 million from 2004. Net revenues grew as a result of increased deliveries of natural gas to residential customers due to colder weather during the fourth quarter of 2005 compared to 2004 and an increase in residential customers that together amounted to $32.3 million. Net revenues also increased $26.2 million as a result of regulatory trackers and $16.0 million from a gross receipts tax tracker, which are both offset in operating expenses, as well as $12.1 million from the buyout of a large customer gas contract. These increases in revenues were partially offset by a reduction in gas deliveries to residential and commercial customers of approximately $33 million attributable to a decline in usage caused largely by higher gas prices experienced in 2005.

Net revenues for 2004 were $1,440.6 million, down $36.0 million from 2003, mainly as a result of decreased deliveries of natural gas to residential and commercial customers due to warmer weather during the first and fourth quarters of 2004 compared to 2003 amounting to approximately $33 million. Additionally, revenues decreased due to lower revenues from contract cost reduction programs, reduced sales of retail products and releases of capacity amounting to $23.4 million, and reduced revenue from gas cost incentives of $9.7 million. These reductions in revenues were partially offset by an increase in residential customers representing higher revenues of approximately $8.5 million for 2004 as compared to 2003, and higher regulatory strategy net revenues of $25.8 million from the stipulation agreement granted for Columbia of Ohio and the recovery for conservation measures granted to Bay State.

NISOURCE INC.
Gas Distribution Operations (continued)

Operating Income
For the twelve months ended December 31, 2005, operating income for the Gas Distribution Operations segment was $368.2 million, a decrease of $73.0 million compared to the same period in 2004. The decrease was the result of higher operating expenses of $95.1 million, net of $42.2 million of tracker expenses offset in revenues, which more than offset the increase in net revenues described above. Operating income decreased as a result of transition costs, restructuring charges, including a pension and postretirement benefit charge, and new system development costs associated with the IBM agreement totaling $49.4 million. Also contributing to the decrease in operating income was higher depreciation expense of $30.0 million primarily resulting from the 2004 expiration of the prior regulatory stipulation for Columbia of Ohio, a $10.9 million impairment of goodwill that was originally recorded in association with the NiSource acquisition of Kokomo Gas in 1992 and an increase in employee and administrative expenses of $7.4 million.

For the twelve months ended December 31, 2004, operating income for the Gas Distribution Operations segment was $441.2 million, a decrease of $65.2 million compared to the same period in 2003. The decrease was the result of lower net revenue mentioned above, and higher operating expenses of $29.2 million due to an increase in group insurance and outside services expenses of $6.7 million and depreciation expense of $4.4 million. In addition, the comparable 2003 period was favorably impacted by insurance recoveries and reserve changes of approximately $14.2 million. Both the 2004 and the 2003 periods benefited from lower uncollectible accounts resulting from the approval of the bad debt tracker for Columbia of Ohio in the fourth quarter of 2003.

NISOURCE INC.
Gas Transmission and Storage Operations

Year Ended December 31, *(in millions)*	**2005**	2004	2003
Operating Revenues			
Transportation revenues	$ **646.6**	$ 668.0	$ 663.2
Storage revenues	**177.9**	178.2	177.9
Other revenues	**10.8**	9.0	12.2
Total Operating Revenues	**835.3**	855.2	853.3
Less: Cost of gas sold	**24.6**	22.6	16.0
Net Revenues	**810.7**	832.6	837.3
Operating Expenses			
Operation and maintenance	**297.2**	301.8	278.3
Depreciation and amortization	**114.1**	114.2	111.4
Loss (Gain) on sale or impairment of assets	**(0.1)**	1.2	(1.8)
Other taxes	**55.1**	52.3	50.6
Total Operating Expenses	**466.3**	469.5	438.5
Operating Income	$ **344.4**	$ 363.1	$ 398.8

Throughput (MMDth)			
Columbia Transmission			
Market Area	**983.9**	978.3	1,018.9
Columbia Gulf			
Mainline	**521.6**	539.1	612.6
Short-haul	**86.3**	102.5	124.4
Columbia Pipeline Deep Water	**11.5**	16.7	7.4
Crossroads Gas Pipeline	**41.8**	40.5	34.3
Granite State Pipeline	**31.8**	32.7	33.4
Intrasegment eliminations	**(504.8)**	(537.1)	(592.1)
Total	**1,172.1**	1,172.7	1,238.9

Proposed Millennium Pipeline Project

Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is currently being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004, where the appeal is still pending.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. Millennium recently completed renegotiations of the precedent agreements with its anchor shippers. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." The timing of receipt of the necessary regulatory approvals for Millennium and its Companion Pipelines may impact the targeted in-service date of the fourth quarter of 2007 and may even affect the viability of Phase 1. Provided the necessary approvals are received in a timely manner, Millennium plans to begin construction in Spring 2007.

The current Millennium partnership includes Columbia Transmission (47.5%), DTE Millennium (owned by DTE Energy Co.) (10.5%), KeySpan Millennium (owned by KeySpan Corp.) (21.0%), and Columbia Atlantic Trading (21.0%), and Columbia Transmission will be the operator. At the time Columbia purchased the Columbia Atlantic Trading interest in 2004, it was with the intent to redistribute that interest to either a future customer of Millennium or the other partners. In late 2004, the other partners expressed an interest in purchasing the Columbia Atlantic Trading interest and an MOU was completed on August 22, 2005, which set forth the equity redistribution from Columbia Atlantic Trading to DTE and KeySpan. After completion of this transaction, Columbia's ownership will be at 47.5% and the ownership interests of KeySpan and DTE will be 26.25% each. Along with the equity redistribution effort, the partnership is also in the process of re-writing the partnership agreements. However, under the existing partnership agreements all material decisions require approval by a supermajority of the partners which is currently defined as being at least three of the four partners. Subsequent to execution of the August 22, 2005 MOU, Columbia, KeySpan and DTE have performed a comprehensive due diligence review. Certain findings through this process identified the need to continue to negotiate the terms for the redistribution of the Columbia Atlantic Trading interest to find a mutually satisfactory outcome for all partners. A revised term sheet was tentatively agreed upon in January 2006 and is being utilized as a base upon which to finalize all pertinent agreements. All agreements are currently in "final draft" form. The equity redistribution and the re-writing of the partnership agreements are expected to be finalized by the end of the first quarter of 2006.

Although Columbia has a temporary ownership interest in excess of 50%, it does not exert control over the partnership. Columbia is unable to move forward with the project without agreement from the other partners due to economic, contractual and regulatory constraints per the partnership agreements. All major decisions, such as selection of Millennium's key employees, selection of the construction contractor, budget approvals and major construction planning decisions are all subject to supermajority approval of the partners, which under the current agreements requires the vote of at least three of the four partners. Recently, a key commercial date passed, December 31, 2005, whereby in order to continue the project development efforts, Millennium was required to formalize its management approval process to satisfy certain conditions in certain customer agreements. This approval had to have the unanimous agreement of all partners. These rights are considered "substantive participating rights" as discussed in EITF 96-16. Decisions by the sponsors regarding additional aspects of the project may impair Millennium's ability to recover in rates certain development costs it has previously incurred.

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States.

Columbia Transmission and Piedmont have formed Hardy Storage, to develop a natural gas storage field from a depleted natural gas production field in West Virginia. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

An open season for Hardy Storage conducted in early 2004 resulted in full subscription of the project's storage capacity under long-term firm contracts. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in November 2007, and will ultimately be able to deliver 176 MMDth per day of firm storage service on behalf of the four customers subscribing to capacity in Hardy Storage. These customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to

NiSource Inc.
Gas Transmission and Storage Operations (continued)

deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. Construction is scheduled to begin in the first half of 2006. Service from both projects is expected to be available in 2007.

Other Growth Projects
Columbia Transmission recently held open seasons for two additional projects, the central and southern Virginia expansion and the Eastern Market expansion. Market interest for both projects was encouraging and Columbia Transmission has signed precedent agreements with four East Coast customers for the Eastern Market expansion. Customer negotiations are ongoing for the central and southern Virginia expansion. Columbia Transmission currently anticipates filing appropriate regulatory applications during 2006.

Pipeline Firm Service Contracts
Since implementation of FERC Order No. 636 in the early 1990's, the services of Columbia Transmission and Columbia Gulf have consisted of open access transportation services, and open access storage services in the case of Columbia Transmission. These services are provided primarily to LDCs. On October 31, 2004, firm contracts expired for both Columbia Transmission and Columbia Gulf, which represented approximately 60% of the Gas Transmission and Storage Operations net annual revenues. Based upon new commitments, Gas Transmission and Storage Operations realized a reduction of approximately $34 million in revenues in 2005 under the replacement contracts. The terms of the replacement contracts entered into by Columbia Transmission and Columbia Gulf range from one year to 15 years, with an average term of approximately seven years. These reductions were partially offset by increased revenues of approximately $14 million that resulted from remarketing efforts and new firm contracts.

Regulatory Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. There is no material impact on 2005 for this order, but it is anticipated that operating expenses will increase approximately $7 - $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule.

On March 31, 2005, the FERC issued an order regarding Columbia Transmission's annual EPCA filing. The FERC's order accepted the filing, subject to refund, and established a hearing to address issues related to the appropriate methodology for allocating costs associated with the new electric Downingtown Compressor units. An uncontested settlement was reached among the parties and was filed with FERC on August 31, 2005. On October 26, 2005, the FERC approved the settlement without modifications or conditions. The settlement will not have a material financial impact on the company.

On March 29, 2005, the FERC issued an unconditional order accepting Columbia Transmission's March 1, 2005 RAM filing. Columbia Transmission's March 1, 2004 RAM is still pending before the FERC, with no statutory time requirement for future action; however, with the approval of the 2005 RAM filing, management does not anticipate a material adverse order.

Restructuring
Gas Transmission and Storage Operations recorded restructuring charges of $6.5 million in 2005 in connection with a NiSource outsourcing agreement with IBM, which was allocated from NiSource Corporate Services. Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $2.4 million during 2005 and the restructuring liability remaining at December 31, 2005, was $3.4 million. Refer to Note 3, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of December 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-F, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Transmission and Storage Operations.

Capital Expenditures and Other Investing Activities
The Gas Transmission and Storage Operations segment's capital expenditure program was $167.9 million in 2005 and is projected to be approximately $230.7 million in 2006. The increase is due to a large pipeline replacement project as well as for the Millennium and Hardy Storage projects and Gas Transmission and Storage Operations new business initiatives. The large pipeline project is to replace approximately 35 miles of line 1278, which is located in the state of Pennsylvania. New business initiatives totaled approximately $21.2 million in 2005 and are projected to be $65.8 million in 2006.

Throughput
Columbia Transmission's throughput consists of transportation and storage services for LDCs and other customers within its market area, which covers portions of northeastern, mid-Atlantic, midwestern, and southern states and the District of Columbia. Throughput for Columbia Gulf reflects mainline transportation services delivered to Leach, Kentucky and short-haul transportation services for gas delivered south of Leach, Kentucky. Crossroads serves customers in northern Indiana and Ohio and Granite State Gas provides service in New Hampshire, Maine and Massachusetts. Intrasegment eliminations represent gas delivered to other pipelines within this segment.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,172.1 MMDth for 2005, compared to 1,172.7 MMDth in 2004. Decreases in offshore natural gas production in the Gulf were offset by increased gas deliveries in the market area serviced by Columbia Transmission.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,172.7 MMDth for 2004, compared to 1,238.9 MMDth in 2003. The decrease of 66.2 MMDth was primarily due to slightly warmer weather in 2004 versus 2003, the continued decline of offshore natural gas production, and other non-weather factors.

Net Revenues
Net revenues were $810.7 million for 2005, a decrease of $21.9 million from 2004. The decrease was primarily due to the 2004 renegotiation of firm service contracts with major pipeline customers, which amounted to approximately $34 million for the year. Additionally, revenue from regulatory trackers decreased $7.4 million, which is offset in operating expenses. These reductions in net revenues were partially offset by approximately $14 million in increased revenues resulting from remarketing efforts and new firm contracts and by a $8.9 million third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract.

Net revenues were $832.6 million for 2004, a decrease of $4.7 million from 2003. The decrease was due to lower storage and transportation revenues of $5.8 million. This resulted from the expiration of firm service contracts for both Columbia Transmission and Columbia Gulf on October 31, 2004, which represented approximately 60% of Gas Transmission and Storage Operations net annual revenues.

Operating Income
Operating income of $344.4 million in 2005 decreased $18.7 million from 2004 due primarily to the reduction in net revenue described above. Operating expenses, excluding savings of $7.4 million of tracker expense offset in revenue, increased $4.2 million as a result of restructuring charges, including a pension and other post retirement benefit charge, and transition costs associated with the IBM agreement that totaled $12.8 million. These increases in operation and maintenance expense were partially offset by a reduction in pension expense.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Operating income of $363.1 million in 2004 decreased $35.7 million from 2003. While net revenue decreased $4.7 million, as discussed above, operating expenses increased $31.0 million due primarily to the 2003 period being favorably impacted by an $11.0 million reduction in a reserve for environmental expenditures, a $6.6 million reversal of a legal reserve related to a lawsuit settled in 2003, a $3.0 million reduction of a franchise tax reserve and a $2.3 million gain on the sale of certain assets. For the year 2004, pension expense increased by $5.7 million and depreciation expense increased by $2.8 million as compared to the 2003 period.

NISOURCE INC.
Electric Operations

Year Ended December 31, *(in millions)*	2005	2004	2003
Net Revenues			
Sales revenues	$ 1,247.6	$ 1,111.2	$ 1,092.8
Less: Cost of sales	452.5	351.0	364.2
Net Revenues	795.1	760.2	728.6
Operating Expenses			
Operation and maintenance	263.1	240.0	224.7
Depreciation and amortization	185.9	178.1	175.1
Gain on sale of assets	(0.4)	(1.6)	-
Other taxes	53.2	34.2	61.3
Total Operating Expenses	501.8	450.7	461.1
Operating Income	$ 293.3	$ 309.5	$ 267.5
Revenues ($ in millions)			
Residential	$ 349.9	$ 295.1	$ 294.9
Commercial	335.0	294.1	289.8
Industrial	445.1	414.1	380.2
Wholesale	35.1	47.0	92.8
Other	82.5	60.9	35.1
Total	$ 1,247.6	$ 1,111.2	$ 1,092.8
Sales (Gigawatt Hours)			
Residential	3,516.1	3,104.3	3,122.5
Commercial	3,893.0	3,635.0	3,579.7
Industrial	9,131.6	9,309.4	8,972.2
Wholesale	831.3	1,176.2	2,623.2
Other	115.0	142.6	141.6
Total	17,487.0	17,367.5	18,439.2
Cooling Degree Days	935	582	572
Normal Cooling Degree Days	803	803	808
% Warmer (Colder) than Normal	16%	(28%)	(29%)
Electric Customers			
Residential	395,849	392,342	388,123
Commercial	51,261	50,332	49,252
Industrial	2,515	2,528	2,543
Wholesale	7	22	21
Other	765	770	794
Total	450,397	445,994	440,733

Market Conditions

The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

NISOURCE INC.
Electric Operations (continued)

The U.S. Steel Industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States.

Steel demand for 2006 is anticipated to remain at current levels for the first half of the year. It is estimated that international pressure may reduce the price per ton for rolled steel by as much as 20% by June 2006. This anticipated price reduction may cause inventories to increase once again and repeat the price/production cycle seen in 2004 and 2005. Electric sales to the steel industry in 2005 were down 3.2% as compared to 2004.

In 2005, Northern Indiana coal deliveries from the PRB area were limited to 80 – 85% of contracted amounts as a result of maintenance problems on track owned jointly by the Union Pacific Railroad Company and Burlington Northern Santa Fe Railway Company. Northern Indiana met the expected electricity demand through the end of 2005 by changing the fuel blend, which reduced its need for PRB coal. Northern Indiana has been blending this fuel for a number of years. In the second quarter of 2006, track maintenance will resume until completion, but at this time it is unknown if coal deliveries will be impacted.

Restructuring
Electric Operations recorded restructuring charges of $4.1 million in 2005 in connection with a NiSource outsourcing agreement with IBM, of which $4.0 million was allocated from NiSource Corporate Services. Payments made for all restructuring initiatives within Electric Operations amounted to $0.1 million during 2005 and the restructuring liability at December 31, 2005, was zero. Refer to Note 3, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Electric Operations segment.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $58.5 million, $56.4 million and $52.0 million were recognized for electric customers for 2005, 2004 and 2003, respectively.

In December 1999, the FERC issued Order 2000, a final rule addressing the formation and operation of Regional Transmission Organizations. The rule was intended to eliminate pricing inequities in the provisioning of wholesale transmission service. Northern Indiana transferred functional control of its electric transmission assets to MISO on October 1, 2003. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff, as the Northern Indiana Open Access Transmission Tariff was retired.

The MISO is a nonprofit organization created in compliance with FERC, to improve the flow of electricity in the regional marketplace and to enhance electric reliability. Under "Day 1", the MISO provides transmission service as described above. Under "Day 2" the MISO dispatches wholesale electricity and transmission service throughout much of the Midwest territory. Its responsibilities include managing the energy markets, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied

NISOURCE INC.
Electric Operations (continued)

recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. These particular charges, which amounted to $8.7 million in 2005, were included as recoverable in Northern Indiana's FAC-69 filing, but, pending a clarifying order from the IURC, Northern Indiana has provided a reserve for the full amount. In January 2006, the IURC approved Northern Indiana's FAC-69 filing, but noted that this particular category of charges was approved "subject to refund" and subject to the final order. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness of the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The Day 2 non-fuel category includes $5.4 million in costs recorded as non-recoverable in net revenues. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $5.1 million for 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding. As part of the established settlements process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana is evaluating the appropriate course of action for the Mitchell facility in light of the City of Gary's need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December, 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 as described below.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing and final order are expected in the second quarter of 2006.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005

Electric Operations (continued)

through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. On June 15, 2005, Northern Indiana filed testimony and exhibits establishing a new basis for the cap. Northern Indiana received approval from the IURC of its request on July 20, 2005.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges that Northern Indiana believes to be fuel related. The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above). The recovery of certain MISO charges, considered by Northern Indiana to be fuel related, is subject to refund based upon the outcome of cause 42962 (described above).

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $27.7 million for the twelve months ended December 31, 2005, and $51.7 million from inception to date, while EERM revenues were $7.6 million for 2005 and $8.8 million from inception to date. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004. The IURC approved ECR-5 and EER-2 on March 23, 2005. ECR-6 was filed in August 2005 for capital expenditures (net of accumulated depreciation) of $232.7 million and was approved by the IURC on October 26, 2005, with slight modifications. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. On June 15, 2005, Northern Indiana filed a Motion to Stay with the Indiana Court of Appeals requesting a stay of the portions of the order that require Northern Indiana to pay $2.5 million to Jupiter and install a backup line to serve Jupiter. On July 13, 2005, Northern Indiana's Motion to Stay the IURC's April 13, 2005 ruling was denied. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans recently announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings and for a temporary stay of the appeal during the remand. The purpose for the remand would be to permit the IURC to address the sufficiency of the remedy provided for in the order under review. On January 10, 2006, Northern Indiana filed with the Indiana Court of Appeals a response in opposition to the verified motion for remand filed by Jupiter.

NISOURCE INC.
Electric Operations (continued)

Environmental Matters
Currently, various environmental matters impact Electric Operations segment. As of December 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-F, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Capital Expenditures and Other Investing Activities
The Electric Operations segment's capital expenditure program was $135.6 million in 2005 and is projected to be approximately $140.1 million in 2006. The increase is due to higher expenditures for maintenance programs and expenditures to replace key components within electric generation. Expenditures for the NOx reduction program were approximately $8 million in 2005, and are budgeted to be approximately $4 million for 2006. Capital expenditures for customer growth were approximately $31 million in 2005 and are budgeted to be approximately $27 million for 2006.

Sales
Electric Operations sales were 17,487.0 gwh for the year 2005, a slight increase of 119.5 gwh compared to 2004. The increase in sales resulted from higher residential and commercial sales due primarily to warmer weather, increases in non-weather related usage and a 1% increase in customer count. This increase in sales was partially offset by decreased industrial and wholesale sales.

Electric Operations sales were 17,367.5 gwh for the year 2004, a decrease of 1,071.7 gwh compared to 2003. The decrease in sales resulted from reduced wholesale transaction sales and cooler weather in the third quarter of 2004, partially offset by increased non-weather related usage and customer count. Although cooling degree days were up slightly in 2004 over 2003, the increases occurred in May and June, while the cooling degree days were down in the months of July and August, which are the months when the effect of cooling degree days on usage is greater.

Net Revenues
Electric Operations net revenues were $795.1 million for 2005, an increase of $34.9 million from 2004, primarily as a result of warmer weather that favorably impacted revenues by $26.8 million compared to the 2004 period, and increased non-weather related usage and customer count totaling $24.1 million. Net revenues from environmental trackers also increased $15.3 million, of which $6.4 million is offset in operating expenses. These increases in net revenues were partially offset by net revenue impacts associated with MISO Day 2 costs totaling $15.7 million, $6.6 million reduction in revenue associated with pricing and capacity charges of $5.3 million related to the purchase of power from Whiting Clean Energy.

Electric Operations net revenues were $760.2 million for 2004, an increase of $31.6 million from 2003, primarily as a result of increased revenue from environmental trackers amounting to $14.7 million, of which $1.2 million is offset in expense, increased non-weather related usage and customer count of $17.1 million and the effect of regulatory rate refunds in the comparable 2003 period of $12.4 million. The above increase in net revenues was partially offset by cooler weather compared to the prior year of approximately $6 million.

Operating Income
Operating income for 2005 was $293.3 million, a decrease of $16.2 million from 2004. The decrease was the result of higher operating expenses of $44.7 million, net of $6.4 million in expenses associated with the operation of NOx equipment, which are fully offset in net revenues. The operation and maintenance expenses increase was due mainly to restructuring charges, including a pension and other post retirement benefit charge, and transition costs associated with outsourcing and the IBM service agreement which totaled $8.4 million, increased electric generating expense of $7.2 million and incremental MISO administrative expenses of $3.5 million. The increase in other tax expense was due mainly to the impact of a $25.1 million reduction in estimated property tax accruals recognized in 2004. Depreciation expense also increased approximately $8 million, of which $4.9 million was due to the operation of NOx equipment that is fully offset in revenue.

Operating income for 2004 was $309.5 million, an increase of $42.0 million from 2003. The increase was primarily a result of the above-mentioned increases in revenues and a reduction in other taxes of $27.1 million, partially offset by higher operation and maintenance expenses of $15.3 million. Other taxes decreased due mainly to a $25.1

NISOURCE INC.
Electric Operations (continued)

million reduction in estimated property tax accruals. Operation and maintenance expenses increased due mainly to incremental MISO administrative expenses of $4.6 million, higher employee and administrative expenses of $3.8 million and higher outside services expense of $1.6 million. In addition, a $3.8 million adjustment to employee insurance reserves in 2003 contributed to the year-over-year increase in operating expenses.

NiSource Inc.
Other Operations

Year Ended December 31, *(in millions)*	**2005**	2004	2003
Net Revenues			
Other revenue	**$ 1,005.7**	$ 689.6	$ 461.7
Less: Cost of products purchased	**962.3**	666.6	449.6
Net Revenues	**43.4**	23.0	12.1
Operating Expenses			
Operation and maintenance	**37.6**	40.0	46.6
Depreciation and amortization	**11.6**	12.1	9.9
Gain on sale of assets	**(0.6)**	(2.7)	(6.4)
Other taxes	**7.0**	4.5	3.9
Total Operating Expenses	**55.6**	53.9	54.0
Operating Loss	**$ (12.2)**	$ (30.9)	$ (41.9)

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.0 million at December 31, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

Sale of SunPower Corporation
In November 2004, NiSource sold its interest in SunPower Corporation for the purchaser's common shares valued at approximately $5.2 million at the time of sale. In the fourth quarter, NiSource recognized a pre-tax gain of $3.4 million and an after-tax gain of $2.0 million related to this sale.

Midtex Gas Storage Company, LLP.
On November 26, 2003, NiSource sold its interest in Midtex Gas Storage Company, LLP for approximately $15.8 million and the assumption, by the buyer, of $1.7 million in debt. In the fourth quarter of 2003, NiSource recognized a pre-tax gain of $7.5 million and an after-tax gain of $4.4 million related to this sale which is included in "Impairment and loss (gain) on sale of assets" on the Statements of Consolidated Income.

Sale of PEI Assets
On October 20, 2003, NiSource sold all of the steel-related, "inside-the-fence" assets of its subsidiary, PEI, to Private Power. The sale included six PEI operating subsidiaries and the name "Primary Energy". Private Power paid approximately $325.4 million, comprised of $113.1 million in cash and the assumption of debt-related liabilities and other obligations. The assumption of such liabilities and the after-tax cash proceeds from the sale reduced NiSource's debt by $273.6 million, of which $67.3 million was off balance sheet. NiSource has accounted for the assets sold as discontinued operations and has adjusted periods after 1999 accordingly.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For 2005, the PEI holding companies' consolidated after-tax loss was approximately $22.6 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, approval of the electric sales agreement discussed in the following paragraph, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting Clean Energy completed renegotiation

NISOURCE INC.
Other Operations (continued)

of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time for the next three years.

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy. Whiting Clean Energy has filed and the FERC accepted a tariff covering the sale of such intermediate dispatchable power.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing and final order are expected in the second quarter of 2006.

Restructuring
Other Operations recorded restructuring charges of $0.7 million in 2005, which was allocated from NiSource Corporate Services. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Other Operations segment.

Environmental Matters
Currently, various environmental matters impact Other Operations segment. As of December 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-F, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Other Operations segment.

Net Revenues
For the year ended 2005, net operating revenues were $43.4 million, an increase of $20.4 million from 2004. The increase was primarily due to increased net revenues from Whiting Clean Energy and $7.4 million of increased revenues from commercial and industrial marketing customers.

For the year ended 2004, net operating revenues were $23.0 million, an increase of $10.9 million from 2003. The increase in net revenues was primarily due to a $5.1 million settlement of a lawsuit in the third quarter of 2004 and increased income from equity investments of $2.5 million.

Operating Loss
The Other Operations segment reported an operating loss of $12.2 million in 2005 compared to an operating loss of $30.9 million in the 2004 period. This improvement is the result of decreased losses associated with Whiting Clean Energy and $7.4 million of increased revenues from commercial and industrial marketing customers.

The Other Operations segment reported an operating loss of $30.9 million in 2004 compared to an operating loss of $41.9 million in the 2003 period. This improvement is the result of the increase in net revenues mentioned above and lower employee and administrative expenses. An equity investment in SunPower Corporation was sold in the fourth quarter of 2004 for a gain of $3.4 million.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

Quantitative and Qualitative Disclosures about Market Risk are reported in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Disclosures."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

NISOURCE INC.

NiSource Inc.

DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Atlantic Trading	Columbia Atlantic Trading Corporation
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Natural Resources	Columbia Natural Resources, Inc.
Columbia Service Partners	Columbia Service Partners, Inc
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
IWC	Indianapolis Water Company
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
Primary Energy	Primary Energy, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

AFUDC	Allowance for funds used during construction
APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
CERCLA	Comprehensive Environmental Response Compensation and Liability Act (also known as Superfund)

NISOURCE INC.

DEFINED TERMS (continued)

Corporate PIES	Corporate Premium Income Equity Securities
DOT	United States Department of Transportation
Dth	Dekatherm
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EITF	Emerging Issues Task Force
EITF No. 00-19	Emerging Issues Task Force Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock"
EITF No. 02-03	Emerging Issues Task Force Issue No. 02-03, "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities"
EITF No. 96-16	Emerging Issues Task Force Issue No. 96-16, "Investor's Accounting for an Investee when the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights"
EITF No. 98-10	Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities"
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 45	FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
hp	Horsepower
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IRS	Internal Revenue Service
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
LIFO	Last-in, first-out
Mahonia	Mahonia II Limited
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
Mcf	Thousand cubic feet
MGP	Manufactured gas plant
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Coal Fired Generating Station
MMDth	Million dekatherms
MMI	Midwest Market Initiative
MOU	Memorandum of Understanding

NISOURCE INC.

DEFINED TERMS (continued)

MSCP	Morgan Stanley Dean Witter Capital Partners IV, L.P.
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOV	Notice of Violation
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OPSB	Ohio Power Siting Board
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
PRB	Powder River Basin
Private Power	Private Power, LLC
PSC	Kentucky Public Service Commission
PUC	Public Utilities Commission
PUCO	Public Utilities Commission of Ohio
QPAI	Qualified production activities income
RAM	Retainage Adjustment Mechanism
RCRA	Resource Conservation and Recovery Act
SAB No. 92	Staff Accounting Bulletin No. 92, "Accounting and Disclosures Relating to Loss Contingencies"
SAILS[sm]	Stock Appreciation Income Linked Securities[sm]
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 5	Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies"
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 101	Statement of Financial Accounting Standards 101, "Regulated Enterprises – Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions"
SFAS No. 109	Statement of Financial Accounting Standards No. 109, "Accounting for Uncertain Tax Positions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 140	Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Asset and Extinguishments of Liabilities"
SFAS No. 142	Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets"
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 144	Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"

NISOURCE INC.

DEFINED TERMS (continued)

SIP	State Implementation Plan
SO2	Sulfur dioxide
SOP	Statement of Position
SOP 96-1	Statement of Position 96-1, "Environmental Remediation Liabilities"
SOP 98-1	Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use"
Tcf	Trillion cubic feet
Triana	Triana Energy Holdings
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

NISOURCE INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of NiSource Inc.:

We have audited the accompanying consolidated balance sheets, statements of consolidated capitalization and long-term debt of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2005 and 2004, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedules listed in the Index at Item 8. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedules, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NISOURCE INC.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As explained in Note 10 to the consolidated financial statements, effective January 1, 2003, the Company adopted FASB Statement No. 143, "Accounting for Asset Retirement Obligations." As explained in Note 10 to the consolidated financial statements, effective December 31, 2005, the Company adopted FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations."

/s/ DELOITTE & TOUCHE LLP
Chicago, Illinois
March 6, 2006

NISOURCE INC.
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, *(in millions, except per share amounts)*	2005	2004	2003
Net Revenues			
Gas Distribution	$ 4,600.4	$ 3,801.8	$ 3,554.5
Gas Transportation and Storage	1,000.0	1,013.4	1,033.5
Electric	1,248.6	1,121.0	1,115.9
Other	1,050.1	725.3	538.1
Gross Revenues	7,899.1	6,661.5	6,242.0
Cost of Sales	4,749.3	3,609.7	3,185.6
Total Net Revenues	3,149.8	3,051.8	3,056.4
Operating Expenses			
Operation and maintenance	1,328.3	1,203.6	1,177.5
Depreciation and amortization	545.2	508.6	495.7
Impairment and loss (gain) on sale of assets	22.2	(3.1)	(24.9)
Other taxes	301.3	265.2	285.8
Total Operating Expenses	2,197.0	1,974.3	1,934.1
Operating Income	952.8	1,077.5	1,122.3
Other Income (Deductions)			
Interest expense, net	(421.0)	(403.9)	(464.7)
Minority interests	-	-	(2.5)
Dividend requirement on preferred stock of subsidiaries	(4.2)	(4.4)	(4.5)
Other, net	14.0	7.3	15.3
Loss on early extinguishment of long-term debt	(108.6)	(4.1)	(4.1)
Total Other Income (Deductions)	(519.8)	(405.1)	(460.5)
Income From Continuing Operations Before Income Taxes and Cumulative Effect of Change in Accounting Principle	433.0	672.4	661.8
Income Taxes	149.4	241.4	234.9
Income from Continuing Operations Before Cumulative Effect of Change in Accounting Principle	283.6	431.0	426.9
Income (Loss) from Discontinued Operations - net of taxes	(20.3)	5.3	(1.7)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	43.5	-	(331.2)
Income Before Change in Accounting Principle	306.8	436.3	94.0
Cumulative Effect of Change in Accounting Principle - net of taxes	(0.3)	-	(8.8)
Net Income	$ 306.5	$ 436.3	$ 85.2
Basic Earnings (Loss) Per Share ($)			
Continuing operations	$ 1.05	$ 1.63	$ 1.64
Discontinued operations	0.08	0.02	(1.28)
Change in accounting principle	-	-	(0.03)
Basic Earnings Per Share	$ 1.13	$ 1.65	$ 0.33
Diluted Earnings (Loss) Per Share ($)			
Continuing operations	$ 1.04	$ 1.62	$ 1.63
Discontinued operations	0.08	0.02	(1.27)
Change in accounting principle	-	-	(0.03)
Diluted Earnings Per Share	$ 1.12	$ 1.64	$ 0.33
Dividends Declared Per Common Share	$ 0.92	$ 0.92	$ 1.10
Basic Average Common Shares Outstanding (millions)	271.3	263.7	259.6
Diluted Average Common Shares (millions)	273.0	265.5	261.6

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

As of December 31, *(in millions)*	2005	2004
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$ 16,684.4**	$ 16,194.1
Accumulated depreciation and amortization	**(7,556.8)**	(7,247.7)
Net utility plant	**9,127.6**	8,946.4
Other property, at cost, less accumulated depreciation	**426.7**	427.5
Net Property, Plant and Equipment	**9,554.3**	9,373.9
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**34.6**	38.6
Unconsolidated affiliates	**75.0**	64.2
Other investments	**114.2**	113.0
Total Investments	**223.8**	215.8
Current Assets		
Cash and cash equivalents	**69.4**	29.5
Restricted cash	**33.9**	56.3
Accounts receivable (less reserve of $67.9 and $55.6, respectively)	**1,254.6**	889.1
Gas inventory	**526.9**	452.9
Underrecovered gas and fuel costs	**421.8**	293.8
Materials and supplies, at average cost	**72.0**	70.6
Electric production fuel, at average cost	**24.9**	29.2
Price risk management assets	**183.1**	61.1
Exchange gas receivable	**169.8**	169.6
Regulatory assets	**195.0**	136.2
Prepayments and other	**109.3**	96.1
Total Current Assets	**3,060.7**	2,284.4
Other Assets		
Price risk management assets	**192.9**	148.3
Regulatory assets	**586.3**	568.4
Goodwill	**3,677.3**	3,687.2
Intangible assets	**495.8**	520.3
Deferred charges and other	**167.4**	189.5
Total Other Assets	**5,119.7**	5,113.7
Total Assets	**$ 17,958.5**	$ 16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS (continued)

As of December 31, *(in millions, except share amounts)*	2005	2004
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 272,622,905 and 270,625,370 shares issued and outstanding, respectively	$ 2.7	$ 2.7
Additional paid-in-capital, net of deferred stock compensation	3,969.4	3,924.0
Retained earnings	981.6	925.4
Accumulated other comprehensive loss and other common stock equity	(20.7)	(65.0)
Total common stock equity	4,933.0	4,787.1
Preferred stocks—Series without mandatory redemption provisions	81.1	81.1
Long-term debt, excluding amounts due within one year	5,271.2	4,835.9
Total Capitalization	10,285.3	9,704.1
Current Liabilities		
Current portion of long-term debt	440.7	1,299.9
Short-term borrowings	898.0	307.6
Accounts payable	866.7	648.4
Dividends declared on common and preferred stocks	1.1	1.1
Customer deposits	101.9	92.2
Taxes accrued	217.5	160.9
Interest accrued	86.2	84.1
Overrecovered gas and fuel costs	25.8	15.5
Price risk management liabilities	72.3	46.9
Exchange gas payable	425.2	325.1
Deferred revenue	51.3	31.5
Regulatory liabilities	46.3	30.2
Accrued liability for postretirement and postemployment benefits	61.1	57.7
Other accruals	549.1	478.3
Total Current Liabilities	3,843.2	3,579.4
Other Liabilities and Deferred Credits		
Price risk management liabilities	22.2	5.5
Deferred income taxes	1,591.9	1,665.9
Deferred investment tax credits	69.9	78.4
Deferred credits	81.1	74.0
Deferred revenue	60.4	86.9
Accrued liability for postretirement and postemployment benefits	511.0	440.7
Preferred stock liabilities with mandatory redemption provisions	-	0.6
Regulatory liabilities	1,196.2	1,168.6
Asset retirement obligations	119.8	9.3
Other noncurrent liabilities	177.5	174.4
Total Other Liabilities and Deferred Credits	3,830.0	3,704.3
Commitments and Contingencies	-	-
Total Capitalization and Liabilities	$ 17,958.5	$ 16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, *(in millions)*	2005	2004	2003
Operating Activities			
Net income	$ 306.5	$ 436.3	$ 85.2
Adjustments to reconcile net income to net cash from continuing operations:			
Loss on early extinguishment of debt	108.6	4.1	4.1
Depreciation and amortization	545.2	508.6	495.7
Net changes in price risk management assets and liabilities	(41.0)	16.3	(4.3)
Deferred income taxes and investment tax credits	(16.7)	97.5	77.9
Deferred revenue	(6.6)	(22.3)	(6.4)
Stock compensation expense	6.8	8.0	12.9
Loss (gain) on sale of assets	0.4	(3.1)	(24.9)
Loss on impairment of assets	21.8	-	-
Cumulative effect of change in accounting principle, net of taxes	0.3	-	8.8
Loss (income) from unconsolidated affiliates	(4.7)	(0.9)	5.4
Loss (gain) on sale of discontinued operations	(43.5)	-	331.2
Loss (income) from discontinued operations	20.3	(5.3)	1.7
Amortization of discount/premium on debt	17.5	21.6	18.9
Other adjustments	(3.2)	(2.3)	(2.5)
Changes in assets and liabilities:			
Accounts receivable	(358.9)	(92.0)	67.3
Inventories	(71.1)	(23.1)	(166.9)
Accounts payable	205.7	153.3	(41.4)
Customer deposits	9.7	6.7	15.2
Taxes accrued	21.3	(57.8)	(89.5)
Interest accrued	6.3	1.7	5.9
(Under) Overrecovered gas and fuel costs	(117.6)	(104.3)	18.9
Exchange gas receivable/payable	88.0	93.3	(196.0)
Other accruals	19.4	11.4	(55.6)
Prepayments and other current assets	(13.2)	4.2	9.9
Regulatory assets/liabilities	(45.7)	18.6	3.3
Postretirement and postemployment benefits	50.1	35.4	82.6
Deferred credits	6.7	(14.3)	(28.1)
Deferred charges and other noncurrent assets	(2.8)	(36.3)	14.2
Other noncurrent liabilities	20.1	(1.5)	(30.7)
Net Cash Flows from Continuing Operations	729.7	1,053.8	612.8
Net Cash Flows (used for) or from Discontinued Operations	(17.4)	2.1	(44.8)
Net Cash Flows from Operating Activities	712.3	1,055.9	568.0
Investing Activities			
Capital expenditures	(590.4)	(517.0)	(574.2)
Proceeds from disposition of assets	7.5	7.1	586.5
Restricted cash	28.1	(33.5)	1.4
Other investing activities	(17.2)	(9.2)	(17.6)
Net Investing Activities used for Continuing Operations	(572.0)	(552.6)	(3.9)
Net Investing Activities used for Discontinued Operations	(0.1)	-	(38.7)
Net Cash Flows used for Investing Activities	(572.1)	(552.6)	(42.6)
Financing Activities			
Issuance of long-term debt	1,907.9	450.0	1,401.5
Retirement of long-term debt	(2,372.5)	(486.6)	(1,366.9)
Premium of debt retirement	(14.2)	-	-
Change in short-term debt	590.4	(377.9)	(227.6)
Retirement of preferred shares	-	-	(346.2)
Issuance of common stock	40.0	160.8	354.7
Acquisition of treasury stock	(1.6)	(4.1)	(2.5)
Dividends paid - common shares	(250.3)	(243.1)	(284.0)
Net Financing Activities used for Continuing Operations	(100.3)	(500.9)	(471.0)
Net Financing Activities used for Discontinued Operations	-	-	(58.4)
Net Cash Flows used for Financing Activities	(100.3)	(500.9)	(529.4)
Increase (decrease) in cash and cash equivalents	39.9	2.4	(4.0)
Cash and cash equivalents at beginning of year	29.5	27.1	31.1
Cash and cash equivalents at end of period	$ 69.4	$ 29.5	$ 27.1
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	$ 404.5	$ 383.0	$ 442.3
Interest capitalized	3.2	2.3	2.5
Cash paid for income taxes	101.4	184.6	256.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CAPITALIZATION

As of December 31, *(in millions, except shares outstanding and par value)*	**2005**	2004
Common shareholders' equity	$ 4,933.0	$ 4,787.1
Preferred Stocks, which are redeemable solely at option of issuer:		
Northern Indiana Public Service Company—		
Cumulative preferred stock—$100 par value—		
4-1/4% series—209,035 shares outstanding	20.9	20.9
4-1/2% series—79,996 shares outstanding	8.0	8.0
4.22% series—106,198 shares outstanding	10.6	10.6
4.88% series—100,000 shares outstanding	10.0	10.0
7.44% series—41,890 shares outstanding	4.2	4.2
7.50% series—34,842 shares outstanding	3.5	3.5
Premium on preferred stock and other	0.3	0.3
Cumulative preferred stock—no par value—		
Adjusted rate series A (stated value—$50 per share), 473,285 shares outstanding	23.6	23.6
Series without mandatory redemption provisions	81.1	81.1
Long-term debt	5,271.2	4,835.9
Total Capitalization	$ 10,285.3	$ 9,704.1

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NiSource Inc.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, *(in millions)*	2005	2004
NiSource Inc.:		
Senior Debentures - 3.628%, due November 1, 2006	$ -	$ 144.4
Unamortized premium on long-term debt	-	0.4
Total long-term debt of NiSource, Inc.	-	144.8
Bay State Gas Company:		
Medium-Term Notes -		
Interest rates between 6.26% and 9.20% with a weighted average interest rate of 6.81% and maturities between June 6, 2011 and February 15, 2028	48.5	48.5
Northern Utilities:		
Medium-Term Note--Interest rate of 6.93% and maturity of September 1, 2010	3.3	4.2
Total long-term debt of Bay State Gas Company	51.8	52.7
Columbia Energy Group:		
Debentures -		
7.05% Series D - due November 28, 2007	-	281.5
7.32% Series E - due November 28, 2010	-	281.5
7.42% Series F - due November 28, 2015	-	281.5
7.62% Series G - due November 28, 2025	-	229.2
Unamortized discount on long-term debt	-	(96.0)
Subsidiary debt - Capital lease obligations	1.8	2.2
Total long-term debt of Columbia Energy Group	1.8	979.9
PEI Holdings, Inc.:		
Long-Term Notes -		
Whiting Clean Energy, Inc. -		
Interest rates between 6.73% and 8.58% with a weighted average interest rate of 8.30% and maturity of June 20, 2011	295.5	298.6
Total long-term debt of PEI Holdings, Inc.	295.5	298.6
NiSource Capital Markets, Inc:		
Senior Notes - 6.78%, due December 1, 2027	75.0	75.0
Medium-term notes -		
Issued at interest rates between 7.38% and 7.99%, with a weighted average interest rate of 7.82% and various maturities between March 27, 2007 and May 5, 2027	150.0	190.0
Total long-term debt of NiSource Capital Markets, Inc.	225.0	265.0
NiSource Corporate Services, Inc.		
Capital lease obligations - 5.586%, due December 31, 2009	6.4	-
Total long-term debt of NiSource Corporate Services, Inc..	6.4	-
NiSource Development Company, Inc.:		
NDC Douglas Properties, Inc. - Notes Payable--		
Interest rates between 3.8% and 12.6% with a weighted average interest rate of 7.4%.	35.8	36.7
Total long-term debt of NiSource Development Company, Inc.	35.8	36.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT (continued)

As of December 31, *(in millions)*	2005	2004
NiSource Finance Corp.:		
Long-Term Notes -		
3.20% - due November 1, 2006	-	250.0
7-7/8% - due November 15, 2010	**1,000.0**	1,000.0
Senior Unsecured Notes - 6.15%, due March 1, 2013	**345.0**	345.0
Floating Rate Notes - 4.95% at December 31, 2005, due November 23, 2009	**450.0**	450.0
5.21% - due November 28, 2012	**315.0**	-
5.40% - due July 15, 2014	**500.0**	500.0
5.36% - due November 28, 2015	**230.0**	-
5.41% - due November 28, 2016	**90.0**	-
5.25% - due September 15, 2017	**450.0**	-
5.45% - due September 15, 2020	**550.0**	-
5.89% - due November 28, 2025	**265.0**	-
Fair value adjustment of notes for interest rate swap agreements	**(12.2)**	29.9
Unamortized premium and discount on long-term debt	**(25.9)**	(14.6)
Total long-term debt of NiSource Finance Corp, Inc.	**4,156.9**	2,560.3
Northern Indiana Public Service Company:		
Pollution control bonds -		
Issued at interest rates between 1.65% and 1.85%, with a weighted average interest rate of 1.75% and various maturities between November 1, 2007 and April 1, 2019	**278.0**	278.0
Medium-term notes -		
Issued at interest rates between 6.69% and 7.69%, with a weighted average interest rate of 7.30% and various maturities between June 6, 2007 and August 4, 2027	**221.2**	221.2
Unamortized discount on long-term debt, net	**(1.2)**	(1.3)
Total long-term debt of Northern Indiana Public Service Company	**498.0**	497.9
Total long-term debt, excluding amount due within one year	**$ 5,271.2**	$ 4,835.9

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.

STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in millions)	COMMON STOCK	TREASURY STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	DEFERRED STOCK COMPENSATION	ACCUM OTHER COMP INCOME/(LOSS)	TOTAL	COMP INCOME
Balance January 1, 2003	$ 2.5	$ (6.9)	$ 3,389.5	$ 930.9	$ (0.6)	$ (140.5)	$ 4,174.9	
Comprehensive Income:								
Net Income				85.2			85.2	$ 85.2
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized						1.4	1.4	1.4
Gain/loss on foreign currency translation:								
Unrealized						0.7	0.7	0.7
Net unrealized gains on derivatives qualifying as cash flow hedges						23.9	23.9	23.9
Minimum pension liability adjustment						53.5	53.5	53.5
Total comprehensive income								$ 164.7
Dividends:								
Common stock				(284.8)			(284.8)	
Treasury stock acquired		(2.5)					(2.5)	
Issued:								
Common stock issuance	0.1		344.9				345.0	
Employee stock purchase plan			0.6				0.6	
Long-term incentive plan			21.6		(4.5)		17.1	
Amortization of unearned compensation					0.9		0.9	
Balance December 31, 2003	$ 2.6	$ (9.4)	$ 3,756.6	$ 731.3	$ (4.2)	$ (61.0)	$ 4,415.9	
Comprehensive Income:								
Net Income				436.3			436.3	$ 436.3
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized						1.5	1.5	1.5
Gain/loss on foreign currency translation:								
Unrealized						0.7	0.7	0.7
Net unrealized gains on derivatives qualifying as cash flow hedges						2.2	2.2	2.2
Minimum pension liability adjustment						5.2	5.2	5.2
Total comprehensive income								$ 445.9
Dividends:								
Common stock				(242.3)			(242.3)	
Treasury stock acquired		(4.1)					(4.1)	
Issued:								
Common stock issuance	0.1		144.3				144.4	
Employee stock purchase plan			0.7				0.7	
Long-term incentive plan			23.0		(3.0)		20.0	
Tax benefits of options, PIES and other			5.2	0.1			5.3	
Amortization of unearned compensation					1.3		1.3	
Balance December 31, 2004	$ 2.7	$ (13.5)	$ 3,929.8	$ 925.4	$ (5.9)	$ (51.4)	$ 4,787.1	
Comprehensive Income:								
Net Income				306.5			306.5	$ 306.5
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized						0.1	0.1	0.1
Net unrealized gains on derivatives qualifying as cash flow hedges						57.0	57.0	57.0
Minimum pension liability adjustment						(11.3)	(11.3)	(11.3)
Total comprehensive income								$ 352.3
Dividends:								
Common stock				(250.3)			(250.3)	
Treasury stock acquired		(1.6)					(1.6)	
Issued:								
Common stock issuance			0.3				0.3	
Employee stock purchase plan			0.9				0.9	
Long-term incentive plan			42.3		(0.5)		41.8	
Tax benefits of options, PIES and other			(0.3)				(0.3)	
Amortization of unearned compensation					2.8		2.8	
Balance December 31, 2005	$ 2.7	$ (15.1)	$ 3,973.0	$ 981.6	$ (3.6)	$ (5.6)	$ 4,933.0	

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NiSource Inc.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (continued)

Shares (in thousands)	Common Shares	Treasury Shares
Balance January 1, 2003	**249,210**	**(350)**
Treasury stock acquired		(128)
Issued:		
Stock issuance	13,111	-
Employee stock purchase plan	33	-
Long-term incentive plan	754	-
Balance December 31, 2003	**263,108**	**(478)**
Treasury stock acquired		(190)
Issued:		
Stock issuance	6,814	-
Employee stock purchase plan	35	-
Long-term incentive plan	1,337	-
Balance December 31, 2004	**271,294**	**(668)**
Treasury stock acquired		(73)
Issued:		
Employee stock purchase plan	38	-
Long-term incentive plan	2,032	-
Balance December 31, 2005	**273,364**	**(741)**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NiSource Inc.
Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

A. Company Structure and Principles of Consolidation. NiSource, a Delaware corporation, is a holding company whose subsidiaries provide natural gas, electricity and other 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. NiSource is a holding company under the Public Utility Holding Company Act of 2005. NiSource derives substantially all of its revenues and earnings from the operating results of its 16 direct subsidiaries.

The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of all intercompany accounts and transactions. Investments for which at least a 20% interest is owned, certain joint ventures and limited partnership interests of more than 3% are accounted for under the equity method. Except where noted above and in the event where NiSource has significant influence, investments with less than a 20% interest are accounted for under the cost method. Although Columbia has a temporary ownership interest in excess of 50% of Millennium, it does not exert control over the partnership and therefore did not consolidate the Millennium project entities. The current Millennium partnership includes Columbia Transmission (47.5%), DTE Millennium (owned by DTE Energy Co.) (10.5%), KeySpan Millennium (owned by KeySpan Corp.) (21.0%), and Columbia Atlantic Trading (21.0%), and Columbia Transmission will be the operator. At the time Columbia purchased the Columbia Atlantic Trading interest in 2004, it was with the intent to redistribute that interest to either a future customer of Millennium or the other partners. In late 2004, the other partners expressed an interest in purchasing the Columbia Atlantic Trading interest and an MOU was completed on August 22, 2005, which set forth the equity redistribution from Columbia Atlantic Trading to DTE and KeySpan. After completion of this transaction, Columbia's ownership will be at 47.5% and the ownership interests of KeySpan and DTE will be 26.25% each. Subsequent to execution of the August 22, 2005 MOU, the partners in Millennium performed a comprehensive due diligence review and completed a revised term sheet in January 2006 to be utilized as a base to finalize revised partnership agreements and the redistribution of Columbia Atlantic Trading's equity. NiSource also consolidates variable interest entities for which NiSource is the primary beneficiary as a result of the adoption in January 2003 of FIN No. 46.

B. Basis of Accounting Presentation. In the Statements of Consolidated Income for the twelve months ended December 31, 2004 and 2003, the classification of loss on early extinguishment of long-term debt has been reclassified to "Other Income (Deductions)." NiSource previously reported such amounts within operating income. This resulted in a $4.1 million increase in operating income and a corresponding decrease to other income (deduction) for the twelve months ended December 31, 2004 and 2003. Income from Continuing Operations and Net Income did not change for either period.

In the Consolidated Balance Sheets for the twelve months ended December 31, 2004, the classification of accrued liability for postretirement and post employment benefits between current and long term liabilities was changed to conform to the current year presentation. This resulted in increases of $27.8 million in Other Liabilities and Deferred Credits and corresponding decreases to Total Current Liabilities for balances as of December 31, 2004.

Certain other amounts in 2004 and 2003 have been reclassified to conform to the current year presentation.

C. Cash, Cash Equivalents, and Restricted Cash. NiSource considers all investments with original maturities of three months or less to be cash equivalents. NiSource reports amounts deposited in brokerage accounts for margin requirements in the restricted cash balance sheet caption. In addition, NiSource has amounts deposited in trust to satisfy requirements for the provision of various property, liability, workers compensation, and long-term disability insurance, which is classified as restricted cash and disclosed as an investing cash flow on the Statement of Consolidated Cash Flows.

D. Accounts Receivable and Unbilled Revenue. Accounts receivable on the Consolidated Balance Sheets includes both billed and unbilled amounts as NiSource believes that total accounts receivable is a more meaningful presentation, given the factors which impact both billed and unbilled accounts receivable. Unbilled revenue is based on estimated amounts of electric energy or natural gas delivered but not yet billed to its customers. Unbilled amounts of accounts receivable relate to a portion of a customer's consumption of gas or electricity from the date of the last cycle billing date through the last day of the month (balance sheet date). Factors taken into consideration when estimating unbilled revenue include historical usage, customer rates and weather. Accounts receivable fluctuates from year to year depending upon seasonality and price volatility. NiSource's accounts receivable on the Consolidated Balance Sheets includes unbilled revenue, less reserves, in the amounts of $437.6 million and $293.9 million for the years ended December 31, 2005 and 2004, respectively.

E. Investments in Debt and Equity Securities. NiSource's investments in debt and marketable securities are carried at fair value and are designated as available-for-sale. These investments are included within "Other investments" on the Consolidated Balance Sheets. Unrealized gains and losses, net of deferred income taxes, are reflected as accumulated other comprehensive income. These investments are monitored for other than temporary declines in market value. Realized gains and losses and permanent impairments are reflected in the Statements of Consolidated Income.

At December 31, 2005 and December 31, 2004, respectively, approximately $39 million and $36 million of investments were pledged as collateral for trust accounts related to NiSource's wholly owned insurance company.

F. Basis of Accounting for Rate-Regulated Subsidiaries. NiSource's rate-regulated subsidiaries follow the accounting and reporting requirements of SFAS No. 71. SFAS No. 71 provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of SFAS No. 71, NiSource would be required to apply the provisions of SFAS No. 101. In management's opinion, NiSource's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Regulatory assets and liabilities were comprised of the following items:

At December 31, *(in millions)*		2005		2004
Assets				
Reacquisition premium on debt	$	**23.1**	$	26.1
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 1H)		**32.8**		37.0
Bailly scrubber carrying charges and deferred depreciation (see Note 1H)		**2.4**		3.3
Postemployment and other postretirement costs (see Note 9)		**137.0**		150.4
Retirement income plan costs		**38.9**		16.2
Environmental costs		**25.7**		26.7
Regulatory effects of accounting for income taxes (see Note 1T)		**153.0**		163.5
Underrecovered gas and fuel costs		**421.8**		293.8
Depreciation (see Note 1H)		**125.6**		131.7
Uncollectible accounts receivable deferred for future recovery		**49.1**		52.4
Percentage of Income Plan		**95.2**		43.1
Asset retirement obligations (see Note 10)		**26.2**		1.6
Other		**72.3**		52.6
Total Assets	$	**1,203.1**	$	998.4
Liabilities				
Rate refunds and reserves	$	**0.1**	$	4.9
Overrecovered gas and fuel costs		**25.8**		15.5
Asset retirement obligations (see Note 10)		**117.8**		8.0
Cost of Removal (see Note 10)		**1,101.5**		1,089.8
Regulatory effects of accounting for income taxes		**18.7**		18.9
Transition capacity cost		**66.2**		71.2
Emissions allowance		**10.9**		6.8
Other		**45.1**		7.2
Total Liabilities	$	**1,386.1**	$	1,222.3

Regulatory assets of approximately $1,066.4 million are not presently included in rate base and consequently are not earning a return on investment. These regulatory assets are being recovered as components of cost of service over a remaining life of up to 10 years. Regulatory assets of approximately $49.8 million require specific rate action.

G. Utility Plant and Other Property and Related Depreciation and Maintenance. Property, plant and equipment (principally utility plant) are stated at cost. The rate-regulated subsidiaries record depreciation using composite rates on a straight-line basis over the remaining service lives of the electric, gas and common properties.

For rate-regulated companies, an AFUDC is capitalized on all classes of property except organization, land, autos, office equipment, tools and other general property purchases. The allowance is applied to construction costs for that period of time between the date of the expenditure and the date on which such project is completed and placed in service, reducing gross interest expense during the respective construction period. The pre-tax rate for AFUDC was 2.5% in 2005, 2.5% in 2004, and 2.0% in 2003. Short-term borrowings were used to fund construction efforts for all three years presented. The increase in the 2004 AFUDC rate, as compared with 2003, was due to higher short-term interest rates.

The depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2005, 2004 and 2003 were as follows:

	2005	2004	2003
Electric Operations	**3.5%**	3.5%	3.6%
Gas Distribution and Transmission Operations	**2.9%**	2.9%	2.9%

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The Whiting Clean Energy facility owned by PEI, a consolidated subsidiary of NiSource, is being depreciated on a straight-line basis over a 40-year useful life.

Generally, NiSource's subsidiaries follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, net of salvage, is charged to the accumulated provision for depreciation.

H. Carrying Charges and Deferred Depreciation. Upon completion of units 17 and 18 at the R. M. Schahfer Generating Station, Northern Indiana capitalized the carrying charges and deferred depreciation in accordance with orders of the IURC, pending the inclusion of the cost of each unit in rates. Such carrying charges and deferred depreciation are being amortized over the remaining service life of each unit.

Northern Indiana has capitalized carrying charges and deferred depreciation and certain operating expenses relating to its scrubber service agreement for its Bailly Generating Station in accordance with an order of the IURC. The accumulated balance of the deferred costs and related carrying charges is being amortized over the remaining life of the scrubber service agreement.

In the Columbia of Ohio 1999 rate agreement, the PUCO authorized Columbia of Ohio to revise its depreciation accrual rates for the period January 1, 1999 through December 31, 2004. The revised depreciation rates were lower than those which would have been utilized if Columbia of Ohio were not subject to regulation and, accordingly, a regulatory asset had been established for the difference. The amount of depreciation that would have been recorded for 2004 had Columbia of Ohio not been subject to rate regulation is $36.4 million, a $20.5 million increase over the $15.9 million reflected in rates. The amount of depreciation that would have been recorded for 2003 had Columbia of Ohio not been subject to rate regulations is $36.6 million, a $22.1 million increase over the $14.5 million reflected in rates.

In 2005, the PUCO authorized Columbia of Ohio to revise its depreciation accrual rates for the period beginning January 1, 2005. The revised depreciation rates are now higher than those which would have been utilized if Columbia of Ohio were not subject to regulation. Accordingly, the cumulative regulatory asset balance of $131.7 million through December 31, 2004 has been reduced in 2005. The amount of depreciation that would have been recorded for 2005 had Columbia of Ohio not been subject to rate regulation is $35.2 million, a $6.1 million decrease over the $41.3 million reflected in rates. The regulatory asset was $125.6 million as of December 31, 2005.

I. Amortization of Software Costs. External and internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of each project in accordance with SOP 98-1. Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis over a period of five to ten years. NiSource amortized $28.3 million in 2005, $35.0 million in 2004 and $29.1 million in 2003 related to software costs.

J. Intangible Assets. NiSource has approximately $3.7 billion in goodwill and other intangible assets. Substantially all goodwill relates to the excess of cost over the fair value of the net assets acquired in the Columbia acquisition. In addition, NiSource has other intangible assets consisting primarily of franchise rights apart from goodwill that were identified as part of the purchase price allocations associated with the acquisitions of Bay State, Northern Utilities, which is a subsidiary of Bay State, and Granite, all of which are wholly owned subsidiaries of NiSource, which are being amortized over forty years from the date of acquisition. NiSource accounts for its intangible assets, including goodwill, in accordance with SFAS No. 142. Refer to Note 8, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

K. Revenue Recognition. With the exception of amounts recognized for energy trading activities, revenues are recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered. Cash received in advance from sales of commodities to be delivered in the future is recorded as deferred revenue and recognized as income upon delivery of the commodities.

NiSource Inc.
Notes to Consolidated Financial Statements (continued)

Revenues relating to energy trading operations are recorded based upon changes in the fair values, net of reserves, of the related energy trading contracts. Changes in the fair values of energy trading contracts are recognized in revenues net of associated costs. Gains and losses relating to non-trading derivatives designated as cash flow or fair value hedges are reported on a gross basis, upon settlement, in the same income statement category as the related hedged item. Normal purchase or sale contracts are reported on a gross basis upon settlement and recorded in the corresponding income statement category based on commodity type.

L. Earnings Per Share. Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans.

The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

Diluted Average Common Shares Computation	**2005**	2004	2003
Denominator *(thousands)*			
Basic average common shares outstanding	**271,282**	263,682	259,550
Dilutive potential common shares			
Nonqualified stock options	**359**	162	73
Shares contingently issuable under employee stock plans	**884**	1,069	1,157
Shares restricted under employee stock plans	**509**	618	805
Diluted Average Common Shares	**273,034**	265,531	261,585

M. Estimated Rate Refunds. Certain rate-regulated subsidiaries collect revenues subject to refund pending final determination in rate proceedings. In connection with such revenues, estimated rate refund liabilities are recorded which reflect management's current judgment of the ultimate outcomes of the proceedings. No provisions are made when, in the opinion of management, the facts and circumstances preclude a reasonable estimate of the outcome.

N. Accounts Receivable Sales Program. NiSource enters into agreements with third parties to sell certain accounts receivable without recourse. These sales are reflected as reductions of accounts receivable in the accompanying Consolidated Balance Sheets and as operating cash flows in the accompanying Statements of Consolidated Cash Flows. The costs of these programs, which are based upon the purchasers' level of investment and borrowing costs, are charged to other income in the accompanying Statements of Consolidated Income.

O. Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

P. Fuel Adjustment Clause. All metered electric rates contain a provision for adjustment to reflect increases and decreases in the cost of fuel and the fuel cost of purchased power through operation of a fuel adjustment clause. As prescribed by order of the IURC applicable to metered retail rates, the adjustment factor has been calculated based on the estimated cost of fuel and the fuel cost of purchased power in a future three-month period. If two statutory requirements relating to expense and return levels are satisfied, any under-recovery or over-recovery caused by variances between estimated and actual costs in a given three-month period are recorded as adjustments to revenue and will be included in a future filing. Northern Indiana records any under-recovery or over-recovery as a current regulatory asset or liability until such time as it is billed or refunded to its customers. The fuel adjustment factor is subject to a quarterly hearing by the IURC and remains in effect for a three-month period.

Q. Gas Cost Adjustment Clause. All of NiSource's Gas Distribution Operations subsidiaries except for Northern Indiana defer most differences between gas purchase costs and the recovery of such costs in revenues, and adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Northern Indiana adjusts its revenues for differences between amounts collected from customers and actual gas costs and adjusts future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

R. Gas Inventory. Both the LIFO inventory methodology and the weighted average methodology are used to value natural gas in storage. The application of different methodologies is due to the acquisition of Bay State. Bay State uses the weighted average cost of gas method, as approved by state regulators, in setting its rates while both Northern Indiana and the Columbia subsidiaries use the LIFO methodology when setting rates in their respective jurisdictions. Inventory valued using LIFO was $445.4 million and $392.4 million at December 31, 2005, and 2004, respectively. Based on the average cost of gas using the LIFO method, the estimated replacement cost of gas in storage at December 31, 2005 and December 31, 2004, exceeded the stated LIFO cost by $922.4 million and $448.1 million, respectively. Inventory valued using the weighted average methodology was $81.5 million at December 31, 2005 and $60.5 million at December 31, 2004.

S. Accounting for Risk Management and Energy Trading Activities. SFAS No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as normal under the provisions of the standard. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation.

NiSource uses a variety of derivative instruments (exchange traded futures and options, physical forwards and options, financial commodity swaps, and interest rate swaps) to effectively manage its commodity price risk and interest rate risk exposure. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For the years ended December 31, 2005, 2004 and 2003 the ineffectiveness on NiSource's hedged instruments was immaterial.

Unrealized and realized gains and losses are recognized each period as components of other comprehensive income, regulatory assets and liabilities or earnings depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to other comprehensive income and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is not expected to occur, the accumulated gains or losses on the derivative are recognized currently in earnings. For fair value hedges, the gains and losses are recorded in earnings each period along with the change in the fair value of the hedged item. As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered in revenues through rates. When gains and losses are recognized in earnings, they are recognized in cost of sales for derivatives that correspond to commodity risk activities and are recognized in interest expense for derivatives that correspond to interest-rate risk activities.

Energy trading activities refers to energy contracts entered into with the objective of generating profits on, or from exposure to, shifts or changes in market prices. NiSource evaluates the contracts of its trading operations in accordance with the criteria for derivative contracts under SFAS No. 133. Trading contracts not meeting the criteria to be accounted for as derivatives under SFAS No. 133 are recorded at fair value under EITF No. 02-03. EITF No. 02-03 indicates that when certain trading criteria are met, energy contracts, including "energy-related contracts" such as tolling, transportation and storage contracts, should be accounted for at fair value (marked to market) along with any related derivative contracts. The resulting gains and losses resulting from marking these contracts to fair value are reported on a net basis and included currently in earnings. Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further information.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

T. Income Taxes and Investment Tax Credits. NiSource records income taxes to recognize full interperiod tax allocations. Under the liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Previously recorded investment tax credits of the regulated subsidiaries were deferred and are being amortized over the life of the related properties to conform to regulatory policy.

To the extent certain deferred income taxes of the regulated companies are recoverable or payable through future rates, regulatory assets and liabilities have been established. Regulatory assets for income taxes are primarily attributable to property related tax timing differences for which deferred taxes had not been provided in the past, when regulators did not recognize such taxes as costs in the rate-making process. Regulatory liabilities for income taxes are primarily attributable to the regulated companies' obligation to credit to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate currently being credited to ratepayers using the average rate assumption method and unamortized deferred investment tax credits.

NiSource files consolidated federal and state income tax returns with certain of its other affiliated companies. NiSource and its subsidiaries are parties to a tax allocation agreement under which the consolidated tax is allocated among the members of the group in proportion to each member's relative contribution to the group's consolidated tax liability. In addition, the separate company tax benefits associated with NiSource's tax losses, excluding tax benefits from interest expense on acquisition debt, are allocated to NiSource's subsidiaries with separate return tax.

U. Environmental Expenditures. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and site-specific costs. The liability is adjusted as further information is discovered or circumstances change. The reserves for estimated environmental expenditures are recorded on the Consolidated Balance Sheets in "Other accruals" for short-term portions of these liabilities and "Other noncurrent liabilities" for the respective long-term portions of these liabilities. Rate-regulated subsidiaries applying SFAS No. 71 establish regulatory assets on the Consolidated Balance Sheets to the extent that future recovery of environmental remediation costs is probable through the regulatory process.

In addition, Northern Indiana received approval from the IURC in 2003 to recover costs associated with environmental compliance-programs for NOx pollution-reduction equipment at Northern Indiana's generating stations. Refer to Note 5, "Regulatory Matters," in the Notes to Consolidated Financial Statements for further information.

V. Stock Options and Awards. SFAS No. 123R requires companies to adopt the fair value method of accounting for stock-based compensation. NiSource will adopt SFAS No. 123R on January 1, 2006, as allowed for and required by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. The fair value method would require the amortization of the fair value of stock-based compensation at the date of grant over the related vesting period. NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans through December 31, 2005. NiSource complies with the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

(in millions, except per share data)	**2005**	2004	2003
Net Income			
As reported	$ **306.5**	$ 436.3	$ 85.2
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**4.5**	5.1	8.3
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	**(10.7)**	(11.5)	(14.7)
Pro forma	$ **300.3**	$ 429.9	$ 78.8
Earnings per share ($)			
Basic - as reported	**1.13**	1.65	0.33
- pro forma	**1.11**	1.63	0.30
Diluted - as reported	**1.12**	1.64	0.33
- pro forma	**1.10**	1.62	0.30

W. Excise Taxes. NiSource accounts for excise taxes that are customer liabilities by separately stating on its invoices the tax to its customers and recording amounts invoiced as liabilities payable to the applicable taxing jurisdiction. These types of taxes, comprised largely of sales taxes collected, are presented on a net basis affecting neither revenues nor cost of sales. NiSource accounts for other taxes for which it is liable by recording a liability for the expected tax with a corresponding charge to "Other taxes" expense.

X. Equity Forward Contracts. NiSource accounted for equity forward contracts on its own common shares as permanent equity consistent with the provisions of EITF No. 00-19. Accordingly, the Corporate PIES and SAILS^{sm} were recorded in equity at fair value at the date of inception through the settlement of the their associated equity forward agreements with changes in fair value not recognized as long as the contracts were classified as equity. Refer to Note 12, "Common Stock," in the Notes to Consolidated Financial Statements for additional information on the Corporate PIES and the SAILS^{sm}.

2. Recent Accounting Pronouncements

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 10, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

SFAS No. 123 (revised 2004) -- Share-Based Payment. In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after December 15, 2005, as directed by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. NiSource will adopt this standard on January 1, 2006, using a modified prospective application as described in the statement. Under this method, NiSource will begin to amortize compensation costs for the remaining portion of the outstanding awards for which the requisite service has not yet been rendered. Compensation costs for these awards will be based on the fair value of those awards as disclosed on a pro-forma basis under SFAS No. 123. NiSource will account for awards that are granted, modified or settled after December 31, 2005 in accordance with SFAS No. 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource expects to recognize an immaterial cumulative effect of change in accounting principle which

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Notes to Consolidated Financial Statements (continued)

reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

Accounting for Uncertain Tax Positions. On July 14, 2005, the FASB issued an Exposure Draft, "Accounting for Uncertain Tax Positions," an interpretation of SFAS No. 109. This proposal seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, the proposal would require that a tax position meet a "probable recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements. The proposal would require recognition in the financial statements of the best estimate of the effects of a tax position only if that position is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of the Exposure Draft to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. The release of a final interpretation is scheduled for March or April of 2006, with an effective date of the first fiscal year beginning after December 15, 2006.

3. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. In connection with the IBM agreement, a total reduction of approximately 1,000 positions is expected through the transition period. Approximately 570 of the impacted employees are expected to become employees of IBM or its subcontractors. As of December 31, 2005, 679 employees were terminated as a result of the agreement with IBM, of which 546 became employees of IBM. In June 2005, NiSource recorded a restructuring charge of $16.4 million for estimated severance payments expected to be made in connection with the IBM agreement. Of the $16.4 million restructuring charge recorded for the second quarter, $11.2 million was recorded by the Gas Distribution Operations segment, $2.7 million was recorded by the Gas Transmission and Storage Operations segment, $1.8 million was recorded by the Electric Operations segment, $0.2 million was recorded by the Other Operations segment and $0.5 million was recorded by Corporate. During the third quarter of 2005, NiSource recognized $18.0 million in restructuring charges for non-cash pension and post-retirement benefit expense related to the severed employees, which is reflected in the liability for postretirement and pension benefits. Of the $18.0 million restructuring charge recorded in the third quarter, $10.6 million was recorded by the Gas Distribution Operations segment, $3.5 million was recorded by the Gas Transmission and Storage Operations segment, $2.0 million was recorded by the Electric Operations segment, $0.5 million was recorded by the Other Operations segment and $1.4 million was recorded by Corporate. During the fourth quarter of 2005, NiSource reduced the reserve by $0.6 million based on actual payments and revised estimates. These restructuring charges are included in "Operation and maintenance" expense on the Statements of Consolidated Income.

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. In part, this reduction will come through anticipated attrition and consolidation of basic positions. NiSource recognized a $2.9 million restructuring charge in the fourth quarter of 2005 for anticipated severance payments expected to be made in connection with this action.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

technical positions were identified for elimination. As of December 31, 2005, approximately 1,565 employees were terminated, of whom 3 employees were terminated during 2005.

Adjustments to the restructuring liability were recorded mainly for reductions in estimated expenses related to previous restructuring initiatives. Of the $10.1 million remaining restructuring liability from the Columbia merger and related initiatives, $9.6 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at Dec. 31, 2004	Additions	Benefits Paid	Adjustments	Balance at Dec. 31, 2005
Outsourcing initiative	$ -	$ 16.4	$ (4.3)	$ (0.6)	$ 11.5
Executive initiative	-	2.9	-	-	2.9
Columbia merger and related initiatives	14.6	-	(3.9)	(0.6)	10.1
Total	$ 14.6	$ 19.3	$ (8.2)	$ (1.2)	$ 24.5

4. Discontinued Operations and Assets Held for Sale

As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the probable settlement of this contingent obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.0 million as of December 31, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

In November 2004, NiSource sold its interest in SunPower Corporation for the purchaser's common shares valued at approximately $5.2 million at the time of sale. In the fourth quarter 2004, NiSource had an after-tax gain of $2.0 million related to this sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.0 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

On November 26, 2003, NiSource sold its interest in Midtex Gas Storage Company, LLP for approximately $15.8 million and the assumption, by the buyer, of $1.7 million in debt. In the fourth quarter of 2003, NiSource recognized an after-tax gain of $4.4 million related to this sale which is included in "Impairment and loss (gain) on sale of assets" on the Statements of Consolidated Income.

On October 20, 2003, NiSource sold all of the steel-related, "inside-the-fence" assets of its subsidiary, PEI, to Private Power. The sale included six PEI operating subsidiaries and the name "Primary Energy". Private Power paid approximately $325.4 million, comprised of $113.1 million in cash and the assumption of debt-related liabilities and other obligations. The assumption of such liabilities and the after-tax cash proceeds from the sale reduced NiSource's debt by $273.6 million, of which $67.3 million was off balance sheet. NiSource has accounted for the assets sold as discontinued operations and has adjusted all periods presented accordingly.

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Notes to Consolidated Financial Statements (continued)

On September 30, 2003, NiSource sold Columbia Service Partners, a subsidiary of Columbia for approximately $22.5 million. In 2003, NiSource recognized a pre-tax gain of $16.6 million related to the sale. Columbia Service Partners had been reported as assets held for sale.

On August 29, 2003, NiSource sold its exploration and production subsidiary, CER, to a subsidiary of Triana. Under the CER sales agreement, Triana, an affiliate of MSCP, purchased all of the stock of CER for $330 million, plus the assumption of obligations to deliver approximately 94.0 Bcf of natural gas pursuant to existing forward sales contracts. The sale transferred 1.1 trillion cubic feet of natural gas reserves. Approximately $220 million of after-tax cash proceeds from the sale were used to reduce NiSource's debt. In addition, a $213 million liability related to the forward sales contracts was removed from the Consolidated Balance Sheets. On January 28, 2003, NiSource's former subsidiary CNR sold its interest in certain natural gas exploration and production assets in New York for approximately $95 million. NiSource has accounted for CER as discontinued operations and has adjusted all periods presented accordingly. During 2004, NiSource realized after-tax net income due primarily to tax adjustments, while an after-tax loss of $301.2 million related to the sale of CER was recorded in 2003.

Results from discontinued operations of CER (including the New York State properties), the six PEI subsidiaries, Transcom, Lake Erie Land and the water utilities are provided in the following table:

Twelve months ended December 31, *(in millions)*	**2005**	2004	2003
Revenues from Discontinued Operations	**$ 5.1**	$ 4.7	$ 159.2
Income (Loss) from discontinued operations	**(31.2)**	(11.8)	0.1
Income tax (benefit) expense	**(10.9)**	(17.1)	1.8
Net Income (Loss) from Discontinued Operations	**$ (20.3)**	$ 5.3	$ (1.7)

The loss from discontinued operations for 2005 included changes to reserves for contingencies primarily related to CER and an impairment of assets related to Transcom.

The assets of discontinued operations and assets held for sale were net property, plant, and equipment of $34.6 million and $38.6 million at December 31, 2005 and December 31, 2004, respectively.

5. Regulatory Matters

Gas Distribution Operations Related Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of December 2005, approximately 668 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The renewed program provides residential and small commercial customers the option to choose their natural gas supplier while avoiding the stranded costs to Columbia of Kentucky that would have resulted under the previous pilot. In addition, Columbia of Kentucky received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. As of December 31, 2005, Columbia of Ohio has $37.7 million of uncollected accounts receivable pending future recovery. On June 1, 2005, the PUCO approved Columbia of Ohio's application to decrease its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements

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of $26.3 million for the period ended March 31, 2006, reflecting a reduction of $11.4 million of uncollected accounts receivable pending future recovery.

On December 2, 2004, Columbia of Ohio filed two applications with the OPSB, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On August 3, 2005, the OPSB approved Columbia of Ohio's construction of the Northern Columbus Loop Natural Gas Pipeline project. Phase V of the project has been completed and the project is expected to be completed in the second quarter 2006.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during each succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the forty-five day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf, to be effective with bills rendered on and after March 2, 2006.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State's request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to delay the filing of schedules in the Investigation until May 1, 2006.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC issued their final Order on August 24, 2005 permitting Northern Indiana full recovery of its gas costs and affirming its position on the regulatory pricing of gas in storage as decided in Northern Indiana's GCA5.

Northern Indiana's GCA7 annual demand cost recovery filing, covering the period November 1, 2005 through October 31, 2006 was made on August 29, 2005. The IURC approved the rates on an interim basis subject to refund on November 22, 2005. A final order approving this filing is expected in the second quarter of 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

Northern Indiana filed for an energy assistance program "Winter Warmth" in the fourth quarter of 2004, that provided customers $6.2 million for deposits and bill assistance targeted to low income and hardship customers. Northern Indiana contributed $0.7 million, and $5.5 million was collected from ratepayers through a volumetric surcharge. The one-year pilot program, for calendar year 2005, was approved by the IURC in the fourth quarter of 2004.

Northern Indiana filed, on October 3, 2005, to extend the Winter Warmth program to cover calendar year 2006 and expand funding to $7.9 million. The IURC issued an interim order on December 9, 2005 extending the 2005 program through January 31, 2006. On January 31, 2006, the IURC issued a final order approving the expanded program for the period February 1, 2006 through December 31, 2006. The total funding for 2006 will be $7.8 million, based upon the final order. Northern Indiana will contribute $1.0 million of the total funding.

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $58.5 million, $56.4 million and $52.0 million were recognized for electric customers for 2005, 2004 and 2003, respectively.

In December 1999, the FERC issued Order 2000, a final rule addressing the formation and operation of Regional Transmission Organizations. The rule was intended to eliminate pricing inequities in the provisioning of wholesale transmission service. Northern Indiana transferred functional control of its electric transmission assets to MISO on October 1, 2003. Transmission service for Northern Indiana occurs under the MISO Open Access Transmission Tariff, as the Northern Indiana Open Access Transmission Tariff was retired.

The MISO is a nonprofit organization created in compliance with FERC, to improve the flow of electricity in the regional marketplace and to enhance electric reliability. Under "Day 1", the MISO provides transmission service as described above. Under "Day 2" the MISO dispatches wholesale electricity and transmission service throughout much of the Midwest territory. Its responsibilities include managing the energy markets, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. These particular charges, which amounted to $8.7 million in 2005, were included as recoverable in Northern Indiana's FAC-69 filing, but, pending a clarifying order from the IURC, Northern Indiana has provided a reserve for the full amount. In January 2006, the IURC approved Northern Indiana's FAC-69 filing, but noted that this particular category of charges was approved "subject to refund" and subject to the final order. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness of the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The Day 2 non-fuel category includes $5.4 million in costs recorded as non-recoverable in net revenues. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $5.1 million for 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding. As part of the established settlements process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana is evaluating the appropriate course of action for the Mitchell facility in light of the City of Gary's need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December, 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 as described below.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing and final order are expected in the second quarter of 2006.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. On

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June 15, 2005, Northern Indiana filed testimony and exhibits establishing a new basis for the cap. Northern Indiana received approval from the IURC of its request on July 20, 2005.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges that Northern Indiana believes to be fuel related. The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above). The recovery of certain MISO charges, considered by Northern Indiana to be fuel related, is subject to refund based upon the outcome of cause 42962 (described above).

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $27.7 million for the twelve months ended December 31, 2005, and $51.7 million from inception to date, while EERM revenues were $7.6 million for 2005 and $8.8 million from inception to date. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004. The IURC approved ECR-5 and EER-2 on March 23, 2005. ECR-6 was filed in August 2005 for capital expenditures (net of accumulated depreciation) of $232.7 million and was approved by the IURC on October 26, 2005, with slight modifications. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. On June 15, 2005, Northern Indiana filed a Motion to Stay with the Indiana Court of Appeals requesting a stay of the portions of the order that require Northern Indiana to pay $2.5 million to Jupiter and install a backup line to serve Jupiter. On July 13, 2005, Northern Indiana's Motion to Stay the IURC's April 13, 2005 ruling was denied. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans recently announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings and for a temporary stay of the appeal during the remand. The purpose for the remand would be to permit the IURC to address the sufficiency of the remedy provided for in the order under review. On January 10, 2006, Northern Indiana filed with the Indiana Court of Appeals a response in opposition to the verified motion for remand filed by Jupiter.

6. Risk Management and Energy Trading Activities

NiSource uses derivative financial instruments to manage certain risks in its business including commodity price risk. NiSource accounts for its derivatives under SFAS No. 133. Refer to Note 1-S, "Accounting for Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for additional information.

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Hedging Activities. Many of the risk management programs in use by NiSource's operating companies qualify for hedge accounting. The cash flow hedge activity affecting other comprehensive income for the years 2005 and 2004 was as follows:

(in millions, net of tax)	**2005**	2004
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	$ **93.7**	$ 91.5
Unrealized hedging gains arising during the period on derivatives qualifying as cash flow hedges	**115.5**	44.7
Reclassification adjustment for net gain included in net income	**(58.5)**	(42.5)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	$ **150.7**	$ 93.7

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $338.1 million and $200.0 million at December 31, 2005 and 2004, respectively, of which $152.6 million and $51.7 million were included in "Current Assets", $185.5 million and $148.3 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $85.6 million and $26.7 million at December 31, 2005 and 2004, respectively, of which $63.4 million and $21.3 million were included in "Current Liabilities", $22.2 million and $5.4 million were included in "Other Liabilities and Deferred Credits."

During 2005 and 2004, a gain of $0.4 million and $0.1 million, net-of-taxes respectively, was recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During 2005 and 2004, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $60.1 million, net-of-taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky and Columbia of Maryland use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $35.7 million and $0.6 million of price risk management assets associated with these programs at December 31, 2005 and December 31, 2004, respectively. In addition, the Consolidated Balance Sheets reflected zero and $9.2 million of price risk management liabilities associated with these programs at December 31, 2005 and December 31, 2004, respectively.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. The Consolidated Balance Sheets reflected $1.8 million and zero of price risk management assets and $2.5 million and $5.3 million of price risk management liabilities associated with these programs at December 31, 2005 and December 31, 2004, respectively.

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Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases fixed priced gas and the option to call on additional volumes that match the anticipated delivery needs of the program and currently uses NYMEX futures and options contracts for these hedge transactions. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected $1.6 million and zero of price risk management assets and zero and $0.8 million of price risk management liabilities at December 31, 2005 and December 31, 2004, respectively, associated with the DependaBill program.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect the company against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. The Consolidated Balance Sheets reflected $2.2 million of price risk management assets and $0.4 million of price risk management liabilities at December 31, 2005.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counter parties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $8.5 million and $4.6 million of price risk management liabilities associated with the programs at December 31, 2005 and December 31, 2004, respectively.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases. The Consolidated Balance Sheets reflected $266.7 million and $159.6 million of price risk management assets associated with this program at December 31, 2005 and December 31, 2004, respectively.

Interest Rate Risk Activities. Contemporaneously with the pricing of the 5.25% and 5.45% notes issued September 16, 2005, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized as an increase to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% respectively.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

On April 11, 2003, Columbia entered into fixed-to-variable interest rate swap agreements in a notional amount of $100 million with two counterparties. Columbia received payments based upon a fixed 7.42% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 2.39% per annum. There was no exchange of premium at the initial date of the swaps. These interest rate swap agreements were terminated on May 12, 2004.

On April 4, 2003, Columbia terminated a fixed-to-variable interest rate swap agreement containing a notional amount of $100 million. Columbia received a settlement payment from the counterparty amounting to $8.2 million, which will be amortized as a reduction to interest expense over the remaining term of the underlying debt.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. As of December 31, 2005, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy, which may not qualify for hedge treatment as determined by SFAS No. 133.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges. The Consolidated Balance Sheets reflected $68.0 million and $10.5 million of price risk management assets and $70.9 million and $18.3 million of price risk management liabilities associated with this program at December 31, 2005 and December 31, 2004, respectively.

The fair market values of NiSource's power trading assets and liabilities were zero at December 31, 2005 and $8.8 million and $11.9 million, respectively, at December 31, 2004.

7. Equity Investment Subsidiaries

Certain investments of NiSource are accounted for under the equity method of accounting. Income and losses are reflected in other revenues on NiSource's Statements of Consolidated Income. All investments shown as limited partnerships are limited partnership interests.

Although Columbia has a temporary ownership interest in excess of 50% of Millennium, it does not exert control over the partnership and therefore did not consolidate the Millennium project entities. The current Millennium partnership includes Columbia Transmission (47.5%), DTE Millennium (owned by DTE Energy Co.) (10.5%), KeySpan Millennium (owned by KeySpan Corp.) (21.0%), and Columbia Atlantic Trading (21.0%), and Columbia Transmission will be the operator. At the time Columbia purchased the Columbia Atlantic Trading interest in 2004, it was with the intent to redistribute that interest to either a future customer of Millennium or the other partners. In late 2004, the other partners expressed an interest in purchasing the Columbia Atlantic Trading interest and an MOU was completed on August 22, 2005, which set forth the equity redistribution from Columbia Atlantic Trading to

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DTE and KeySpan. After completion of this transaction, Columbia's ownership will be at 47.5% and the ownership interests of KeySpan and DTE will be 26.25% each.

The following is a list of NiSource's equity investments at December 31, 2005:

Investee	Type of Investment	% of Voting Power or Interest Held
Chicago South Shore & South Bend Railroad Co.	General Partnership	40.0
EnerTek Partners, LP	Limited Partnership	16.5
House Investments - Midwest Corporate Tax Credit Fund, L.P.	Limited Partnership	12.2
Illinois Indiana Development Company, L.L.C.	LLC Membership	40.0
Millennium Pipeline Company, L.P.	Limited Partnership	68.5
Millennium Pipeline Management Company, L.L.C.	LLC Membership	68.5
Nth Power Technologies Fund II, L.P.	Limited Partnership	4.1
Nth Power Technologies Fund II-A, L.P.	Limited Partnership	5.4
The Wellingshire Joint Venture	General Partnership	50.0
Utech Climate Challenge Fund, L.P.	Limited Partnership	17.9
Hardy Storage Company, L.L.C.	LLC Membership	50.0

8. Goodwill and Other Intangible Assets

NiSource's goodwill of $3,677.3 and $3,687.2 million at December 31, 2005 and 2004, respectively, pertains primarily to the acquisition of Columbia on November 1, 2000. NiSource has aggregated the subsidiaries related to the acquisition of Columbia into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment, for the purpose of testing goodwill for impairment. NiSource performs its annual impairment test of goodwill every June 30.

In the quarter ended June 30, 2005, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as an "Impairment and loss (gain) on sale of assets" on the Statements of Consolidated Income. Factors contributing to this charge were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

Intangible assets apart from goodwill, consisting of franchise rights, were identified as part of the purchase price allocations associated with the acquisitions of Bay State, Northern Utilities, which is a subsidiary of Bay State, and Granite, all of which are wholly owned subsidiaries of NiSource. These amounts were $449.3 million and $462.9 million, net of amortization of $96.1 million and $82.5 million, at December 31, 2005, and 2004, respectively, and are being amortized over forty years from the date of acquisition. NiSource had approximately $46.5 million and $57.4 million of other intangible assets recorded at December 31, 2005 and 2004, respectively, which reflected the additional minimum liability associated with the unrecognized service cost of the pension plans pursuant to SFAS No. 87. In the fourth quarter 2005, Bay State tested for impairment its intangible assets associated with its rate case proceedings and found that no impairment existed. The intangible assets at December 31, 2005 associated with Bay State were $447.6 million.

9. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain

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retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource. The expected cost of such benefits is accrued during the employees' years of service. Current rates of rate-regulated companies include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. For most plans, cash contributions are remitted to grantor trusts. NiSource uses September 30 as its measurement date for its pension and postretirement benefit plans.

NiSource employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and asset class volatility. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, small and large capitalizations. Other assets such as private equity and hedge funds are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying assets. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The most important component of an investment strategy is the portfolio asset mix, or the allocation between the various classes of securities available to the pension plan for investment purposes. The asset mix and acceptable minimum and maximum ranges established represents a long-term view and are as follows:

Asset Mix Policy of Total Fund:

Asset Category	Minimum	Maximum
Domestic Equities	40%	60%
International Equities	10%	20%
Fixed Income	15%	45%
Real Estate/Alternative Investments	0%	10%
Short-Term Investments	0%	10%

Pension Plan and Postretirement Plan Asset Mix at September 30, 2005:

(in millions)	Defined Benefit Pension Assets	9/30/2005	Post Retirement Welfare Plan Assets	9/30/2005
Asset Class	**Asset Value**	**% of Total Assets**	**Asset Value**	**% of Total Assets**
Domestic Equities	$ 1,002.4	49.4%	$ 123.3	55.5%
International Equities	353.7	17.5%	41.8	18.8%
Fixed Income	564.4	27.8%	54.5	24.5%
Alternative Investments	105.4	5.2%	-	0.0%
Cash/Other	2.2	0.1%	2.7	1.2%
Total	**$ 2,028.1**	100.0%	**$ 222.3**	100.0%

NiSource employs a building block approach with proper consideration of diversification and rebalancing in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are analyzed to ensure that they are consistent with the widely accepted capital market principle that assets with higher volatility generate greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

NiSource pension fund assets earned a return of 14.7% for the plan year ended September 30, 2005 and 12.8% for the plan year ended September 30, 2004. However, the discount rate used to measure the accumulated benefit obligation has decreased over the past two years, which slightly offset the fair-value increase in the pension assets. In accordance with SFAS No. 87, NiSource adjusted its minimum pension liability at September 30, 2005 and 2004. At September 30, 2005, NiSource increased the pension liability by approximately $27 million due to a reduction in the discount rate from 6.0% to 5.5% used to determine the pension benefit obligation. NiSource expects pension expense for 2006 to decrease approximately $15.7 million and other post-retirement benefits expense to decrease approximately $4.4 million from the amounts recognized in 2005 due to the return on plan assets experienced, changes in the various benefit plans and a reduction in employees. In addition, NiSource expects to make contributions of approximately $7.1 million to its pension plans and approximately $54.2 million to its postretirement medical and life plans in 2006.

During the third quarter of 2005 NiSource recognized a $16.2 million curtailment for pension and other postretirement benefits and a $2.2 million cost for special termination benefits in connection with business processes outsourced under the IBM agreement. Of this amount, approximately $0.4 million was recorded as a regulatory asset per SFAS No. 71 and $18.0 million was charged to restructuring expense.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The following tables provide a reconciliation of the plans' funded status and amounts reflected in NiSource's Consolidated Balance Sheets at December 31 based on a September 30 measurement date:

	Pension Benefits		Other Benefits	
(in millions)	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation at beginning of year	$ 2,215.0	$ 2,113.6	$ 720.1	$ 659.0
Service cost	42.7	39.4	9.4	8.6
Interest cost	126.2	127.0	41.2	39.1
Plan participants' contributions	-	-	3.6	2.7
Plan amendments	(26.0)	13.1	(4.5)	(13.7)
Settlement loss	0.1	0.2	-	-
Actuarial loss	159.9	83.6	43.3	70.4
Settlement payments	(1.3)	-	-	-
Curtailment gain	(18.4)	-	(2.7)	-
Special termination benefits	2.2	-	-	-
Benefits paid	(149.6)	(161.9)	(49.8)	(46.0)
Benefit obligation at end of year	$ 2,350.8	$ 2,215.0	$ 760.6	$ 720.1
Change in plan assets				
Fair value of plan assets at beginning of year	$ 1,910.6	$ 1,829.5	$ 191.6	$ 168.1
Actual return on plan assets	265.6	224.8	26.6	18.0
Employer contributions	2.9	18.2	50.3	48.8
Plan participants' contributions	-	-	3.6	2.7
Settlement payments	(1.3)	-	-	-
Benefits paid	(149.7)	(161.9)	(49.8)	(46.0)
Fair value of plan assets at end of year	$ 2,028.1	$ 1,910.6	$ 222.3	$ 191.6
Funded status	$ (322.7)	$ (304.4)	$ (538.3)	$ (528.5)
Contributions made after measurement date and before fiscal year end	0.7	0.7	12.3	11.7
Unrecognized actuarial loss	438.2	415.3	147.2	121.3
Unrecognized prior service cost	23.5	65.2	8.7	12.9
Unrecognized transition obligation	-	-	57.2	78.6
Net amount recognized at end of year	$ 139.7	$ 176.8	$ (312.9)	$ (304.0)
Amounts recognized in the statement of financial position consist of:				
Prepaid Benefit Cost	$ 16.4	$ 22.6		
Accrued benefit liability	(203.7)	(147.6)		
Intangible asset	46.5	57.0		
Accumulated other comprehensive income, pre-tax	280.5	244.8		
Net amount recognized at end of year	$ 139.7	$ 176.8		
Other comprehensive income (loss), pre-tax, attributable to change in additional minimum liability recognition	$ 35.7	$ (7.2)		

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The following table provides the key assumptions that were used to calculate the pension and other postretirement benefits obligations for NiSource's various plans. The medical cost trend for 2005 and 2004 was calculated based on a cost trend starting at 9.0% and decreasing over a few years to the 5.0% as listed here.

	Pension Benefits		Other Benefits	
	2005	2004	**2005**	2004
Weighted-average assumptions as of September 30,				
Discount rate assumption	**5.5%**	6.0%	**5.5%**	6.0%
Compensation growth rate assumption	**4.0%**	4.0%	**-**	-
Medical cost trend assumption	**-**	-	**5.0%**	5.0%
Assets earnings rate assumption	**9.0%**	9.0%	**8.8%**	8.8%

The following table provides benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits are estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and includes benefits attributable to the estimated future service of employees.

(in millions)	Pension Benefits	Other Post-retirement Benefits	Federal Subsidy (Receipts)
Year(s)			
2006	$ 144.2	$ 52.7	$ (0.8)
2007	145.5	55.6	(1.1)
2008	152.9	57.8	(1.3)
2009	160.4	60.3	(1.5)
2010	168.3	62.4	(1.8)
2011-2015	975.6	310.9	(12.1)

The following table provides the components of the plans' net periodic benefits cost for each of the three years:

	Pension Benefits			Other Benefits		
(in millions)	**2005**	2004	2003	**2005**	2004	2003
Net periodic cost						
Service cost	**$ 42.7**	$ 39.4	$ 35.1	**$ 9.4**	$ 8.6	$ 7.2
Interest cost	**126.2**	127.0	131.0	**41.2**	39.1	36.5
Expected return on assets	**(166.0)**	(157.3)	(141.7)	**(16.2)**	(14.0)	(10.2)
Amortization of transitional obligation	**-**	-	5.5	**9.4**	11.5	11.6
Amortization of prior service cost	**10.3**	9.4	8.3	**0.8**	0.8	0.1
Recognized actuarial (gain) loss	**18.9**	18.1	25.7	**4.5**	2.2	(3.5)
Curtailment loss	**5.4**	-	-	**10.7**	-	-
Special termination benefits	**2.2**	-	-	**-**	-	-
Settlement loss	**0.3**	0.2	-	**-**	-	-
Net Periodic Benefits Cost	**$ 40.0**	$ 36.8	$ 63.9	**$ 59.8**	$ 48.2	$ 41.7

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(in millions)	1% point increase	1% point decrease
Effect on service and interest components of net periodic cost	$ 3.8	$ (3.5)
Effect on accumulated postretirement benefit obligation	52.6	(48.7)

10. *Asset Retirement Obligations*

NiSource has accounted for retirement obligations on its assets since January 1, 2003 with the adoption of SFAS No. 143. In the fourth quarter 2005, NiSource adopted the provisions of FIN 47, which broadened the scope of SFAS No. 143 to include contingent asset retirement obligations and it also provided additional guidance for the measurement of the asset retirement liabilities. This accounting standard and the related interpretation requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71 for those amounts it has collected in rates or expects to collect in future rates.

Changes in NiSource's liability for asset retirement obligations for the years 2005 and 2004 are presented in the table below:

(in millions)	**2005**	2004
Beginning Balance	**$ 9.3**	$ 11.2
Additions	**110.0**	0.5
Settlements	**-**	(2.9)
Accretion	**0.5**	0.5
Ending Balance	**$ 119.8**	$ 9.3

NiSource adopted the provisions of FIN 47 on December 31, 2005, and as a result, an additional asset retirement obligation liability of $110.0 million and a cumulative loss due to a change in accounting principle of $0.3 million was recognized. NiSource also capitalized $30.1 million in additions to plant assets, net of accumulated amortization, and increased regulatory assets and decreased regulatory liabilities for costs of removal amounting to $24.3 million and $55.1 million, respectively. NiSource believes that the amounts recognized as regulatory assets will be recoverable in future rates. Had NiSource included these asset retirement obligations on its balance sheet prior to adopting FIN 47, the additional reported asset retirement obligation liability would have been approximately $113 million and $108 million at December 31, 2004 and January 1, 2004, respectively.

As a result of adopting FIN 47, NiSource has recognized asset retirement obligations associated with various obligations including costs to remove and dispose of certain construction materials located within many of NiSource's facilities, certain costs to retire pipeline, removal costs for certain underground storage tanks, removal of certain pipelines known to contain a high level of PCB contamination and closure costs for certain sites including ash ponds, solid waste management units and a landfill, as well as some other nominal asset retirement obligations. NiSource recognizes that there are obligations to incur significant costs to retire wells associated with gas storage operations, however, these assets are land assets with indeterminable lives. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. However, these assets have an indeterminate life and no asset retirement obligation has been recorded.

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

depreciation and amortization was approximately $1.1 billion at December 31, 2005 and 2004 based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 31, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the twelve months ended December 31, 2005, and December 31, 2004, NiSource recognized accretion expense of $0.3 million and $0.3 million, respectively. The asset retirement obligations liability totaled $119.8 million and $9.3 million at December 31, 2005 and December 31, 2004, respectively. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

11. Authorized Classes of Cumulative Preferred and Preference Stocks

NiSource has 20,000,000 authorized shares of Preferred with a $0.01 par value, of which 4,000,000 shares are designated Series A Junior Participating Preferred Shares and are reserved for issuance pursuant to the Share Purchase Rights Plan described in Note 12-C, "Shareholder Rights Plan," in the Notes to Consolidated Financial Statements.

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: 2,400,000 shares of Cumulative Preferred with a $100 par value; 3,000,000 shares of Cumulative Preferred with no par value; 2,000,000 shares of Cumulative Preference with a $50 par value (none outstanding); and 3,000,000 shares of Cumulative Preference with no par value (none outstanding).

The preferred stockholders of Northern Indiana have no voting rights, except in the event of default on the payment of four consecutive quarterly dividends, or as required by Indiana law to authorize additional preferred shares, or by the Articles of Incorporation in the event of certain merger transactions.

The redemption prices at December 31, 2005, for the cumulative preferred stock, which is redeemable solely at the option of Northern Indiana, in whole or in part, at any time upon thirty days' notice, were as follows:

	Series	Redemption Price per Share
Northern Indiana Public Service Company:		
Cumulative preferred stock - $100 par value -	4-1/4%	$ 101.20
	4-1/2%	$ 100.00
	4.22%	$ 101.60
	4.88%	$ 102.00
	7.44%	$ 101.00
	7.50%	$ 101.00
Cumulative preferred stock - no par value adjustable rate (6.00% at December 31, 2005), Series A (stated value $50 per share)		$ 50.00

12. Common Stock

As of December 31, 2005, NiSource had 400,000,000 authorized shares of common stock with a $0.01 par value.

A. SAILS^sm Remarketing. On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^sm. NiSource received approximately $144.4 million in satisfaction of the SAILS^sm holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the other component of the SAILS^sm was reset to 3.628% per annum. The debentures mature November 1, 2006.

B. Corporate PIES Remarketing. In February 2003, NiSource issued approximately 13.1 million shares of common stock associated with the settlement of forward equity agreements comprising a component of the Corporate PIES. Concurrently with the settlement of the forward agreements, NiSource remarketed the underlying debentures, due February 19, 2005, and reset the interest rate to 4.25%. NiSource received net proceeds of $344.1 million from the remarketing in satisfaction of the Corporate PIES holders' obligation under the forward equity agreements. As a result of the transaction, the underlying subsidiary trust was dissolved.

C. Shareholder Rights Plan. NiSource's Board has adopted a Shareholder Rights Plan, pursuant to which one right accompanies each share of common stock. Each right, when exercisable, would initially entitle the holder to purchase from NiSource one one-hundredth of a share of Series A Junior Participating Preferred Stock, with $0.01 par value, at a price of $60 per one one-hundredth of a share. In certain circumstances, if an acquirer obtained 25% of NiSource's outstanding shares, or merged into NiSource or merged NiSource into the acquirer, the rights would entitle the holders to purchase NiSource's or the acquirer's common shares for one-half of the market price. The rights will not dilute NiSource's common stock nor affect earnings per share unless they become exercisable for common stock. The plan was not adopted in response to any specific attempt to acquire control of NiSource. The rights are not currently exercisable.

D. Northern Indiana Dividend Restriction. So long as any shares of Northern Indiana's cumulative preferred stock are outstanding, no cash dividends shall be paid or declared on its common stock in excess of 75% of the net income available for the preceding calendar year, unless the aggregate of the capital applicable to stocks subordinate as to assets and dividends to the cumulative preferred stock plus the surplus, after giving effect to such common stock dividends, would equal or exceed 25% of the sum of all obligations evidenced by bonds, notes, debentures or other securities, plus the total capital and surplus. At December 31, 2005, the sum of the capital applicable to stocks subordinate to the cumulative preferred stock plus the surplus was equal to 55% of the total capitalization including surplus.

E. Common Stock Dividend. Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by the Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. Beginning with the November 2003 dividend, NiSource reduced its annual dividend to $0.92 per share from $1.16 per share. NiSource paid quarterly common dividends totaling $0.92 per share for the 2005 year. At its January 6, 2006 meeting, the Board declared a quarterly common dividend of $0.23 per share, payable on February 20, 2006 to holders of record on January 31, 2006.

13. Long-Term Incentive Plans

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Under the plan, each option has a maximum term of ten years from the date of grant. NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Stock appreciation rights may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof. In addition, NiSource currently has non-qualified option grants outstanding and vested which were granted under a 1988 long-term incentive plan.

At the annual meeting of stockholders held on May 10, 2005, the company's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At December 31, 2005, there were 25,470,023 shares reserved for future awards under the amended and restated 1994 Plan.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 451,563 restricted shares outstanding at December 31, 2005, which were not a part of the time accelerated restricted stock award plan described below.

In January 2003 and 2004, NiSource awarded restricted shares and restricted stock units that contain provisions for time accelerated vesting to key executives. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At December 31, 2005, NiSource had 1,152,169 awards outstanding which contain the time accelerated provisions. The total shareholder return measures established for the awards granted in 2003 and 2004 were not met as of December 31, 2005, and those grants will not have an accelerated vesting period.

For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of December 31, 2005, 89,860 restricted shares and 91,263 restricted stock units had been issued under the Plan.

The long-term incentive plans have been accounted for using the intrinsic value method under APB No. 25 through December 31, 2005. The compensation cost that was charged against operating income for share-based awards was $6.8 million, $8.0 million and $12.9 million for years ended December 31, 2005, 2004 and 2003, respectively. Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Stock option transactions for the three years ended December 31, 2005, were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2003	6,964,753	22.62
Granted	2,464,996	19.79
Exercised	(544,327)	17.44
Cancelled	(728,726)	23.19
Outstanding at December 31, 2003	8,156,696	22.03
Granted	2,168,200	21.84
Exercised	(817,017)	18.88
Cancelled	(346,844)	24.17
Outstanding at December 31, 2004	9,161,035	22.18
Granted	2,908,378	22.62
Exercised	(1,897,206)	20.32
Cancelled	(223,824)	25.33
Outstanding at December 31, 2005	**9,948,383**	**22.59**
Exercisable at December 31, 2005	**7,040,005**	**22.58**
Exercisable at December 31, 2004	7,043,835	22.29
Exercisable at December 31, 2003	5,856,044	22.91

The following table summarizes information on stock options outstanding and exercisable at December 31, 2005:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,497,993	19.56	6.0	1,497,993	19.56
20.46 - 23.38	6,110,989	22.09	7.4	3,202,611	21.61
23.39 - 26.30	1,958,151	25.19	4.3	1,958,151	25.19
26.31 - 29.22	381,250	29.22	2.2	381,250	29.22
	9,948,383	22.59	6.4	7,040,005	22.58

There were no stock appreciation rights outstanding at December 31, 2005, 2004 or 2003.

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of options granted was $3.34, $4.77 and $3.44 during the years 2005, 2004 and 2003, respectively. The following assumptions were used for grants in 2005, 2004 and 2003:

	2005	2004	2003
Expected Life (yrs.)	**4.2**	4.8	5.9
Interest Rate	**3.5-3.6%**	3.1-3.3%	3.2-3.3%
Volatility	**22.6%**	33.3%	31.2%

14. Short-Term Borrowings

On November 30, 2005, NiSource Finance entered into a new $300 million 9-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC. During March 2005, NiSource Finance obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007. As of December 31, 2005, NiSource had $25.5 million of stand-by letters of credit outstanding under the five-year revolving credit facility.

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Short-term borrowings were as follows:

At December 31, *(in millions)*		2005		2004
Credit facility borrowings weighted average interest rate of 4.95% and 3.04% at December 31, 2005 and 2004, respectively		**898.0**		307.6
Total short-term borrowings	**$**	**898.0**	$	307.6

The year over year increase in short-term borrowings reflects a combination of factors. First, the short-term debt balances at December 31, 2004 were unusually low as a result of financing activities in November 2004. NiSource issued a $450 million floating rate note in the fourth quarter of 2004 and used the proceeds to redeem $250 million floating rate notes due in May 2005. The remaining $200 million was used to repay a portion of NiSource's short-term borrowings. Also in the fourth quarter of 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{sm}. NiSource received approximately $144.4 million in satisfaction of the SAILS^{sm} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Second, an increase in the price of natural gas resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable.

15. Long-Term Debt

NiSource Finance is a wholly-owned, consolidated finance subsidiary of NiSource that engages in financing activities to raise funds for the business operations of NiSource and its subsidiaries. NiSource Finance was incorporated in February 2000 under the laws of the state of Indiana. NiSource Finance's obligations are fully and unconditionally guaranteed by NiSource.

On November 29, 2005, Columbia redeemed $1.1 billion of its senior unsecured notes that became callable on November 28, 2005 having an average interest rate of 7.34%. On November 28, 2005, Columbia redeemed $281.5 million of its senior unsecured notes with an average interest rate of 6.80%. The associated charges included an $86 million non-cash charge relating to the write-off of the unamortized portion of a fair market value adjustment made at the time of the NiSource Columbia merger, an $8 million non-cash charge associated with the unamortized portion of swap termination charges, and a $14 million cash charge for call premiums, all of which were charged to loss on early extinguishment of long-term debt.

On November 28, 2005, NiSource Finance issued, in the private placement market, $900 million in unregistered senior unsecured notes in four tranches: $315 million of 7-year notes at a coupon rate of 5.21%; $230 million of 10-year notes at a coupon rate of 5.36%; $90 million of 11-year notes at a coupon rate of 5.41%; and $265 million of 20-year notes at a coupon rate of 5.89%. The proceeds, along with other funding sources, were used to refinance the above mentioned Columbia senior unsecured notes.

On September 16, 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds were used in part to redeem $900 million of NiSource Finance notes due November 15, 2005. Contemporaneously with the pricing of the 5.25% and 5.45% notes, NiSource Finance settled $900 million of forward starting swaps resulting in a $35.5 million payment to NiSource's swap counterparties. The swap termination payments are being amortized over the life of the new debt issues, resulting in an effective interest rate of 5.67% and 5.88% respectively.

In November 2004, NiSource Finance issued $450 million of floating rate notes that will mature on November 23, 2009, and are callable on or after November 23, 2006. The notes will bear interest at 3-month LIBOR plus a spread of 57 basis points, reset quarterly. NiSource Finance used $250 million of the proceeds to fund the early redemption of floating rate notes during December 2004 that would have become due in May 2005. The remaining $200 million in proceeds was used to repay a portion of the company's short-term debt.

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Notes to Consolidated Financial Statements (continued)

In October 2004, NiSource remarketed $80.6 million of the senior debentures included in its SAILS[sm]. Interest on these debentures and the remaining $63.8 million of SAILS[sm] debentures that were not remarketed is fixed at 3.628% per annum. These debentures are due November 1, 2006. The SAILS[sm] were issued as a portion of the consideration payable in the acquisition of Columbia as one unit consisting of two separate instruments: a debenture with a stated amount of $2.60 and a purchase contract requiring the holder to purchase for $2.60 cash, a fractional number of shares of NiSource common stock based on a settlement rate indexed to the market price of NiSource common stock. The debentures, which had a maturity date of November 1, 2006, were originally pledged to secure the holders' obligation to purchase common stock under the purchase contract.

Following are the outstanding long-term debt sinking fund requirements and maturities at December 31, 2005. The long-term debt maturities shown below include capital lease obligations but exclude the debt of certain low-income housing real estate investments, as NiSource does not guarantee the long-term debt payment of these entities. Under the provisions of FIN No. 46R, the low-income housing real estate investments were required to be consolidated beginning in the first quarter of 2004.

Year Ending December 31, *(in millions)*	
2006	$ 440.0
2007	91.2
2008	36.0
2009	468.5
2010	1,015.3
After	3,651.5
Total	5,702.5

Unamortized debt expense, premium and discount on long-term debt applicable to outstanding bonds are being amortized over the lives of such bonds. Reacquisition premiums have been deferred and are being amortized. These premiums are not earning a return during the recovery period.

Of NiSource's $5,271.2 million of long-term debt at December 31, 2005, $225 million was issued by NiSource's affiliate, Capital Markets. The financial obligations of Capital Markets are subject to a Support Agreement between NiSource and Capital Markets, under which NiSource has committed to make payments of interest and principal on Capital Market's obligations in the event of a failure to pay by Capital Markets. Under the terms of the Support Agreement, in addition to the cash flow of cash dividends paid to NiSource by any of its consolidated subsidiaries, the assets of NiSource, other than the stock and assets of Northern Indiana, are available as recourse for the benefit of Capital Market's creditors. The carrying value of the assets of NiSource, other than the assets of Northern Indiana, was $13.6 billion at December 31, 2005.

NiSource Finance has entered into interest rate swap agreements for $1,160 million of its outstanding long-term debt. The effect of these agreements is to modify the interest rate characteristics of a portion of their respective long-term debt from fixed to variable. Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further information regarding interest rate swaps.

NiSource is subject to one financial covenant under both its five-year revolving credit facility and its nine-month revolving credit agreement. NiSource must maintain a debt to capitalization ratio that does not exceed 70%. As of December 31, 2005, NiSource was in compliance with this financial covenant under both agreements.

NiSource is also subject to certain negative covenants under the revolving credit facilities. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket equal to 5% of NiSource's consolidated net tangible assets. An asset sale covenant generally restricts the sale, lease and/or transfer of NiSource's assets to no more than 10% of its consolidated total assets. The revolving credit facilities also include a cross-default provision, which triggers an event of default under the credit facility in the event of any uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of $50 million or more.

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NiSource's bond indentures generally do not contain any financial maintenance covenants. However, NiSource's bond indentures are generally subject to cross default provisions ranging from uncured payment defaults of $5 million to $50 million, and limitations on the incurrence of liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket capped at either 5% or 10% of NiSource's consolidated net tangible assets.

16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Investments. Where feasible, the fair value of investments is estimated based on market prices for those or similar investments.

Long-term Debt and Preferred Stock. The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

The carrying amount and estimated fair values of financial instruments were as follows:

At December 31, *(in millions)*	**Carrying Amount 2005**	**Estimated Fair Value 2005**	Carrying Amount 2004	Estimated Fair Value 2004
Long-term investments	**$ 73.1**	**$ 73.1**	$ 67.5	$ 67.5
Long-term debt (including current portion)	**5,711.9**	**5,885.8**	6,135.8	6,532.1
Preferred stock (including current portion)	**81.1**	**81.6**	82.6	83.1

Sale of Trade Accounts Receivable. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly-owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement has a scheduled expiration date of May 12, 2006, and can be renewed if mutually agreed to by both parties. As of December 31, 2005, $175 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of December 31, 2005, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

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NiSource's accounts receivable programs qualify for sale accounting based upon the conditions met in SFAS No. 140. In the agreements, all transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. NiSource does not retain any interest in the receivables under both agreements.

17. Other Commitments and Contingencies

A. Capital Expenditures and Other Investing Activities. NiSource expects that approximately $638.2 million will be expended for construction and other investment purposes during 2006.

B. Assets Under Lien. Substantially all of Columbia Transmission properties have been pledged to Columbia as security for debt owed by Columbia Transmission to Columbia. All of the debt that was secured by this lien has been paid and NiSource is in the process of having this lien released.

C. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at December 31, 2005 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidaries debt	$ 5,008.6	$ 293.1	$ 32.4	$ 8.7	$ 464.0	$ 1,004.3	$ 3,206.1
Guarantees supporting commodity transactions of subsidiaries	1,051.2	808.1	21.0	42.3	45.4	-	134.4
Lines of credit	898.0	898.0	-	-	-	-	-
Letters of credit	101.6	27.0	1.0	73.6	-	-	-
Other guarantees	159.7	-	-	9.1	4.2	-	146.4
Total commercial commitments	$ 7,219.1	$ 2,026.2	$ 54.4	$ 133.7	$ 513.6	$ 1,004.3	$ 3,486.9

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.0 billion of debt for various wholly-owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets. Other than debt associated with the former PEI subsidiaries that were sold, the debt is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.1 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets. As of February 28, 2006, $60.1 million of the guarantees related to CNR have expired.

Lines and Letters of Credit. NiSource Finance also maintains lines of credit with financial institutions. At December 31, 2005, the amount outstanding under the lines of credit and guaranteed by NiSource amounted to $898.0 million. NiSource has also issued stand-by letters of credit of approximately $101.6 million through financial institutions for the benefit of third parties that have extended credit to certain subsidiaries. If a subsidiary does not pay amounts when due under covered contracts, the beneficiary may present its claim for payment to the financial institution, which will in turn request payment from NiSource.

Other Guarantees or Obligations. After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. The total of the outstanding debt guaranteed for Whiting Clean Energy at December 31,

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2005 was $321.4 million, of which approximately $298.6 million of debt related to Whiting Clean Energy was included in NiSource's Consolidated Balance Sheets. NiSource had retained financial guarantees of $140.6 million of debt outstanding, which related to three of the PEI projects. These guarantees were satisfied in the third quarter of 2005 when the outstanding debt was refinanced by the buyer of those subsidiaries, thus relieving NiSource of its guaranties of such debt. The fair value of those financial guarantees, $10.5 million, was recognized as income from discontinued operations in the third quarter 2005.

As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the probable settlement of this contingent obligation.

Off Balance Sheet Items. NiSource has purchase and sales agreement guarantees totaling $85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued guarantees, which support up to approximately $1.1 billion of commodity-related payments for its current and former subsidiaries. Refer to the discussion above in this Note 17-C, "Guarantees and Indemnities – Guarantees Supporting Commodity Transactions of Subsidiaries" for additional information.

NiSource retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remained in place subsequent to the closing of the CER sale and declined over time as volumes were delivered in satisfaction of the contractual obligations, that were completed in February 2006. Columbia was the principal for surety bonds issued to guarantee performance under these forward gas sales agreements. In the third quarter of 2005, these bonds expired.

Immediately after the close of the sale in August 2003, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believed that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, adequately offset any losses that could have been incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource did not recognize a liability related to the retention of the Mahonia guarantees subsequent to the sale.

D. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

E. Income Tax Examinations. NiSource records liabilities for potential income tax assessments. The accruals relate to tax positions in a variety of taxing jurisdictions and are based on what management believes will be the ultimate resolution of these positions. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations. NiSource is under continuous examination by the IRS. The IRS has completed its audits through tax year 2002. Years through 1998 have been settled and are closed to further assessment. For years 1999 and 2000, NiSource disagreed with three adjustments proposed by the IRS and filed a protest of those issues with the IRS Appeals Division. The opening Appeals conference was held in March 2005 and negotiations were conducted throughout most of the remainder of the year. While concessions were made by both NiSource and the IRS during the Appeals process, the parties were unable to reach agreement on the two most significant issues: deductibility of certain costs associated with the Columbia acquisition and deductions related to the abandonment of Wells LNG development costs at Granite State Gas. NiSource intends to file a petition with the Tax Court with respect to these two issues during 2006. The audit of NiSource's 2001 and

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2002 federal income tax returns was completed on June 1, 2005. With the exception of carryover adjustments related to the two unagreed issues from the 1999-2000 audit discussed above, NiSource agreed with all proposed IRS adjustments and has paid the resultant tax liability. The audit of tax years 2003 and 2004 commenced on September 27, 2005.

F. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in the United States EPA's Climate Leaders program and will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Gas Distribution Operations. Several Gas Distribution Operations subsidiaries are potentially responsible parties at waste disposal sites under the CERCLA (commonly known as Superfund) and similar state laws, as well as at MGP sites, which such subsidiaries, or their corporate predecessors, own or previously owned or operated. Gas Distribution Operations subsidiaries may be required to share in the cost of clean up of such sites. In addition, some Gas Distribution Operations subsidiaries have responsibility for corrective action under the RCRA for closure and clean-up costs associated with underground storage tanks, under the Toxic Substances Control Act for clean up of polychlorinated biphenyls, and for mercury releases. The final costs of clean up have not yet been determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

A program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors are the current or former owner. The program has identified 85 such sites and initial investigations have been conducted at 52 sites. Additional investigation activities have been completed or are in progress at 44 sites and remedial measures have been implemented or completed at 28 sites. This effort includes the sites contained in the January 2004 agreement entered into by the IDEM, Northern Indiana, Kokomo Gas, and other Indiana utilities under the Indiana Voluntary Remediation Program. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5. As costs become probable and reasonably estimable, reserves will be adjusted. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. NiSource is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that, as characterization is completed, additional remediation work is performed and more facts become available, NiSource will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with the SEC's SAB No. 92, SFAS No. 5 and SOP 96-1. As of December 31, 2005, a reserve of approximately $58.0 million has been recorded to cover probable environmental response actions.

Gas Transmission and Storage Operations. Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 EPA Administrative Order by Consent. The program pursuant to the Administrative Order by Consent covers approximately 245 facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. Field characterization has been performed at all sites. Site characterization reports and remediation plans, which must be submitted to the EPA for approval, are in various stages of development and completion. Remediation has been completed at the mercury measurement stations, liquid removal point sites and storage well locations and at most of the 245 facilities. As of December 31, 2005, the remaining environmental liability recorded on the Consolidated Balance Sheets of Columbia Transmission was approximately $2.1 million.

Columbia Transmission and Columbia Gulf are potentially responsible parties at several waste disposal sites under CERCLA and similar state laws. The potential liability is believed to be de minimis. However, the final allocation

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of clean-up costs has yet to be determined. As site investigations and clean-ups proceed and as additional information becomes available reserves will be adjusted.

The EPA has begun implementing the Particulate Matter and Ozone National Ambient Air Quality Standards it revised in July 1997. As a result, the EPA has designated areas not attaining the standards. The Clean Air Act provides for a process that would provide for promulgation of rules specifying a compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. On December 20, 2005, EPA announced a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. EPA must issue final standards by September 27, 2006.

Implementation of the Fine Particulate Matter and Ozone National Ambient Air Quality Standards may require imposition of additional controls on engines and turbines but is not reasonably estimable at this point. In addition, the EPA has reissued the portion of the NOx SIP Call regulation (dealing with regional ozone transport), which is applicable to certain pipeline engines. The resulting rules require additional reductions in NOx emissions from reciprocating engines and turbines at pipeline compressor stations (including compressor stations owned by Columbia Transmission and Columbia Gulf). The EPA and state regulatory authorities are in the process of setting final implementation requirements. States have proposed and in some instances finalized new NOx emission requirements that may be applicable to pipeline compressor station engines and turbines. NiSource believes that the costs relating to compliance with any new limits may be significant but are dependent upon the ultimate control program established by the targeted states and the EPA, and currently are not reasonably estimable. To date finalized rules have had minimal impact, but additional rules are expected. NiSource will continue to closely monitor developments in this area.

Columbia Transmission discovered and notified the State of West Virginia of compliance issues associated with turbine operations at two of its facilities. The State of West Virginia has not responded to the disclosure or the adequacy of Columbia Transmission's actions.

Electric Operations.
Air. In December 2001, the EPA approved regulations developed by the State of Indiana to comply with the EPA's NOx SIP call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, to lower regional transport of ozone. Compliance with the NOx limits contained in these rules was required by May 31, 2004. To comply with the rule, Northern Indiana developed a NOx compliance plan, which included the installation of Selective Catalytic Reduction NOx reduction technology at each of its active generating stations and is currently in compliance with the NOx limits. In implementing the NOx compliance plan; Northern Indiana has expended approximately $251 million as of December 31, 2005. Total capital expenditures are anticipated to be approximately $306 million upon completion of the plan. Actual costs may vary depending on a number of factors including market demand and resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

On April 15, 2004, the EPA finalized the 8-hour ozone non-attainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying a compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from coal-fired boilers including Northern Indiana's electric generating stations. Until the rules are promulgated, the potential impact on Northern Indiana is uncertain. On November 4, 2005 the Indiana governor announced plans to petition EPA in early 2006 to designate Lake and Porter counties attainment for 8-hour ozone based on monitored improvements in local air quality. If approved by the EPA, redesignation would negate the need for new rules for the two counties. Northern Indiana will continue to closely monitor developments in this area.

On June 28 and 29, 2004, the EPA responded to the states' initial recommendations for the EPA designation of areas meeting and not meeting the NAAQS for fine particles. (Fine particles are those less than or equal to 2.5

micrometers in diameter and are also referred to as $PM_{2.5}$.) The EPA's $PM_{2.5}$ nonattainment designations were announced on December 17, 2004, and published in the Federal Register on January 5, 2005. The designations became effective on April 5, 2005. Indiana has disputed some of the June 2004, EPA designation recommendations and submitted final 2004 monitoring data on February 17, 2005, for EPA re-evaluation of the disputed areas. On March 7, 2005, the Indiana Attorney General filed a legal action on behalf of the IDEM asking that all but three areas (none of these three areas are in Northern Indiana's service territory) be removed from the EPA's nonattainment list. The EPA is expected to finalize by late 2006, an implementation rule detailing state obligations to bring the nonattainment areas into attainment with the $PM_{2.5}$ NAAQS. Indiana and other states will be required to finalize state rulemaking by April 2008 that specify emissions reductions consistent with the final EPA implementation rule to bring the designated areas into attainment by as early as April 2010.

On December 20, 2005 EPA announced a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate ($PM_{2.5}$) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM_{10} NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a $PM_{10\text{-}2.5}$ monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. Northern Indiana will continue to closely monitor developments in this area that could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations.

In late 1999 the EPA initiated a New Source Review enforcement action against several industries including the electric utility industry concerning rule interpretations that have been the subject of recent (prospective) reform regulations. Northern Indiana has received and responded to the EPA information requests on this subject, most recently in June 2002. The EPA issued an NOV to Northern Indiana on September 29, 2004, for alleged violations of the Clean Air Act and the SIP. Specifically, the NOV alleges that modifications were made to certain boiler units at the Michigan City, Schahfer, and Bailly Generating Stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana has held meetings with the EPA to discuss the violations alleged in the NOV but is unable, at this time, to predict the timing or likely outcome of this EPA action.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. Phase I reductions would be required by January 2009 and January 2010 for NOx and SO2, respectively. Phase II reductions for both NOx and SO2 would be required by January 2015. Emission trading programs would be established to meet the emission caps. As an affected state, Indiana is required to initiate a state rule making, for submittal to the EPA by September 11, 2006, creating rules, or a SIP, detailing how it will implement the federal rule and meet the emission caps. In June 2005, Indiana initiated the process to develop a state rule to implement the EPA CAIR. The final form of the state rule will determine whether Northern Indiana and other utilities in the state will be able to participate in the EPA's emission trading programs and impact the level of control required for each unit. During December 2005, Indiana indicated that the expected state rule would largely conform to the final EPA CAIR regulations, which would make the state eligible for a six-month extension of the submittal deadline. Accordingly, Indiana anticipates that an additional six months will be available to finalize the state CAIR rule. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On March 15, 2005, the EPA issued the CAMR, that will require mercury emissions reductions from electric power generating stations. The rule establishes a two-phased reduction of mercury from Indiana electric utilities by establishing a cap-and-trade program with a state-wide annual cap on emissions. The first phase begins in 2010, a second phase in 2018, designed to achieve about a 70% reduction in utility emissions of mercury. Emission trading programs could be established to assist compliance with these emission caps. In June 2005, Indiana initiated the state process to develop a state rule to implement the EPA's CAMR. In the June 2005 request for comments, Indiana solicited comments on both the EPA CAMR approach and on an alternative mercury reduction program proposed by the Hoosier Environmental Council. The alternate plan considered a significantly larger emission reduction (up to 90%) requirement and an implementation schedule of 2008 to 2010. The final form of the state rule

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implementing the CAMR will determine Northern Indiana's ability to participate in the federal trading program and impact the level of control required for each unit. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On April 15, 2004, the EPA proposed amendments to its July 1999 Regional Haze Rule that requires states to set periodic goals for improving visibility in 156 natural areas across the United States by implementing state emission reduction rules. These amendments would apply to the eligible industrial facilities emitting air pollutants that reduce visibility. States must develop implementation rules by January 2008. Resulting rules could require additional reductions of NOx, SO2 and particulate matter from coal-fired boilers including Northern Indiana's electric generating stations, depending upon the outcome of multi-pollutant regulations. On July 6, 2005, EPA finalized Regional Haze Regulations and guidelines that allow states that opt to participate in the CAIR cap-and-trade program to not require affected facilities to install, operate and maintain additional control equipment. Until the state rules are promulgated, the potential impact on Northern Indiana is uncertain. Northern Indiana will continue to closely monitor developments in this area.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. Northern Indiana expects that IDEM will issue a proposed permit renewal for each of its operating lakeside stations. Pending issuance of these permits, the costs of complying with these requirements cannot be predicted at this time. The water permit renewal for the Michigan City Generating Station was released for public comment on December 22, 2005. Northern Indiana anticipates the permit for the Michigan City Generating Station will be finalized in early 2006. In order to comply with the permit limits included in the draft version of this permit, Northern Indiana anticipates the installation and operation of a wastewater treatment system at the facility within four years of the final permit issuance date. Upon issuance of the permit, engineering studies will be conducted to determine the costs and construction schedule of the wastewater plant needed to comply with the final permit limits.

On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems whose compliance is based on any of five options. To determine the impacts of the Bailly Station's intake on the aquatic organisms in Lake Michigan, a detailed background biological sampling program was initiated in April 2005 and will continue for at least one year. The results of this sampling program will be utilized to choose the appropriate compliance option, or combination of options, for the facility. Specific impacts and available compliance options of the final Phase II rule for the remaining two operating Northern Indiana generating stations are still in the process of being determined at this time.

Remediation. Northern Indiana is a potentially responsible party under the CERCLA and similar State laws at two waste disposal sites and shares in the cost of their cleanup with other potentially responsible parties. At one site, the Remedial Investigation and Feasibility Study have been submitted for EPA review. At the second site, Northern Indiana has entered into EPA Administrative Orders on Consent to perform an interim action, in conjunction with the landfill owner/operator, which includes providing a municipal water supply system for approximately 275 homes. Northern Indiana has also agreed to conduct a Remedial Investigation and Feasibility Study in the vicinity of the third party, state-permitted landfill where Northern Indiana contracted for fly ash disposal. In addition, Northern Indiana has corrective action liability under the RCRA for 3 facilities that historically stored hazardous waste.

As of December 31, 2005, a reserve of approximately $3.1 million has been recorded to cover probable environmental response actions. The ultimate liability in connection with these sites cannot be estimated at this time but could be significant.

On March 31, 2005, the EPA and Northern Indiana entered into an Administrative Order on Consent under the authority of Section 3008(h) of the RCRA for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. A reserve has been established to fund the required investigations and conduct interim measures at the facility. The final costs of clean up have not yet been determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

Other Operations.
PEI. In connection with the sale of certain PEI assets mentioned above, NiSource has agreed to provide indemnification to the purchaser for specified potential environmental liabilities. However, the total amount of these liabilities is not reasonably estimable at this time.

Other Information.
Other Affiliates. NiSource affiliates have retained environmental liabilities, including cleanup liabilities associated with some of its former operations including those of propane operations, petroleum operations, certain local gas distribution companies and CER. The most significant environmental liability relates to former MGP sites whereas less significant liabilities are associated with former petroleum operations and former mercury metering stations.

The ultimate liability in connection with these contamination sites will depend upon many factors including the extent of environmental response actions required, other potentially responsible parties and their financial viability, and indemnification from previous facility owners. Only those corrective action costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5 and consistent with SOP 96-1. As costs become probable and reasonably estimable, reserves will be adjusted as appropriate. NiSource believes that any environmental response actions required at former operations, for which it is ultimately liable, will not have a material adverse effect on NiSource's financial position.

Environmental Reserves. It is management's continued intent to address environmental issues in cooperation with regulatory authorities in such a manner as to achieve mutually acceptable compliance plans. However, there can be no assurance that fines and penalties will not be incurred. Management expects a significant portion of environmental assessment and remediation costs to be recoverable through rates for certain NiSource companies.

As of December 31, 2005, a reserve of approximately $68.8 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

G. Operating and Capital Lease Commitments. NiSource leases assets in several areas of its operations. Payments made in connection with operating leases were $54.7 million in 2005, $62.4 million in 2004 and $54.8 million in 2003, and are primarily charged to operation and maintenance expense as incurred. Capital leases and related accumulated deprecation included in the Consolidated Balance Sheets were $3.8 million and $1.9 million at December 31, 2005, and $3.8 million and $1.6 million at December 31, 2004, respectively.

Future minimum rental payments required under operating and capital leases that have initial or remaining non-cancelable lease terms in excess of one year are:

(in millions)	Operating Leases	Capital Leases
2006	$ 48.4	$ 2.0
2007	43.5	2.0
2008	38.2	2.6
2009	29.1	2.7
2010	23.1	0.1
After	65.8	0.8
Total future minimum payments	$ 248.1	$ 10.2

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

H. Service Obligations. NiSource has pipeline service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2006 to 2019, require NiSource to pay fixed monthly charges.

In June 2005, NiSource Corporate Services and IBM signed a definitive agreement to provide a broad range of business process and support services to NiSource. As part of this agreement, IBM will operate a broad range of business support functions for NiSource, including processes within the human resources, finance and accounting, supply chain (procurement), customer contact, meter-to-cash (billing and collections) and information technology areas. The agreement also includes a broad array of transformational consulting services and emerging technology expertise. The contract has a 10-year term and NiSource has the right to renew it for up to three additional years. NiSource will pay for the services under a combination of fixed and variable charges. The variable charge component can fluctuate to reflect NiSource's actual usage of service and service levels. Fees may be adjusted to reflect economic changes such as inflation or business changes that both parties agree to.

Upon any termination of the agreement by NiSource for any reason (other than material breach by IBM), NiSource must pay IBM a termination charge that will include a breakage fee, repayment of IBM's un-recovered capital investments, and IBM wind-down expense. This termination fee can be a material amount depending on the events giving rise to termination and the timing of the termination.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and Northern Indiana pays for the services under a combination of fixed and variable charges. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

The estimated aggregate amounts of minimum fixed payments at December 31, 2005, were:

(in millions)	Pipeline Service Agreements	IBM Service Agreement	Pure Air Service Agreement
2006	$ 222.7	$ 142.1	$ 15.2
2007	204.9	164.3	15.8
2008	173.8	165.2	16.3
2009	113.0	165.1	16.8
2010	100.7	167.3	17.2
After	322.0	680.4	26.6
Total service obligations	$ 1,137.1	$ 1,484.4	$ 107.9

Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, which requires the contractor to pay for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For 2005, the PEI holding companies' consolidated after-tax loss was approximately $22.6 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, approval of the electric sales agreement, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery.

NiSource Inc.
Notes to Consolidated Financial Statements (continued)

18. Income Taxes

The components of income tax expense were as follows:

Year Ended December 31, *(in millions)*	2005	2004	2003
Income Taxes			
Current			
Federal	**$ 136.1**	$ 117.4	$ 132.6
State	**30.0**	26.5	24.4
Total Current	**166.1**	143.9	157.0
Deferred			
Federal	**4.7**	102.4	82.4
State	**(13.0)**	4.0	4.4
Total Deferred	**(8.3)**	106.4	86.8
Deferred Investment Credits	**(8.4)**	(8.9)	(8.9)
Income Taxes Included in Continuing Operations	**$ 149.4**	$ 241.4	$ 234.9

Total income taxes from continuing operations were different from the amount that would be computed by applying the statutory Federal income tax rate to book income before income tax. The major reasons for this difference were as follows:

Year Ended December 31, *(in millions)*	2005		2004		2003	
Book income from Continuing Operations before income taxes	**$ 433.0**		$ 672.4		$ 661.8	
Tax expense at statutory Federal income tax rate	**151.6**	**35.0%**	235.3	35.0%	231.6	35.0%
Increases (reductions) in taxes resulting from:						
State income taxes, net of federal income tax benefit	**11.0**	**2.5**	19.8	2.9	18.7	2.8
Regulatory treatment of depreciation differences	**5.2**	**1.2**	4.5	0.7	1.2	0.2
Amortization of deferred investment tax credits	**(8.4)**	**(1.9)**	(8.9)	(1.3)	(8.9)	(1.3)
Low-income housing	**(3.2)**	**(0.7)**	(3.9)	(0.6)	(5.1)	(0.8)
Section 199 Electric Production Deduction	**(1.9)**	**(0.4)**	-	-	-	-
Tax accrual adjustments and other, net	**(4.9)**	**(1.2)**	(5.4)	(0.8)	(2.6)	(0.4)
Income Taxes from Continuing Operations	**$ 149.4**	**34.5%**	$ 241.4	35.9%	$ 234.9	35.5%

The effective income tax rates were 34.5%, 35.9%, and 35.5 % in 2005, 2004 and 2003, respectively. Contributing to the reduction in the effective tax rate for 2005 versus 2004 is the impact of the tax benefit associated with the electric production deduction (discussed below), an adjustment to deferred taxes at Northern Indiana related to a reduction in deferred income tax requirements and a reduction in deferred state income tax liabilities resulting from a revised estimate of consolidated state income tax apportionment factors. Offsetting these reductions is an increase in the effective tax rate associated with the non-deductible goodwill impairment charge recorded at Kokomo Gas and increased taxes related to Ohio income tax law changes enacted on June 30, 2005.

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana and Whiting Clean Energy's electric production activities qualify for this deduction. The deduction is equal to 3% of QPAI for the taxable year, with certain limitations. This deduction increases to 6% of QPAI beginning in 2007 and 9% of QPAI beginning in 2010 and thereafter. The 2005 tax benefit associated with the Section 199 domestic production deduction is estimated to be $1.9 million and will be finalized prior to inclusion in NiSource's 2005 consolidated federal income tax return to be filed in 2006.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Deferred income taxes resulted from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of NiSource's net deferred tax liability were as follows:

At December 31, *(in millions)*	**2005**	2004
Deferred tax liabilities		
Accelerated depreciation and other property differences	**$ 1,640.0**	$ 1,680.3
Unrecovered gas and fuel costs	**152.6**	112.6
Other regulatory assets	**293.6**	303.9
SFAS No. 133 and price risk adjustments	**82.4**	40.9
Premiums and discounts associated with long-term debt	**16.8**	54.1
Total Deferred Tax Liabilities	**2,185.4**	2,191.8
Deferred tax assets		
Deferred investment tax credits and other regulatory liabilities	**(169.8)**	(177.9)
Pension and other postretirement/postemployment benefits	**(228.7)**	(192.4)
Environmental liabilities	**(15.3)**	(21.4)
Other accrued liabilities	**(65.2)**	(43.9)
Other, net	**(17.4)**	(19.2)
Total Deferred Tax Assets	**(496.4)**	(454.8)
Less: Deferred income taxes related to current assets and liabilities	**97.1**	71.1
Non-Current Deferred Tax Liability	**$ 1,591.9**	$ 1,665.9

19. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss.

Year Ended December 31, *(in millions)*	**2005**	2004
Other comprehensive income, before tax:		
Unrealized gains (losses) on securities	**$ 0.3**	$ (0.4)
Tax (expense) or benefit on unrealized gains (losses) on securities	**(0.3)**	0.3
Unrealized gains on cash flow hedges	**228.5**	142.8
Tax (expense) on unrealized gains on cash flow hedges	**(77.8)**	(49.1)
Minimum pension liability adjustment	**(260.1)**	(243.6)
Tax benefit on minimum pension liability adjustment	**103.8**	98.6
Total Accumulated Other Comprehensive Loss, net of tax	**$ (5.6)**	$ (51.4)

20. Other, Net

Year Ended December 31, *(in millions)*	**2005**	2004	2003
Interest income	**$ 23.6**	$ 9.3	$ 14.8
Miscellaneous	**(9.6)**	(2.0)	0.5
Total Other, Net	**$ 14.0**	$ 7.3	$ 15.3

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

21. Interest Expense, Net

Year Ended December 31, *(in millions)*		2005		2004		2003
Interest on long-term debt	$	**395.1**	$	372.2	$	427.1
Interest on short-term borrowings		**4.2**		6.8		8.9
Discount on prepayment transactions		**17.6**		21.6		19.0
Allowance for borrowed funds used and interest capitalized during construction		**(3.2)**		(2.3)		(2.5)
Other		**7.3**		5.6		12.2
Total Interest Expense, Net	$	**421.0**	$	403.9	$	464.7

22. Segments of Business

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for local distribution companies, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Other Operations segment primarily includes gas and power marketing, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following tables provide information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

(in millions)	**2005**	2004	2003
REVENUES			
Gas Distribution Operations			
Unaffiliated	$ **5,098.1**	$ 4,283.3	$ 4,084.4
Intersegment	**23.9**	8.1	17.5
Total	**5,122.0**	4,291.4	4,101.9
Gas Transmission and Storage Operations			
Unaffiliated	**575.2**	590.7	604.0
Intersegment	**260.1**	264.5	249.3
Total	**835.3**	855.2	853.3
Electric Operations			
Unaffiliated	**1,245.5**	1,096.9	1,074.0
Intersegment	**2.1**	14.3	18.8
Total	**1,247.6**	1,111.2	1,092.8
Other Operations			
Unaffiliated	**977.3**	664.3	411.3
Intersegment	**28.4**	25.3	50.4
Total	**1,005.7**	689.6	461.7
Adjustments and eliminations	**(311.5)**	(285.9)	(267.7)
Consolidated Revenues	$ **7,899.1**	$ 6,661.5	$ 6,242.0

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

(in millions)	2005	2004	2003
Operating Income (Loss)			
Gas Distribution Operations	**$ 368.2**	$ 441.2	$ 506.4
Gas Transmission and Storage Operations	**344.4**	363.1	398.8
Electric Operations	**293.3**	309.5	267.5
Other Operations	**(12.2)**	(30.9)	(41.9)
Corporate	**(40.9)**	(5.4)	(8.5)
Consolidated	**$ 952.8**	$ 1,077.5	$ 1,122.3
Depreciation and Amortization			
Gas Distribution Operations	**$ 224.6**	$ 194.6	$ 190.2
Gas Transmission and Storage Operations	**114.1**	114.2	111.4
Electric Operations	**185.9**	178.1	175.1
Other Operations	**11.6**	12.1	9.9
Corporate	**9.0**	9.6	9.1
Consolidated	**$ 545.2**	$ 508.6	$ 495.7
Assets			
Gas Distribution Operations	**$ 6,917.5**	$ 6,332.2	$ 6,096.4
Gas Transmission and Storage Operations	**3,082.3**	3,053.3	2,920.4
Electric Operations	**3,189.0**	3,114.2	3,079.7
Other Operations	**1,683.5**	1,467.7	1,411.8
Corporate	**3,086.2**	3,020.4	3,115.2
Consolidated	**$ 17,958.5**	$ 16,987.8	$ 16,623.5
Capital Expenditures			
Gas Distribution Operations	**$ 283.5**	$ 226.7	$ 193.5
Gas Transmission and Storage Operations	**153.7**	130.4	126.7
Electric Operations	**132.8**	159.5	224.1
Other Operations	**6.2**	(8.2)	18.9
Corporate	**14.2**	8.6	11.0
Consolidated	**$ 590.4**	$ 517.0	$ 574.2

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

23. Quarterly Financial Data (Unaudited)

Quarterly financial data does not always reveal the trend of NiSource's business operations due to nonrecurring items and seasonal weather patterns, which affect earnings, and related components of net revenues and operating income.

(in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2005				
Gross revenues	$ 2,683.3	$ 1,356.4	$ 1,164.7	$ 2,694.7
Operating Income	437.7	119.4	93.2	302.5
Income from Continuing Operations	208.7	7.9	(5.8)	72.8
Income (Loss) from Discontinued Operations - net of taxes	(2.4)	31.1	(1.0)	(4.5)
Change in Accounting - net of taxes	-	-	-	(0.3)
Net Income (Loss)	206.3	39.0	(6.8)	68.0
Basic Earnings Per Share of Common Stock				
Continuing Operations	0.77	0.03	(0.02)	0.27
Discontinued Operations	(0.01)	0.12	(0.01)	(0.02)
Basic Earnings (Loss) Per Share	$ 0.76	$ 0.15	$ (0.03)	$ 0.25
Diluted Earnings Per Share of Common Stock				
Continuing Operations	0.77	0.03	(0.02)	0.27
Discontinued Operations	(0.01)	0.11	(0.01)	(0.02)
Diluted Earnings (Loss) Per Share	$ 0.76	$ 0.14	$ (0.03)	$ 0.25
2004				
Gross revenues	$ 2,472.3	$ 1,243.9	$ 978.2	$ 1,967.1
Operating Income	447.2	157.8	128.1	344.4
Income from Continuing Operations	216.8	35.5	21.7	157.0
Income (Loss) from Discontinued Operations - net of taxes	(3.3)	(0.9)	7.1	2.4
Net Income	213.5	34.6	28.8	159.4
Basic Earnings Per Share of Common Stock				
Continuing Operations	0.83	0.13	0.08	0.59
Discontinued Operations	(0.02)	-	0.03	0.01
Basic Earnings Per Share	$ 0.81	$ 0.13	$ 0.11	$ 0.60
Diluted Earnings Per Share of Common Stock				
Continuing Operations	0.82	0.13	0.08	0.58
Discontinued Operations	(0.01)	-	0.03	0.01
Diluted Earnings Per Share	$ 0.81	$ 0.13	$ 0.11	$ 0.59

During 2005, NiSource recorded $82.8 million of pre-tax restructuring and transition costs incurred in connection with the outstourcing agreement with IBM. Costs of $21.2 million, $49.0 million and $12.6 million were recorded during the second, third and fourth quarter of 2005, respectively.

During the second quarter of 2005, NiSource recorded $21.8 million of impairment charges for obsolete software systems and a goodwill adjustment for Kokomo Gas.

During the fourth quarter 2005, Columbia redeemed issues of its senior unsecured notes and recorded charges associated with the redemption of these securities totaling $108.6 million, which were recognized as a loss on early extinguishment of long-term debt.

NISOURCE INC.

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

BALANCE SHEET

As of December 31, *(in millions)*	2005	2004
ASSETS		
Other property, at cost, less accumulated depreciation	$ -	$ 10.1
Investments and Other Assets:		
Net assets of discontinued operations	12.0	21.3
Investments in subsidiary companies	8,676.9	8,505.3
Total Investments	8,688.9	8,526.6
Current Assets:		
Cash and cash equivalents	2.5	2.4
Amounts receivable from subsidiaries	88.9	44.3
Other Current Assets	105.7	92.4
Total Current Assets	197.1	139.1
Other (principally notes receivable from associated companies)	51.1	33.7
TOTAL ASSETS	$ 8,937.1	$ 8,709.5
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	$ 4,933.0	$ 4,787.1
Long-term debt, excluding amounts due within one year	-	144.4
Total Capitalization	4,933.0	4,931.5
Current Liabilities	287.2	84.7
Other (principally notes payable to associated companies)	3,716.9	3,693.3
TOTAL CAPITALIZATION AND LIABILITIES	$ 8,937.1	$ 8,709.5

The accompanying Notes to Condensed Financial Statements are an integral part of these statements.

NiSource Inc.

Schedule I
Condensed Financial Information of Registrant

Statement of Income

Year Ended December 31, *(in millions, except per share amounts)*	**2005**	2004	2003
Equity in net earnings of subsidiaries	**$ 479.3**	$ 567.9	$ 597.8
Other income (deductions):			
Administrative and general expenses	**(27.3)**	(17.1)	(34.7)
Loss on sale or impairment of assets	**(8.1)**	-	-
Interest income	**2.1**	1.4	6.8
Interest expense	**(220.9)**	(213.7)	(237.0)
Other, net	**(87.2)**	(2.4)	2.6
Total Other income (deductions)	**(341.4)**	(231.8)	(262.3)
Income from continuing operations before income taxes	**137.9**	336.1	335.5
Income taxes	**(145.7)**	(94.9)	(91.4)
Income from continuing operations	**283.6**	431.0	426.9
Income (Loss) from discontinued operations - net of taxes	**23.2**	5.3	(1.7)
Loss on Disposition of discontinued operations - net of taxes	**-**	-	(331.2)
Change in accounting - net of taxes	**(0.3)**	-	(8.8)
NET INCOME	**$ 306.5**	$ 436.3	$ 85.2
Average common shares outstanding (millions)	**271.3**	263.7	259.6
Diluted Average Common Shares (millions)	**273.0**	265.5	261.6
Basic earnings per share			
Continuing operations	**$ 1.05**	$ 1.63	$ 1.64
Discontinued Operations	**0.08**	0.02	(1.28)
Change in accounting	**-**	-	(0.03)
Basic earnings per share	**$ 1.13**	$ 1.65	$ 0.33
Diluted earnings per share			
Continuing operations	**$ 1.04**	$ 1.62	$ 1.63
Discontinued Operations	**0.08**	0.02	(1.27)
Change in accounting	**-**	-	(0.03)
Diluted earnings per share	**$ 1.12**	$ 1.64	$ 0.33

The accompanying Notes to Condensed Financial Statements are an integral part of these statements.

NISOURCE INC.

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS

Year Ended December 31, *(in millions)*	**2005**	2004	2003
Net cash provided in operating activities	**$ 229.5**	$ (129.6)	$ 182.3
Cash flows provided by (used in) investing activities:			
Constuction work in progress	**$ (0.1)**	$ (0.1)	$ -
Investments	**3.6**	(6.2)	(18.0)
Net cash provided by (used in) investing activities	**3.5**	(6.3)	(18.0)
Cash flows provided by (used in) financing activities:			
Issuance of common shares	**40.0**	160.8	354.7
Increase (decrease) in notes payable to subsidiaries	**15.9**	208.3	(818.1)
Increase (decrease) in notes receivable from subsidiaries	**(36.9)**	13.9	586.8
Cash dividends paid on common shares	**(250.3)**	(243.1)	(284.0)
Acquisition of treasury shares	**(1.6)**	(4.1)	(2.5)
Net cash provided by (used in) financing activities	**(232.9)**	135.8	(163.1)
Net increase (decrease) in cash and cash equivalents	**0.1**	(0.1)	1.2
Cash and cash equivalents at beginning of year	**2.4**	2.5	1.3
Cash and cash equivalents at end of year	**$ 2.5**	$ 2.4	$ 2.5

The accompanying Notes to Condensed Financial Statements are an integral part of these statements.

NiSource Inc.

Schedule I
Condensed Financial Information of Registrant

Notes to Condensed Financial Statements

1. Dividends from Subsidiaries

Cash dividends paid to NiSource by its consolidated subsidiaries were (in millions of dollars): $471.5, $50.0 and $465.8 in 2005, 2004 and 2003, respectively. In addition, NiSource received (in millions of dollars): $3.4, $3.8 and $2.9 in cash distributions from equity investments adjusted for investments sold in connection with discontinued operations in 2005, 2004 and 2003, respectively.

2. Notes to Condensed Financial Statements

See Item 8 for the full text of notes to the Consolidated Financial Statements.

NISOURCE INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Twelve months ended December 31, 2005

($ in millions)	Balance Jan. 1, 2005	Acquisitions	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account	Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2005
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:							
Reserve for accounts receivable	55.6	-	71.5	39.9	-	99.1	67.9
Reserve for other investments	10.1	-	-	-	-	-	10.1
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:							
Environmental reserves	72.6	-	15.4	-	-	19.2	68.8
Restructuring reserve	14.6	-	19.3	-	-	9.4	24.5
Reserve for cost of operational gas	3.2	-	0.5	0.1	-	-	3.8
Accumulated provision for rate refund	9.4	-	8.9	-	-	8.7	9.6
Unpaid medical claims	5.1	-	15.8	-	-	15.3	5.6
Gas air conditioning development funding reserve	-	-	-	-	-	-	-
Amount owed for purchase gas imbalance	-	-	-	-	-	-	-
Construction project reserve	-	-	-	-	-	-	-

Twelve months ended December 31, 2004

($ in millions)	Balance Jan. 1, 2004	Acquisitions	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account	Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2004
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:							
Reserve for accounts receivable	57.8	-	61.7	55.9	7.1	112.7	55.6
Reserve for other investments	29.2	-	-	-	-	19.1	10.1
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:							
Environmental reserves	76.6	-	14.0	1.4	-	19.4	72.6
Restructuring reserve	19.5	-	(0.2)	-	-	4.7	14.6
Reserve for cost of operational gas	4.0	-	0.6	-	-	1.4	3.2
Accumulated provision for rate refund	14.4	-	11.9	3.7	-	20.6	9.4
Unpaid medical claims	8.7	-	6.8	(2.4)	-	8.0	5.1
Gas air conditioning development funding reserve	0.2	-	-	(0.2)	-	-	-
Amount owed for purchase gas imbalance	-	-	-	-	-	-	-
Construction project reserve	-	-	-	-	-	-	-

NiSource Inc.

Schedule II – Valuation and Qualifying Accounts

Twelve months ended December 31, 2003

($ in millions)	Balance Jan. 1, 2003	Acquisitions	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account	Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2003
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:							
Reserve for accounts receivable	52.3	-	167.4	37.1	-	199.0	57.8
Reserve for other investments	29.4	-	(0.2)	-	-	-	29.2
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:							
Environmental reserves	132.1	-	4.7	(33.2)	-	27.0	76.6
Restructuring reserve	49.6	-	(7.5)	-	-	22.6	19.5
Reserve for cost of operational gas	4.0	-	-	-	-	-	4.0
Accumulated provision for rate refund	12.0	-	14.4	(3.1)	-	8.9	14.4
Unpaid medical claims	8.7		7.5			7.5	8.7
Gas air conditioning development funding reserve	1.3	-	-	-	-	1.1	0.2
Amount owed for purchase gas imbalance	0.4	-	-	(0.4)	-	-	-
Construction project reserve	3.2	-	-	-	-	3.2	-

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NISOURCE INC.

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
NiSource's principal executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were adequate and effective to ensure that material information relating to NiSource and its consolidated subsidiaries would be made known to them by others within those entities.

Management's Report on Internal Control Over Financial Reporting
NiSource management, including NiSource's principal executive officer and principal financial officer, are responsible for establishing and maintaining NiSource's internal control over financial reporting, as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. However, management would note that a control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. NiSource's management has adopted the framework set forth in the Committee of Sponsoring Organizations of the Treadway Commission report, Internal Control - Integrated Framework, the most commonly used and understood framework for evaluating internal control over financial reporting, as its framework for evaluating the reliability and effectiveness of internal control over financial reporting. During 2005, NiSource conducted an evaluation of its internal control over financial reporting. Based on this evaluation, NiSource management concluded that NiSource's internal control over financial reporting was effective as of the end of the period covered by this annual report. Deloitte & Touche LLP, NiSource's auditors, issued an attestation report on management's assessment of NiSource's internal controls over financial reporting, which is contained within their audit opinion in Item 8, "Financial Statements and Supplementary Data."

Changes in Internal Controls
In June 2005, NiSource Corporate Services and IBM signed a definitive agreement to provide a broad range of business process and support services to NiSource. On July 1, 2005, IBM assumed responsibility for Information Technology, Human Resources and Supply Chain procurement functions across NiSource as well as transition and transformation processes in the Meter to Cash and Customer Contact Centers. Included in the Information Technology transformation process during 2005 and 2006 are major projects in Human Resources, Finance and Accounting, Supply Chain, Gas Management, Operations and Meter to Cash. As of December 31, 2005, 546 employees have transitioned employment to IBM while knowledge transfer of other assumed functions continues. Internal controls related to these various activities have not been changed for the third or fourth quarter 2005, however, in many cases new people are performing those controls or control activities are being performed in a different location. In addition, controls have been added with respect to verifying the accuracy of the invoice received from IBM under the outsourcing agreement.

The MISO Day 2 market became effective on April 1, 2005, which impacted Northern Indiana's regulated electric generation and purchase power operations. In connection with the implementation of MISO Day 2, Northern Indiana has implemented new processes and modified existing processes to facilitate participation in, and to verify amounts billed by the MISO. As part of it's internal control assessment, Northern Indiana relies on the SAS-70 report issued relative to the design and effectiveness of the MISO internal controls.

Besides the internal control changes referenced above, there have been no other changes in NiSource's internal control over financial reporting during the fiscal year covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

NiSource Inc.

Information regarding executive officers is included as a supplemental item at the end of Item 4 of Part I of the Form 10-K.

Information regarding directors will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2006, which information is incorporated by reference.

Information regarding delinquent filings under Section 16 of the Securities Exchange Act of 1934 by executive officers and directors will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2006, which information is incorporated by reference.

Information regarding NiSource's code of ethics, corporate governance guidelines and Board of Directors Committee charters will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2006, which information is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding executive compensation will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2006, which information is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and the Equity Compensation Plan Information will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2006, which information is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not Applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principle accounting fees and services will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2006, which information is incorporated by reference.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

NISOURCE INC.

Financial Statements and Financial Statement Schedules
All of the financial statements and financial statement schedules filed as a part of the Annual Report on Form 10-K are included in Item 8.

Exhibits
The exhibits filed herewith as a part of this report on Form 10-K are listed on the Exhibit Index immediately following the signature page. Each management contract or compensatory plan or arrangement of NiSource, listed on the Exhibit Index, is separately identified by an asterisk.

Pursuant to Item 601(b), paragraph (4)(iii)(A) of Regulation S-K, certain instruments representing long-term debt of NiSource's subsidiaries have not been included as Exhibits because such debt does not exceed 10% of the total assets of NiSource and its subsidiaries on a consolidated basis. NiSource agrees to furnish a copy of any such instrument to the SEC upon request.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

NiSource Inc.
(Registrant)

Date March 10, 2006

By: /s/ ROBERT C. SKAGGS, JR.
Robert C. Skaggs, Jr.
President, Chief Executive Officer and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ ROBERT C. SKAGGS, JR. Robert C. Skaggs, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 10, 2006
/s/ MICHAEL W. O'DONNELL Michael W. O'Donnell	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 10, 2006
/s/ JEFFREY W. GROSSMAN Jeffrey W. Grossman	Vice President and Controller (Principal Accounting Officer)	March 10, 2006
/s/ GARY L. NEALE Gary L. Neale	Chairman and Director	March 10, 2006
/s/ STEVEN C. BEERING Steven C. Beering	Director	March 10, 2006
/s/ DENNIS E. FOSTER Dennis E. Foster	Director	March 10, 2006
/s/ STEVEN R. MCCRACKEN Steven R. McCracken	Director	March 10, 2006
/s/ IAN M. ROLLAND Ian M. Rolland	Director	March 10, 2006
/s/ RICHARD L. THOMPSON Richard L. Thompson	Director	March 10, 2006
/s/ ROBERT J. WELSH Robert J. Welsh	Director	March 10, 2006
/s/ CAROLYN Y. WOO Carolyn Y. Woo	Director	March 10, 2006
/s/ ROGER A. YOUNG Roger A. Young	Director	March 10, 2006

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF ITEM
(3.1)	Amended and Restated Certificate of Incorporation of NiSource Inc., as amended through November 1, 2000 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).
(3.2)	Amended and Restated By-Laws of NiSource Inc. as amended through May 10, 2005 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Current Report on Form 8-K filed on May 16, 2005).
(4.1)	Indenture dated as of March 1, 1988, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4 to the Northern Indiana Registration Statement (Registration No. 33-44193)).
(4.2)	First Supplemental Indenture dated as of December 1, 1991, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to the Northern Indiana Registration Statement (Registration No. 33-63870)).
(4.3)	Financing Agreement No. 1 dated November 1, 1988, between Northern Indiana and Jasper County, Indiana regarding $37,000,000 Series 1988A Pollution Control Refunding Revenue Bonds. Identical Financing agreements between Northern Indiana and Jasper County, Indiana provide for the issuance of $47,000,000 Series 1988B, $46,000,000 Series 1988C and $24,000,000 Series 1988D Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 8 to the Northern Indiana Current Report on Form 8-K filed on March 16, 1989).
(4.4)	Financing Agreement dated August 1, 1994, with Jasper County, Indiana regarding $10,000,000 Series 1994A, $18,000,000 Series 1994B and $41,000,000 Series 1994C Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 4.16 to the Northern Indiana Annual Report on Form 10-K for year ended December 31, 1994).
(4.5)	Rights Agreement, dated November 1, 2000, between NiSource Inc. and ChaseMellon Shareholder Services, L.L.C., as rights agent (incorporated by reference to Exhibit 4.1 to the NiSource Inc. Current Report on Form 8-K filed on November 1, 2000).
(4.6)	Indenture Agreement between NIPSCO Industries, Inc., NIPSCO Capital Markets, Inc. and Chase Manhattan Bank as trustee dated February 14, 1997 (incorporated by reference to Exhibit 4.1 to the NIPSCO Industries, Inc. Registration Statement (Registration No. 333-22347)).
(4.7)	First Supplemental Indenture dated February 16, 1999, by and among NIPSCO Capital Markets, Inc., NIPSCO Industries, Inc., and the Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.36 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 1999).
(4.8)	Second Supplemental Indenture, dated as of November 1, 2000 among NiSource Capital Markets, Inc., NiSource Inc., New NiSource Inc., and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.45 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).

(4.9)	Indenture, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.3 to the NiSource Inc. Current Report on Form 8-K filed on November 1, 2000).
(4.10)	First Supplemental Indenture, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.4 to the NiSource Inc. Current Report on Form 8-K filed on November 1, 2000).
(4.11)	Second Supplemental Indenture, dated as of November 1, 2004, between NiSource Inc. and JPMorgan Chase Bank, as successor to The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.3 to the NiSource Inc. Registration Statement (Registration No. 333-119555)).
(4.12)	Indenture, dated November 14, 2000, among NiSource Finance Corp., NiSource Inc., as guarantor, and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 to the NiSource Inc. Form S-3, dated November 17, 2000 (Registration No. 333-49330)).
(4.13)	Form of 5.25% Notes due 2017 issued by NiSource Finance Corp., an Indiana corporation, to Cede & Co. (incorporated by reference to Exhibit 4.1 to the NiSource Inc. Current Report on Form 8-K filed on September 16, 2005).
(4.14)	Form of 5.45% Notes due 2020 issued by NiSource Finance Corp., an Indiana corporation, to Cede & Co. (incorporated by reference to Exhibit 4.2 to the NiSource Inc. Current Report on Form 8-K filed on September 16, 2005).
(10.1)	NiSource Inc. Nonemployee Director Stock Incentive Plan (As Amended and Restated effective January 1, 2005) (incorporated by reference to Exhibit 10.9 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *
(10.2)	NiSource Inc. Nonemployee Director Retirement Plan, as amended and restated effective January 1, 2005 (incorporated by reference to Exhibit 10.8 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *
(10.3)	NiSource Inc. Directors' Charitable Gift Program effective January 1, 2001 (incorporated by reference to Exhibit 10.35 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2001). *
(10.4)	Supplemental Life Insurance Plan effective January 1, 1991, as amended, (incorporated by reference to Exhibit 2 to the NIPSCO Industries, Inc. Current Report on Form 8-K filed on March 25, 1992). *
(10.5)	NiSource Inc. Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2005 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *
(10.6)	Form of Change in Control and Termination Agreements and Schedule of Parties to the Agreements. * **
(10.7)	Form of Agreement between NiSource Inc. and certain officers of Columbia Energy Group and schedule of parties to such Agreements (incorporated by reference to Exhibit 10.33 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *
(10.8)	NiSource Inc. 1994 Long-Term Incentive Plan, as amended and restated effective January 1, 2005 (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *

(10.9) Form of Nonqualified Stock Option Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan, as amended and restated effective January 1, 2004 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Current Report on Form 8-K filed on January 3, 2005).*

(10.10) NiSource Inc. Supplemental Executive Retirement Plan as Amended and Restated effective January 1, 2005 (incorporated by reference to Exhibit 10.6 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *

(10.11) Bay State Gas Company Supplemental Executive Retirement Plan restated January 1, 1992 (incorporated by reference to Exhibit 10.23 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

(10.12) NiSource Inc. Executive Severance Policy, effective as of June 1, 2002 as amended effective January 1, 2005. (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2005). *

(10.13) First Amendment to the NiSource Inc. Executive Severance Policy, effective as of June 1, 2002 as amended effective January 1, 2005 (incorporated by reference to Exhibit 10.7 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *

(10.14) NiSource Inc. Corporate Incentive Plan (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*

(10.15) Second Amendment to the NiSource Corporate Incentive Plan, effective as of January 1, 2004 as amended effective January 1, 2005 (incorporated by reference to Exhibit 10.5 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2005). *

(10.16) Pension Restoration Plan for NiSource Inc. and Affiliates as Amended and Restated effective January 1, 2005 (incorporated by reference to Exhibit 10.5 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005). *

(10.17) Savings Restoration Plan for NiSource Inc. and Affiliates as Amended and Restated effective January 1, 2005 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005).*

(10.18) Letter Agreement between NiSource Inc. and Gary L. Neale dated May 23, 2005 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2005). *

(10.19) Noncompetition Agreement dated February 12, 1999 between Roger A. Young and Bay State Gas Company (incorporated by reference to Exhibit 10.8 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).

(10.20) Employment Agreement dated February 12, 1999 between Mr. Roger A. Young and Bay State Gas Company (incorporated by reference to Exhibit 10.9 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).

(10.21) Letter Agreement between NiSource Inc. and Michael W. O'Donnell dated July 28, 2004 regarding his benefits under the NiSource Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2004).*

(10.22) Letter Agreement between NiSource Corporate Services Company and S. LaNette Zimmerman, dated July 15, 2002 (incorporated by reference to Exhibit 10.35 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

(10.23)	Letter Agreement between NiSource Corporate Services Company and S. LaNette Zimmerman, dated August 17, 2005 (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Current Report on Form 8-K filed on August 26, 2005). *
(10.24)	Letter Agreement with Samuel W. Miller dated September 1, 2002 (incorporated by reference to Exhibit 10.6 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*
(10.25)	Change in Control and Termination Agreement with Samuel W. Miller dated August 17, 2004 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2004).*
(10.26)	Letter Agreement with Samuel W. Miller dated March 29, 2005 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on April 5, 2005).*
(10.27)	Letter Agreement between NiSource Corporate Services Company and Christopher A. Helms dated March 15, 2005 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2005). *
(10.28)	Amended and restated Indenture of Mortgage and Deed of Trust by Columbia Gas Transmission Corporation to Wilmington Trust Company, dated as of November 28, 1995 (incorporated by reference to Exhibit 10-AF to the Columbia Energy Group Annual Report on Form 10-K for the period ended December 31, 1995).
(10.29)	Financing Agreement dated as of December 1, 2003 between Jasper County, Indiana and Northern Indiana Public Service Company (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).
(10.30)	Insurance Agreement, dated as of December 18, 2003, by and between AMBAC Assurance Corporation and Northern Indiana Public Service Company (incorporated by reference to Exhibit 10.31 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).
(10.31)	4-Year Letter of Credit Reimbursement Agreement dated as of February 13, 2004 among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the Lead Arranger and Lenders party thereto, as Lenders; Barclays Bank Plc, as Administrative Agent and LC Bank, Barclays Capital as Lead Arranger and Barclays Capital as Sole Book Runner (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004).
(10.32)	Amendment Number 1 to 4-Year Letter Of Credit Reimbursement Agreement (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004).
(10.33)	Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, Credit Suisse First Boston, as Syndication Agent, JPMorgan Chase Bank, N.A., The Bank Of Tokyo-Mitsubishi, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents, Barclays Bank Plc, as Administrative Agent and LC Bank, Barclays Capital and Credit Suisse First Boston, as Lead Arrangers and Barclays Capital, as Sole Book Runner, dated as of March 11, 2005 (incorporated by reference to Exhibit 99.1 to the NiSource Inc. Current Report on Form 8-K filed on March 17, 2005).
(10.34)	Note Purchase Agreement, dated August 23, 2005, by and among NiSource Finance Corp., as issuer, NiSource Inc., as guarantor, and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on August 26, 2005).
(10.35)	Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Dresdner Bank, AG, New York Branch, as Administrative Agent, Dresdner Kleinwort Wasserstein Llc, as Sole Lead Arranger and Sole Book

	Runner, dated as of November 30, 2005 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on December 2, 2005).
(10.36)	Agreement for Business Process and Support Services between NiSource Corporate Services Company and IBM, effective June 20, 2005 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2005).
(12)	Ratio of Earnings to Fixed Charges. **
(21)	List of Subsidiaries. **
(23)	Consent of Deloitte & Touche LLP. **
(31.1)	Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
(31.2)	Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
(32.1)	Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **
(32.2)	Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **

* Management contract or compensatory plan or arrangement of NiSource Inc.

** Exhibit filed herewith.

References made herein to Columbia Energy Group filings can be found at Commission File Number 001-01098. References made to Northern Indiana filings can be found at Commission File Number 001-04125. References made to NiSource Inc. filings made prior to November 1, 2000 can be found at Commission File Number 001-09779.

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2004

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from_____ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York, Chicago and Pacific
Preferred Share Purchase Rights	New York, Chicago and Pacific

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).
Yes ☒ No ☐

The aggregate market value of Common Stock (based upon the June 30, 2004, closing price of $20.62 on the New York Stock Exchange) held by non-affiliates was approximately $5,353,692,122.

There were 271,244,195 shares of Common Stock, $0.01 Par Value outstanding as of February 28, 2005.

Documents Incorporated by Reference
Part III of this report incorporates by reference specific portions of the Registrant's Notice of Annual Meeting and Proxy Statement relating to the Annual Meeting of Stockholders to be held on May 10, 2005.

CONTENTS

PART I

ITEM 1. BUSINESS

NISOURCE INC.

NiSource Inc. (NiSource) is an energy holding company whose subsidiaries provide natural gas, electricity and other products and services to over 3.7 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. NiSource is the successor to an Indiana corporation organized in 1987 under the name of NIPSCO Industries, Inc., which changed its name to NiSource Inc. on April 14, 1999. In connection with the acquisition of Columbia Energy Group (Columbia) on November 1, 2000, NiSource became a Delaware corporation registered under the Public Utility Holding Company Act of 1935, as amended.

NiSource is the largest natural gas distribution company operating east of the Rocky Mountains, as measured by number of customers. NiSource's principal subsidiaries include Columbia, a vertically-integrated natural gas distribution, transmission and storage holding company whose subsidiaries provide service to customers in the Midwest, the Mid-Atlantic and the Northeast; Northern Indiana Public Service Company (Northern Indiana), a vertically-integrated gas and electric company providing service to customers in northern Indiana; and Bay State Gas Company (Bay State), a natural gas distribution company serving customers in New England. NiSource derives substantially all of its revenues and earnings from the operating results of its 16 direct subsidiaries.

NiSource's business segments are: Gas Distribution Operations; Gas Transmission and Storage Operations; Electric Operations; and Other Operations. During the second quarter of 2003, NiSource sold its exploration and production operations. Previous to this sale, NiSource reported these operations in an Exploration and Production segment. In addition, during the fourth quarter of 2003, NiSource sold certain subsidiaries of PEI Holdings, Inc. (formerly Primary Energy, Inc.)(PEI). Previously, the operations of the PEI subsidiaries were reported in the Other Operations segment. All periods have been adjusted to reflect the PEI subsidiaries and the exploration and production segment as discontinued operations.

Gas Distribution Operations

NiSource's natural gas distribution operations serve more than 3.3 million customers in 9 states and operate over 56 thousand miles of pipeline. Through its wholly owned subsidiary, Columbia, NiSource owns five distribution subsidiaries that provide natural gas to approximately 2.2 million residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky and Maryland. NiSource also distributes natural gas to approximately 784 thousand customers in northern Indiana through three subsidiaries: Northern Indiana, Kokomo Gas and Fuel Company and Northern Indiana Fuel and Light Company, Inc. Additionally, NiSource's subsidiaries Bay State and Northern Utilities, Inc. distribute natural gas to approximately 335 thousand customers in Massachusetts, Maine and New Hampshire.

Gas Transmission and Storage Operations

NiSource's Gas Transmission and Storage Operations subsidiaries own and operate approximately 16 thousand miles of interstate pipelines and operate one of the nation's largest underground natural gas storage systems capable of storing approximately 646 billion cubic feet (Bcf) of natural gas. Through its subsidiaries, Columbia Gas Transmission Corporation (Columbia Transmission), Columbia Gulf Transmission Company (Columbia Gulf), Crossroads Pipeline Company and Granite State Gas Transmission, Inc. (Granite State), NiSource owns and operates an interstate pipeline network extending from offshore in the Gulf of Mexico to near Lake Erie, New York and the eastern seaboard. Together, these companies serve customers in 19 northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Gas Transmission and Storage Operations subsidiaries are engaged in several projects that will expand their facilities and throughput. The largest such project is the proposed Millennium Pipeline. The Millennium Pipeline is a project proposed by a partnership of energy companies including Columbia Transmission, which would replace parts of an existing Columbia Transmission pipeline. Another project is Hardy Storage, a Columbia Transmission partnership to develop a storage field in West Virginia to provide additional natural gas storage for the eastern United States.

NISOURCE INC.

Electric Operations
NiSource generates and distributes electricity through its subsidiary Northern Indiana to approximately 446 thousand customers in 21 counties in the northern part of Indiana and engages in wholesale and wheeling transactions. Northern Indiana owns and has the ability to operate four coal-fired electric generating stations with a net capability of 3,059 megawatts (mw), six gas-fired generating units with a net capability of 323 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system net capability of 3,392 mw. Northern Indiana's transmission system, with voltages from 34,500 to 345,000 volts, consists of 3,189 circuit miles. Northern Indiana is interconnected with five neighboring electric utilities.

In January 2002, Northern Indiana indefinitely shut down its Dean H. Mitchell Generating Station (Mitchell Station). Northern Indiana now operates three coal-fired generation stations with a net capacity of 2,574 mw, five gas-fired generating units with a net capacity of 306 mw and two hydroelectric plants with a net capability of 10 mw. During the year ended December 31, 2004, Northern Indiana generated 84.1% and purchased 15.9% of its electric requirements. Northern Indiana periodically reviews options to meet the electric needs of its customers. This review includes an assessment of Northern Indiana's oldest generating station units. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the environmental cleanup costs associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for the cleanup costs. The associated environmental cleanup costs are estimated to be between $38 million to $53 million. The proposed joint development agreement is currently under review by the Indiana Utility Regulatory Commission (IURC).

Other Operations
The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, including a cogeneration facility, fuel cells and storage systems. PEI operates the Whiting Clean Energy project at BP's Whiting, Indiana refinery, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Divestiture of Non-Core Assets
In recent years, NiSource sold certain businesses judged to be non-core to NiSource's strategy. In 2003, NiSource sold Columbia Energy Resources, Inc. (CER), Columbia Transmission Communications Corporation (Transcom), Columbia Service Partners, Inc., and all of the steel-related, inside-the-fence assets of PEI. In 2002, NiSource sold Indianapolis Water Company and other assets of IWC Resources Corporation (IWCR), SM&P Utility Resources, Inc. (SM&P), and a significant portion of EnergyUSA-TPC Corp. (TPC) net obligations under its gas forward transaction portfolio, physical storage inventory and associated agreements. Refer to Item 7, "Discontinued Operations," and Note 4, "Discontinued Operations and Assets Held for Sale," in the Notes to Consolidated Financial Statements for additional information.

Business Strategy
NiSource focuses its business strategy on its core, rate-regulated asset-based businesses with virtually 100% of its operating income generated from the rate-regulated businesses. With the nation's fourth largest natural gas pipeline, the largest natural gas distribution network east of the Rocky Mountains and one of the nation's largest natural gas storage networks, NiSource operates throughout the energy-intensive corridor that extends from the supply areas in the Gulf Coast through the consumption centers in the Midwest, Mid-Atlantic, New England and Northeast. This corridor includes 30% of the nation's population and 40% of its energy consumption. NiSource continues to position its assets to meet the corridor's growing energy needs.

Competition and Changes in the Regulatory Environment
The regulatory frameworks applicable to NiSource's operations, at both the state and federal levels, continue to evolve. These changes have had and will continue to have an impact on NiSource's operations, structure and profitability. Management continually seeks new ways to be more competitive and profitable in this changing environment, including providing gas customers with increased choices for products and services, and developing new energy-related products and services for residential, commercial and industrial customers.

NISOURCE INC.

Natural Gas Competition. Open access to natural gas supplies over interstate pipelines and the deregulation of the commodity price of gas has led to tremendous change in the energy markets, which continue to evolve. During the past few years, local distribution company (LDC) customers and marketers began to purchase gas directly from producers and marketers and an open, competitive market for gas supplies emerged. This separation or "unbundling" of the transportation and other services offered by pipelines and LDCs allows customers to purchase the commodity independent of services provided by the pipelines and LDC's. The LDC's continue to purchase gas and recover the associated costs from their customers. NiSource's Gas Distribution Operations' subsidiaries are involved in programs that provide residential customers the opportunity to purchase their natural gas requirements from third parties and use the NiSource Gas Distribution Operations' subsidiaries for transportation services.

Electric Competition. In 1996, the Federal Energy Regulatory Commission (FERC) ordered that all public utilities owning, controlling or operating electric transmission lines file non-discriminatory, open-access tariffs and offer wholesale electricity suppliers and marketers the same transmission service they provide to themselves. In 1997, FERC accepted for filing Northern Indiana's open-access transmission tariff and issued an opinion on December 31, 2002. In December 1999, FERC issued Order 2000, a final rule addressing the formation and operation of Regional Transmission Organizations (RTOs). The rule was intended to eliminate pricing inequities in the provisioning of wholesale transmission service. NiSource does not believe that compliance with the new rules will be material to its future earnings. On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the Midwest Independent System Operator (MISO) through participation in an independent transmission company (ITC). Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003. As of this date, transmission service occurs under the MISO Open Access Transmission Tariff (OATT) and the Northern Indiana OATT was retired. (See Item 7, Electric Operations – Regulatory Matters.)

NiSource's Other Operations subsidiaries also experience competition for energy sales and related services from third party providers. NiSource meets these challenges through innovative programs aimed at providing energy products and services at competitive prices while also providing new services that are responsive to the evolving energy market and customer requirements.

Financing Subsidiary

NiSource Finance Corp. (NiSource Finance) is a wholly-owned, consolidated finance subsidiary of NiSource that engages in financing activities to raise funds for the business operations of NiSource and its subsidiaries. NiSource Finance was incorporated in February 2000 under the laws of the State of Indiana. NiSource Finance's obligations are fully and unconditionally guaranteed by NiSource. Prior to 2000, the function of NiSource Finance was performed by NiSource Capital Markets, Inc.

Other Relevant Business Information

NiSource's customer base is broadly diversified, with no single customer accounting for a significant portion of revenues.

As of December 31, 2004, NiSource had 8,628 employees of whom 3,361 were subject to collective bargaining agreements.

For a listing of certain subsidiaries of NiSource refer to Exhibit 21.

NiSource files various reports with the Securities and Exchange Commission (SEC). The reports include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. NiSource makes all SEC filings available without charge to the public on its web site at http://www.nisource.com.

ITEM 2. PROPERTIES

NISOURCE INC.

Discussed below are the principal properties held by NiSource Inc. (NiSource) and its subsidiaries as of December 31, 2004.

Gas Distribution Operations. NiSource's Gas Distribution Operations subsidiaries own and operate a total of 56,101 miles of pipelines and certain related facilities. This includes: (i) for the five distribution subsidiaries of its Columbia Energy Group system, 33,935 miles of pipelines, 1,350 reservoir acres of underground storage, 8 storage wells and one compressor station with 800 horsepower (hp) of installed capacity, (ii) for its Northern Indiana Public Service Company (Northern Indiana) system, 14,554 miles of pipelines, 27,129 reservoir acres of underground storage and 2 compressor stations with a total of 6,000 hp of installed capacity, (iii) for its Bay State Gas Company system, 5,897 miles of pipelines, (iv) for its Northern Indiana Fuel and Light Company Inc. system, 923 miles of pipelines, and (v) for its Kokomo Gas and Fuel Company system, 792 miles of pipelines. The physical properties of the NiSource gas utilities are located throughout Ohio, Indiana, Pennsylvania, Virginia, Kentucky, Maryland, Massachusetts, Maine and New Hampshire.

Gas Transmission and Storage Operations. Columbia Gas Transmission Corporation has 877,144 reservoir acres of underground storage, 3,550 storage wells, 11,480 miles of interstate pipelines and 89 compressor stations with 597,004 hp of installed capacity. These operations are located in Delaware, Kentucky, Maryland, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Virginia and West Virginia. Columbia Gulf Transmission Company (Columbia Gulf) has 4,130 miles of transmission pipelines and 12 compressor stations with 479,102 hp of installed capacity. Columbia Gulf's operations are located in Kentucky, Louisiana, Mississippi, Tennessee, Texas, Wyoming, and the offshore Gulf of Mexico. Granite State Gas Transmission, Inc. has 82 miles of transmission pipeline with operations located in Maine, Massachusetts and New Hampshire. Crossroads Pipeline Company (Crossroads Pipeline) has 202 miles of transmission pipeline and one compressor station with 3,000 hp of installed capacity. Crossroads Pipeline's operations are located in Indiana and Ohio.

Electric Operations. Northern Indiana owns and has the ability to operate four coal-fired electric generating stations with a net capability of 3,059 mw, six gas-fired generating units with a net capability of 323 mw and two hydroelectric generating plants with a net capability of 10 mw. These facilities provide for a total system net capability of 3,392 mw. It has 289 substations with an aggregate transformer capacity of 23,191,000 kilovolt-amps. Its transmission system, with voltages from 34,500 to 345,000 volts, consists of 3,189 circuit miles of line. The electric distribution system extends into 21 counties and consists of 7,786 circuit miles of overhead and 1,792 cable miles of underground primary distribution lines operating at various voltages from 2,400 to 12,500 volts. Northern Indiana has distribution transformers having an aggregate capacity of 12,261,662 kilovolt-amps and 466,534 electric watt-hour meters.

In January 2002, Northern Indiana indefinitely shutdown its Mitchell Station. Northern Indiana now operates three coal-fired generation stations with a net capacity of 2,574 mw, five gas-fired generating units with a net capacity of 306 mw and two hydroelectric plants with a net capability of 10 mw. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the environmental cleanup costs associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for the cleanup costs. The associated environmental cleanup costs are estimated to be between $38 million to $53 million. The proposed joint development agreement is currently under review by the Indiana Utility Regulatory Commission (IURC).

Other Operations. PEI Holdings, Inc. owns and operates the Whiting Clean Energy project at BP's Whiting, Indiana refinery, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Through other subsidiaries, NiSource owns Southlake Complex, its 325,000 square foot headquarters building located in Merrillville, Indiana and other residential and development property that it holds for resale in Indiana.

NISOURCE INC.

Character of Ownership. The principal offices and properties of NiSource and its subsidiaries are held in fee and are free from encumbrances, subject to minor exceptions, none of which are of such a nature as to impair substantially the usefulness of such properties. Many of the offices in various communities served are occupied by subsidiaries of NiSource under leases. All properties are subject to liens for taxes, assessments and undetermined charges (if any) incidental to construction. It is NiSource's practice regularly to pay such amounts, as and when due, unless contested in good faith. In general, the electric lines, gas pipelines and related facilities are located on land not owned in fee but are covered by necessary consents of various governmental authorities or by appropriate rights obtained from owners of private property. NiSource does not, however, generally have specific easements from the owners of the property adjacent to public highways over, upon or under which its electric lines and gas distribution pipelines are located. At the time each of the principal properties was purchased a title search was made. In general, no examination of titles as to rights-of-way for electric lines, gas pipelines or related facilities was made, other than examination, in certain cases, to verify the grantors' ownership and the lien status thereof.

ITEM 3. LEGAL PROCEEDINGS

NISOURCE INC.

1. **Virginia Natural Gas, Inc. v. Columbia Gas Transmission Corporation, Federal Energy Regulatory Commission**

   On January 13, 2004, Virginia Natural Gas, Inc. (VNG) filed with the Federal Energy Regulatory Commission (FERC) a "Complaint Seeking Compliance with the Natural Gas Act and with Regulations and Certificate Orders of the Federal Energy Regulatory Commission and Seeking Remedies" in Docket No. RP04-139. VNG alleged various violations during the winter of 2002-2003 by Columbia Gas Transmission Corporation (Columbia Transmission) of its firm service obligations to VNG. VNG sought monetary damages and remedies (exceeding $37 million), and also sought certain prospective remedies. On July 29, 2004, the FERC issued an order in which it refused to grant VNG any monetary damages and said such claims are best determined by a court of law. The FERC also agreed with Columbia Transmission that Columbia Transmission had not abandoned its obligation to provide service and that it had not inappropriately continued interruptible service to the detriment of firm service. However, the FERC did find that Columbia Transmission had failed to exercise sufficient due diligence in its modifications to or its operation of vaporization equipment at its Chesapeake LNG facility and that Columbia Transmission had failed to deliver gas to VNG at 250 pounds per square inch gauge (psig) as called for by the agreement between VNG and Columbia Transmission. The FERC declined VNG's request to award damages in this case and, as noted above, stated that any claim for damages could best be determined by a court of law. Both VNG and Columbia Transmission sought rehearing of the FERC order, but the FERC denied the requests for rehearing. Both Columbia Transmission and VNG have appealed the FERC's decision to the United States Court of Appeals for the D.C. Circuit, where the appeals are currently pending.

2. **Stand Energy Corporation, et al. v. Columbia Gas Transmission Corporation, et al., Kanawha County Court, West Virginia**

   On July 14, 2004, Stand Energy Corporation filed a complaint in Kanawha County Court in West Virginia. The complaint contains allegations against various NiSource companies, including Columbia Transmission and Columbia Gulf Transmission Company (Columbia Gulf), and asserts that those companies and certain "select shippers" engaged in an "illegal gas scheme" that constituted a breach of contract and violated state law. The "illegal gas scheme" complained of by the plaintiffs relates to the Columbia Transmission and Columbia Gulf gas imbalance transactions that were the subject of the FERC enforcement staff investigation and subsequent settlement approved in October 2000. Columbia Transmission and Columbia Gulf filed a Notice of Removal with the Federal Court in West Virginia on August 13, 2004 and a Motion to Dismiss on September 10, 2004. In October 2004, however, the plaintiffs filed their Second Amended Complaint, which clarified the identity of some of the "select shipper" defendants and added a federal antitrust cause of action. On January 6, 2005, the Court denied the Columbia companies' motion to strike the Second Amended Complaint and granted the plaintiffs leave to amend. To address the issues raised in the Second Amended Complaint, the Columbia companies revised their briefs in support of the previously filed motions to dismiss and the motions are pending.

3. **Vivian K. Kershaw et al. v. Columbia Natural Resources, Inc., et al., Chautauqua County Court, New York**

   Plaintiffs filed a complaint in 2000 against Columbia Natural Resources, Inc. (Columbia Natural Resources,) a former subsidiary, Columbia Transmission, Columbia Energy Group and Columbia Energy Resources, Inc. The complaint alleges that plaintiffs own an interest in oil and gas leases in New York and that the defendants have underpaid royalties on those leases by, among other things, failing to base royalties on the price at which natural gas is sold to the end-user and by improperly deducting post-production costs. Plaintiffs seek the alleged royalty underpayment and punitive damages. The complaint also seeks class action status on behalf of all royalty owners in oil and gas leases owned by the defendants. Discovery is proceeding regarding class certification issues.

NISOURCE INC.

4. United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana

The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia Energy Group and thirteen affiliated entities (collectively, the "Columbia defendants").

Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss has been scheduled for the end of the first quarter of 2005.

5. Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against Columbia Natural Resources alleging that Columbia Natural Resources underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that Columbia Natural Resources fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from Columbia Natural Resources (and its predecessors or successors) on lands lying within the boundary of the State of West Virginia. All individuals, corporations, agencies, departments or instrumentalities of the United States of America are excepted from the class. Columbia Natural Resources appealed the decision certifying the class and the Supreme Court of West Virginia denied the appeal. Although NiSource sold Columbia Natural Resources in 2003, it remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource Inc. and Columbia Energy Group as defendants. Trial is scheduled for early in the third quarter of 2005.

6. Environmental Protection Agency Notice of Violation

On September 29, 2004, the United States Environmental Protection Agency, (EPA) issued a Notice of Violation (NOV) to Northern Indiana Public Service Company (Northern Indiana) for alleged violations of the Clean Air Act and the Indiana State Implementation Plan. The NOV alleges that modifications were made to certain boiler units at three of Northern Indiana's generating stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana is currently in discussions with the EPA regarding possible resolutions to this NOV.

Refer to Note 17-E, "Other Legal Proceedings," in the Notes to Consolidated Financial Statements for additional information regarding legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT

NISOURCE INC.

The following is a list of the Executive Officers of the Registrant, including their names, ages, years with NiSource and offices held, as of February 1, 2005.

Name	Age	Years with NiSource	Office(s) Held in Past 5 Years
Gary L. Neale	64	15	Chairman and Chief Executive Officer of NiSource, Inc. (NiSource) since March 1993.
			President of NiSource from March 1993 to October 2004.
Robert C. Skaggs, Jr.	50	4	President of NiSource since October 2004.
			Executive Vice President, Regulated Revenue of NiSource from October 2003 to October 2004.
			President of Columbia Gas of Ohio, Inc. from February 1997 to October 2003 and Columbia Gas of Kentucky, Inc. from January 1997 to October 2003.
			President of Bay State Gas Company and Northern Utilities, Inc. from November 2000 to October 2003.
			President of Columbia Gas of Virginia, Inc., Columbia Gas of Maryland, Inc., and Columbia Gas of Pennsylvania, Inc. from December 2001 to October 2003.
Samuel W. Miller, Jr.	45	3	Executive Vice President and Chief Operating Officer of NiSource since September 2002.
			Partner in the consulting firm Accenture prior to September 2002.
Michael W. O'Donnell	60	4	Executive Vice President and Chief Financial Officer of NiSource since November 2000.
			Senior Vice President and Chief Financial Officer of Columbia from October 1993 to October 2000.
Peter V. Fazio, Jr.	65	4	Executive Vice President and General Counsel of NiSource since November 2000.
			Partner in the law firm of Schiff Hardin LLP since 1984.

SUPPLEMENTAL ITEM. EXECUTIVE OFFICERS OF THE REGISTRANT (continued)

NiSource Inc.

Name	Age	Years with NiSource	Office(s) Held in Past 5 Years
S. LaNette Zimmerman	60	4	Executive Vice President, Human Resources and Communications of NiSource since March 2002. Executive Vice President and Chief Human Resources Officer at NiSource from November 2000 to February 2002. Consultant to NiSource from June 2000 to October 2000 on human resources and other matters. Prior thereto, Sr. Vice President Human Resources at Chicago Title and Trust Company.
Jeffrey W. Grossman	53	4	Vice President and Controller of NiSource since November 2000. Vice President and Controller of Columbia from May 1996 to October 2000.
David J. Vajda	49	28	Vice President and Treasurer of NiSource since January 2003. Vice President, Finance, Indiana Energy Group of NiSource Corporate Services Company from August 2002 to December 2002. Vice President, Finance and Administration, Merchant Energy of NiSource Corporate Services Company from October 2000 to August 2002. Vice President, Finance of Northern Indiana Public Service Company (Northern Indiana) from February 2000 to November 2000. Controller of Northern Indiana from July 1996 to January 2000.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NISOURCE INC.

NiSource Inc. (NiSource)'s common stock is listed and traded on the New York, Chicago and Pacific stock exchanges. The table below indicates the high and low sales prices of NiSource's common stock, on the composite tape, during the periods indicated.

	2004		2003	
	High	**Low**	High	Low
First Quarter	**22.53**	**20.80**	21.70	16.39
Second Quarter	**21.72**	**19.65**	20.68	17.94
Third Quarter	**21.70**	**20.42**	20.65	18.58
Fourth Quarter	**22.82**	**20.76**	21.97	19.70

As of December 31, 2004, NiSource had 50,020 common stockholders of record and 270,625,370 shares outstanding.

On November 1, 2004 NiSource issued approximately 6.8 million shares of common stock upon the settlement of the stock purchase contracts comprising a component of NiSource's Stock Appreciation Income Linked Securities^{SM} (SAILS^{SM}). NiSource received approximately \$144.4 million in satisfaction of the SAILS^{SM} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the \$144.4 million of debentures that comprised the debt component of the SAILS^{SM} was reset to 3.628% per annum. The debentures mature November 1, 2006.

In February 2003, NiSource issued approximately 13.1 million shares of common stock upon the settlement of forward equity agreements comprising a component of the Corporate Premium Income Equity Securities (Corporate PIES). Concurrently with the settlement of the forward agreements, NiSource remarketed most of the underlying debentures, due February 19, 2005, and reset the interest rate to 4.25%. NiSource received net proceeds of \$344.1 million from the remarketing in satisfaction of the Corporate PIES holders' obligation under the forward equity agreements. The sole purchaser of the remarketed debentures purchased newly-offered 6.15% notes of NiSource Finance Corp. due March 1, 2013, using the remarketed debentures as consideration.

In November 2002, NiSource issued 41.4 million shares of common stock in an underwritten public offering at a per-share price of \$18.30 (\$17.75 on a net basis). The net proceeds of approximately \$734.9 million were used to reduce debt.

Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by NiSource's Board of Directors (Board) out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. Beginning with the November 2003 dividend, NiSource reduced its annual dividend to \$0.92 per share from \$1.16 per share in line with the company's objectives of ongoing debt reduction, cash flow and core business reinvestment for the future. This decision was also influenced by the fact that its dividend yield and payout ratio prior to the dividend reduction were higher than industry averages. NiSource paid quarterly common dividends totaling \$0.92 per share for 2004 and \$1.10 per share for 2003. At its January 6, 2005 meeting, the Board declared a quarterly common dividend of \$0.23 per share, payable on February 18, 2005 to holders of record on January 31, 2005.

Although the Board currently intends to continue the payment of regular quarterly cash dividends on common shares, the timing and amount of future dividends will depend on the earnings of NiSource's subsidiaries, their financial condition, cash requirements, regulatory restrictions, any restrictions in financing agreements and other factors deemed relevant by the Board.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (continued)

NISOURCE INC.

The following limitation on payment of dividends applies to Northern Indiana Public Service Company (Northern Indiana):

As a holding company, NiSource depends on dividends received from its operating subsidiaries. Dividends from those subsidiaries may be subject to regulatory limitations. In addition, Northern Indiana's charter provides that so long as any shares of Northern Indiana's cumulative preferred stock are outstanding, no cash dividends shall be paid or declared on its common stock in excess of 75% of the net income available for the preceding calendar year, unless the aggregate of the capital applicable to stocks subordinate as to assets and dividends to the cumulative preferred stock plus the surplus, after giving effect to such common stock dividends, would equal or exceed 25% of the sum of all obligations evidenced by bonds, notes, debentures or other securities, plus the total capital and surplus. At December 31, 2004, the sum of the capital applicable to stocks subordinate to the cumulative preferred stock plus the surplus was equal to 50% of the total capitalization including surplus.

ITEM 6. SELECTED FINANCIAL DATA

NISOURCE INC.

Selected Supplemental Information

Year Ended December 31, *($ in millions except per share data)*	**2004**	2003	2002	2001	2000
Gross Revenues					
Gas Distribution	**3,801.8**	3,554.5	2,890.4	3,849.9	1,879.6
Gas Transportation and Storage	**1,013.4**	1,033.5	1,014.1	997.1	375.8
Electric	**1,121.0**	1,115.9	1,103.6	1,060.2	1,070.1
Other	**730.0**	542.7	311.7	363.5	378.2
Total Gross Revenues	**6,666.2**	6,246.6	5,319.8	6,270.7	3,703.7
Net Revenues (Gross Revenues less Cost of Sales)	**3,055.7**	3,060.3	3,070.9	3,126.8	1,838.4
Operating Income	**1,072.0**	1,116.3	1,152.2	967.9	581.8
Net Income	**436.3**	85.2	372.5	216.2	150.9
Shares outstanding at the end of the year (000's)	**270,625**	262,630	248,860	207,492	205,553
Number of common shareholders	**50,020**	42,034	47,472	49,589	52,085
Basic Earnings (Loss) Per Share ($)					
Continuing operations	**1.63**	1.64	1.89	0.93	0.91
Income from discontinued operations	**0.02**	(1.28)	(0.12)	0.10	0.21
Change in accounting	**-**	(0.03)	-	0.02	-
Basic Earnings Per Share	**1.65**	0.33	1.77	1.05	1.12
Diluted Earnings (Loss) Per Share ($)					
Continuing operations	**1.62**	1.63	1.87	0.91	0.89
Income from discontinued operations	**0.02**	(1.27)	(0.12)	0.10	0.22
Change in accounting	**-**	(0.03)	-	0.02	-
Diluted Earnings Per Share	**1.64**	0.33	1.75	1.03	1.11
Return on average common equity	**9.5%**	2.0%	9.7%	6.3%	6.3%
Times interest earned (pre-tax)	**2.54**	2.30	2.04	1.47	1.69
Dividends paid per share	**0.92**	1.10	1.16	1.16	1.08
Dividend payout ratio	**55.8%**	333.3%	65.5%	110.5%	96.4%
Market values during the year:					
High	**22.82**	21.97	24.99	32.55	31.50
Low	**19.65**	16.39	14.51	18.25	12.81
Close	**22.78**	21.94	20.00	23.06	30.75
Book value of common stock	**17.69**	16.81	16.78	16.72	16.59
Market-to-book ratio at year end	**128.8%**	130.5%	119.2%	137.9%	185.4%
Total Assets	**16,988.0**	16,624.2	17,942.6	18,826.6	20,570.5
Capital expenditures	**517.0**	574.6	531.9	525.3	331.1
Capitalization					
Common stockholders' equity	**4,787.1**	4,415.9	4,174.9	3,469.4	3,409.1
Preferred and preference stock	**81.1**	81.1	84.9	88.6	132.7
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely Company debentures	**-**	-	345.0	345.0	345.0
Long-term debt	**4,835.9**	5,993.4	4,849.5	6,065.1	5,802.7
Total Capitalization	**9,704.1**	10,490.4	9,454.3	9,968.1	9,689.5
Number of employees	**8,628**	8,614	9,307	12,501	14,674

The results in the table above for 2000 are not comparable as a result of the acquisition of Columbia Energy Group on November 1, 2000. Also, in 2002, NiSource Inc. discontinued the amortization of goodwill consistent with SFAS No. 142, "Goodwill and Other Intangible Assets".

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource Inc.'s (NiSource) plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the scope, timing and impact of any outsourcing initiative, actual operating experience of NiSource assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated. A significant portion of NiSource's operations is subject to seasonal fluctuations in sales. During the heating season, which is primarily from November through March, net revenues from gas are more significant, and during the cooling season, which is primarily from June through September, net revenues from electric sales and transportation services are more significant than in other months.

NISOURCE INC.

As a regulated company, NiSource is exposed to regulatory risk and manages this risk by monitoring its operations and working with various regulatory bodies to maintain a business that continues to provide value for its customers and stockholders in this changing environment. In 2003 and 2004, NiSource implemented several innovative agreements by working collaboratively with regulators and other key stakeholders. Ohio regulators approved an Uncollectible Expense Rider in 2003 that began in April 2004, which allowed Columbia Gas of Ohio, Inc. (Columbia of Ohio) to recover previously uncollected bad debts from January 1, 2003 forward and also allowed payment-troubled customers to have the opportunity to participate in CHOICE® programs for the first time. In 2004, Ohio regulators modified parts of a regulatory stipulation designed to enhance the CHOICE® program and provide Columbia of Ohio customers rate certainty. NiSource's pipeline companies completed the renegotiation of most of their firm transportation and storage service contracts with their customers in 2004, as these contracts expired on October 31, 2004. In December 2004, Northern Indiana Public Service Company (Northern Indiana) was granted approval by the Indiana Utility Regulatory Commission (IURC) to initiate a one-year pilot program for low-income energy assistance entitled, "NIPSCO Winter Warmth" which will be funded by a surcharge to customers and a Northern Indiana contribution. In 2003, Northern Indiana received approval from the IURC to recover costs associated with environmental compliance programs for nitrogen oxide pollution reduction equipment at the company's generating stations for which Northern Indiana recorded revenues of $22.3 million in 2004 related to qualified capital and operating costs. Overall, NiSource's regulatory strategies that were initiated in 2003 and 2004 have begun to produce returns and benefit both its customers and the company. All regulatory matters are discussed in the segment sections of the Management Discussion and Analysis.

In addition to the regulatory initiatives, NiSource has closely controlled operation and maintenance costs and reduced debt and interest expense. With the focus on regulated operations and organizational structure, NiSource was able to deliver income from continuing operations of $1.63 per share for the year ended December 31, 2004.

During 2004, total long and short-term borrowings decreased $353.8 million. Additionally, interest expense was $60.8 million lower for the twelve months ended December 31, 2004 compared with 2003 due to lower long-term interest rates as a result of refinancing activity completed in 2003 and 2004. NiSource currently anticipates that its $900 million of notes, due in November 2005, will be replaced with a new debt issue. In the fourth quarter of 2004, NiSource entered into forward swap arrangements to reduce its risk of rising interest rates relating to its anticipated refinancing of these notes in November 2005.

Going forward, NiSource will continue to focus on the regulated, core businesses of strategically located gas and electric operations that generate virtually 100% of the company's operating income. NiSource will also continue to explore commercial and regulatory initiatives that benefit both customers and shareholders, invest in pipeline expansion and storage projects to bring additional gas supplies to key markets, improve the balance sheet and lower operating expenses. In addition to initiatives already underway, NiSource is exploring refinancing opportunities that could further reduce interest expense. Management is also evaluating initiatives to lower operation and maintenance costs. Outsourcing may be a part of a comprehensive approach to capture this opportunity.

Financial results for 2005 are expected to be negatively impacted by some of these operational and financial initiatives, along with impacts of regulatory proceedings and pipeline re-contracting that took place in 2004. Earnings per share from continuing operations could be $0.10 to $0.15 lower than 2004 results.

NiSource also intends to increase the level of capital expenditures and other investing activities during 2005. For 2005, the projected capital program is expected to be $623.6 million, which is $100.2 million higher than the 2004 level. This higher spending is mainly due to increased expenditures for pipeline integrity related work and growth initiatives in the Gas Transmission and Storage Operations segment and system upgrades in the Gas Distribution Operations segment to maintain service and reliability. The program is expected to be funded primarily with cash from operations.

Finally, NiSource has always been committed to providing accurate and complete financial reporting as well as requiring a strong commitment to ethical behavior by its employees. During 2004, NiSource documented and tested all significant controls across its financial processes and NiSource's management has concluded that the company's internal control over financial reporting was effective as of the end of the period covered by this annual report. Refer to Item 9A, "Management's Report on Internal Controls Over Financial Reporting." NiSource's senior management takes an active role in the development of the Form 10-K and the monitoring of the company's internal control structure and performance. In addition, NiSource will continue the mandatory ethics training program in which employees at every level and in every function of the organization participate.

Results of Operations

The Consolidated Review information should be read taking into account the critical accounting policies applied by NiSource and discussed in "Other Information" of this Item 7.

Income from Continuing Operations and Net Income

For the twelve months ended December 31, 2004, NiSource reported income from continuing operations of $430.2 million, or $1.63 per share, compared to $425.7 million, or $1.64 per share, in 2003 and $398.1 million, or $1.89 per share in 2002.

Including results from discontinued operations and a change in accounting, NiSource reported 2004 net income of $436.3 million, or $1.65 per share, 2003 net income of $85.2 million, or $0.33 per share, and $372.5 million, or $1.77 per share for 2002. Earnings per share are not comparable because of 6.8 million shares issued upon the settlement of forward stock purchase contracts comprising a component of NiSource's Stock Appreciation Income Linked Securities^{SM} (SAILS^{SM}) in November 2004, 13.1 million shares issued upon the settlement of forward equity agreements in February 2003 and an equity offering of 41.4 million shares that was completed in November 2002.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the twelve months ended December 31, 2004 were $3,055.7 million, a $4.6 million decrease compared with 2003. Gas Distribution Operations net revenues decreased $36.0 million, primarily as a result of reduced residential and commercial natural gas deliveries due to warmer weather of approximately $33 million compared to last year and lower revenues from contract cost reduction programs, reduced sales of retail products, releases of capacity and gas cost incentives that amounted to $33.1 million partially offset by increased revenues from regulatory strategies of approximately $25.8 million from the stipulation agreement granted for Columbia of Ohio and the recovery for conservation measures granted to Bay State Gas Company (Bay State). The reduction in Gas Distribution Operations net revenue was partially offset by a $31.6 million increase in electric net revenue for 2004 as compared to 2003. This was the result of higher net revenues from environmental trackers, increased customer usage and the effect of reserves recorded for regulatory refunds in the comparable 2003 period.

Total consolidated net revenues for the twelve months ended December 31, 2003 were $3,060.3 million, a $10.6 million decrease compared with 2002. Items that favorably impacted the year included colder weather during the heating season in the first quarter amounting to $60 million and modest increases in non-weather related volume of $15.4 million. These favorable items were offset by reduced electric revenue of $21.9 million due to cooler weather during the summer cooling season, lower interruptible service revenues and firm service revenues of $19.7 million in the Gas Transmission and Storage Operations segment due to measures undertaken during the first quarter period of sustained, colder-than-normal weather, a decrease in storage and transportation revenues of $13.5 million due mainly to reduced deliveries to power generating facilities, and credits totaling $24.5 million pertaining to the Indiana Utility Regulatory Commission (IURC) electric rate review settlement.

NISOURCE INC.

Expenses

Operating expenses were $1,983.7 million in 2004, a $39.7 million increase from 2003 due primarily to the comparable 2003 period being favorably impacted by insurance recoveries, recovery of previously uncollected accounts receivable under the Columbia of Ohio bad debt tracker, and the reversal of legal, environmental, and other accrued expenses of approximately $40.5 million and a $16.6 million gain on the sale of Columbia Service Partners, Inc. (Columbia Service Partners). Operating expenses for 2004 were favorably impacted by a reduction in estimated property taxes of $29.3 million partially offset by an increase in depreciation expense of approximately $13 million.

Operating expenses of $1,944.0 million for 2003 increased $25.3 million over 2002. Operating expense increases experienced during 2003 included $28.5 million in pension and post-retirement benefit expenses, an increase in uncollectible accounts receivable expense amounting to $21.3 million, and increased property tax expense of $12.3 million. Expense reductions for 2003 include $27.5 million in reduced administrative and employee-related expenses, the approval of a bad debt tracker for Columbia of Ohio for the recovery of $25.2 million of previously uncollected accounts receivable, and insurance recoveries and the reversal of legal, environmental, and other accrued expenses of approximately $35.3 million. In addition, NiSource sold Columbia Service Partners for a gain of $16.6 million in the third quarter of 2003 and Midtex Gas Storage for a gain of $7.5 million in the fourth quarter of 2003. The 2002 period included $24.5 million of insurance recoveries for environmental expenses, a reduction in estimated sales taxes of $11.4 million related to sales of natural gas to customers of a subsidiary previously engaged in the retail and wholesale gas marketing business, a reduction in reserves for environmental expenditures and unaccounted-for gas amounting to $20 million, offset by $14.8 million of increased expenses related to NiSource's reorganization initiatives and other employee-related costs and $8.7 million related to the recognition of a reserve related to a long-term note receivable.

Other Income (Deductions)

Other Income (Deductions) in 2004 reduced income $400.9 million compared to a reduction of $456.4 million in 2003. Interest expense, net decreased $60.8 million from 2003 primarily due to lower long-term interest rates and a decrease in total debt of $354 million from December 31, 2003. Other, net decreased $7.9 million as a result of decreased interest income in 2004.

Other Income (Deductions) in 2003 reduced income $456.4 million compared to a reduction of $535.2 million in 2002. Interest expense, net decreased $51.7 million from 2002 primarily due to lower short-term and long-term interest rates and a decrease in total debt of $191 million from December 31, 2002. Minority interest, consisting of dividends paid on company-obligated mandatorily redeemable preferred securities associated with the Corporate Premium Income Equity Securities (Corporate PIES), was $2.5 million in 2003 compared to $20.4 million in 2002 as a result of the settlement and remarketing of the Corporate PIES in February 2003.

Income Taxes

Income taxes increased $6.7 million in 2004 as compared with 2003 and increased $15.3 million in 2003 over 2002 primarily as a result of higher pre-tax income in each succeeding period. The effective income tax rates were 35.9%, 35.5%, and 35.5 % in 2004, 2003 and 2002, respectively.

Discontinued Operations

Discontinued operations reflected income of $6.1 million, or $0.02 per share, in 2004 compared to a loss of $331.7 million, or $1.28 per share, in 2003 and a loss of $25.6 million, or $0.12 per share, in 2002. The current year's income from discontinued operations, after-tax, is mostly the result of a reduction in estimated income taxes associated with NiSource's former exploration and production subsidiary, Columbia Energy Resources, Inc. (CER). In 2003, an after-tax loss of $301.2 million was related to the sale of CER, while a loss of $29.1 million was recognized on the sale of six PEI Holdings, Inc. (PEI) subsidiaries and a loss of $1.3 million on the sale of Columbia Transmission Communications Corporation (Transcom). The 2002 results were unfavorably impacted by a charge of $51.3 million, after-tax, that was recognized as a result of the continuing depressed market for dark fiber and NiSource's decision to exit the telecommunications business.

Change in Accounting

The change in accounting in 2003 of $8.8 million, net-of-tax, resulted from the cumulative effect of adopting the Financial Accounting Standards Board statement on asset retirement obligations.

NISOURCE INC.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas.

Operating Activities. Net cash from operating activities for the twelve months ended December 31, 2004 was \$1,022.8 million, an increase of \$549.9 million from a year ago. This change was due primarily to a use of approximately \$430 million from working capital changes during the comparable 2003 period versus only a \$40 million use this year. The 2003 impact to working capital resulted from a decrease of exchange gas payables that were accrued at the end of 2002 and the replacement of a lower cost inventory level with a significantly higher cost inventory level. Additionally, \$142 million of cash was used during 2003 by businesses that were disposed of during that year.

Investing Activities. On October 20, 2003, NiSource sold all of the steel-related, "inside-the-fence" assets of its subsidiary PEI, to Private Power, LLC (Private Power). The sale included six PEI operating subsidiaries and the name "Primary Energy". Private Power paid approximately \$325.4 million, comprised of \$113.1 million in cash and the assumption of debt-related liabilities and other obligations. The assumption of such liabilities and the after tax cash proceeds from the sale reduced NiSource's debt by \$206.3 million. NiSource has accounted for the assets sold as discontinued operations and has adjusted periods after 1999 accordingly. During 2003, NiSource recognized an after-tax loss of \$29.1 million related to the sale.

On August 29, 2003, NiSource sold its exploration and production subsidiary, CER, to a subsidiary of Triana Energy Holdings for \$330 million, plus the assumption of obligations to deliver approximately 94.0 billion cubic feet (Bcf) of natural gas pursuant to existing forward sales contracts. On January 28, 2003, NiSource's former subsidiary, Columbia Natural Resources, Inc., sold its interest in certain natural gas exploration and production assets in New York for approximately \$95 million. NiSource has accounted for CER as discontinued operations and has adjusted periods after 1999 accordingly. During 2003, NiSource recognized an after-tax loss of \$301.2 million related to the sales.

Financing Activities. On July 29, 2003, NiSource filed a shelf registration statement with the Securities and Exchange Commission to periodically sell up to \$2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided the Company with an aggregate \$2.8 billion of total issuance capacity. After the \$250 million of notes issued on November 4, 2003 and the \$450 million of notes issued on November 23, 2004, both of which are discussed below, NiSource's shelf capacity remains at \$1.85 billion.

On November 23, 2004, NiSource Finance Corp. (NiSource Finance) issued \$450 million of 5-year floating rate unsecured notes that mature November 23, 2009. The notes are callable, at par, on or after November 23, 2006. Subsequently, on December 10, 2004, NiSource Finance used \$250 million of the proceeds from the \$450 million floating rate note offering to redeem \$250 million of existing floating rate notes that were due May 2005. The remaining proceeds were used to repay a portion of NiSource Finance short-term borrowings.

On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS℠. NiSource received approximately \$144.4 million in satisfaction of the SAILS℠ holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the \$144.4 million of debentures that comprised the debt component of the SAILS℠ was reset to 3.628% per annum. The debentures mature November 1, 2006.

NISOURCE INC.

During July 2004, Northern Indiana redeemed $32 million of its medium-term notes, with an average interest rate of 6.53%.

During April 2004, NiSource Capital Markets, Inc. (NiSource Capital Markets) redeemed $80 million of its medium-term notes, with an average interest rate of 7.39%.

During February 2004, Northern Indiana redeemed $111.1 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes, with an average interest rate of 7.49% and 7.63%, respectively. The associated redemption premium was $4.6 million, of which $4.2 million was charged to expense and $0.4 million was recorded as a regulatory asset.

On December 18, 2003, $55 million of new tax-exempt Pollution Control Revenue Refunding Bonds were issued by Jasper County, Indiana on behalf of Northern Indiana. The new tax-exempt bonds were issued on an auction rate basis and bear interest at a floating rate as determined in 35-day increments by the tax-exempt auction process. The proceeds of the bonds were loaned to Northern Indiana, pursuant to a financing agreement dated as of December 1, 2003, and were used to refund Northern Indiana's $55 million aggregate principal amount of Jasper County, Indiana Collateralized Pollution Control Refunding Revenue Bonds Series 1991. As a result of the refunding, the final series of First Mortgage Bonds outstanding under Northern Indiana's First Mortgage Indenture were discharged, cancelled and returned to Northern Indiana. There are no longer any First Mortgage Bonds outstanding under the First Mortgage Indenture. Northern Indiana intends to obtain and file in due course in the appropriate recording offices in Indiana the releases necessary to remove the First Mortgage Indenture from the title records with respect to the Northern Indiana property formerly subject to the lien of the First Mortgage Indenture.

On November 4, 2003, NiSource Finance issued $250 million of 18-month floating rate unsecured notes with a maturity date of May 4, 2005. The notes were subsequently called on December 10, 2004 at par value. Also on November 4, 2003, NiSource Finance issued $250 million of 3.20% three-year unsecured notes that mature November 1, 2006. The proceeds were used to repay a portion of NiSource Finance's $750 million notes, which matured on November 15, 2003.

On July 21, 2003, NiSource Finance issued $500 million of 5.40% eleven-year senior unsecured notes that mature July 15, 2014. The proceeds were used to reduce other maturing debt and for working capital needs. During the time period of March 2003 through July 2003, Northern Indiana redeemed $124 million of Northern Indiana medium term notes. On April 15, 2003, NiSource Finance repaid at maturity $300 million of its 5.75% two-year senior notes. On March 31, 2003, NiSource Capital Markets redeemed $75 million of its 7.75% Subordinated Debentures due March 1, 2026.

On July 8, 2003 NiSource announced that it would reduce its common stock dividend to $0.92 per share from $1.16 per share on an annual basis. This change took effect beginning with the dividend payable on November 20, 2003. The change in the dividend, the sale of non-core assets, the November 2002 equity offering and ongoing debt reduction efforts have stabilized NiSource's credit ratings, enhanced cash flows and provided funds to reinvest in NiSource's core businesses for the future. NiSource's decision was also influenced by the fact that its dividend yield and payout ratio prior to the dividend reduction were higher than industry averages.

In February 2003, NiSource issued approximately 13.1 million shares of common stock upon the settlement of forward equity agreements comprising a component of the Corporate PIES. Concurrently with the settlement of the forward agreements, NiSource remarketed most of the underlying debentures, due February 19, 2005, and reset the interest rate to 4.25%. NiSource received net proceeds of $344.1 million from the remarketing in satisfaction of the Corporate PIES holders' obligations under the forward equity agreements. The sole purchaser of the remarketed debentures purchased newly-offered 6.15% notes of NiSource Finance due March 1, 2013, using the remarketed debentures as consideration.

In November 2002, NiSource issued 41.4 million shares of common stock at a per-share price of $18.30 ($17.75 on a net basis). The net proceeds of approximately $734.9 million were used to reduce debt.

Credit Facilities
NiSource is currently in the process of renewing its $500 million 364-day credit facility, and plans to incorporate this facility and its $750 million 3-year facility into a combined $1.25 billion 5-year credit facility. The new facility is expected to close in March 2005 and will include sub-limits for letters of credit of $500 million and swingline loans of $200 million. NiSource anticipates that a debt to capitalization financial covenant will be the only financial covenant required under this new facility.

As of March 1, 2005, there are no borrowings under the existing facility. NiSource had short term cash investments of $146.1 million as of that date.

During March 2004, NiSource obtained a new $500 million 364-day credit facility and a $750 million 3-year credit facility with a syndicate of banks led by Barclays Capital. The new facilities replaced an expiring $1.25 billion credit facility. NiSource had outstanding credit facility advances of $307.6 million at December 31, 2004, at a weighted average interest rate of 3.04%, and advances of $685.5 million at December 31, 2003, at a weighted average interest rate of 1.82%. As of December 31, 2004 and December 31, 2003, NiSource had $111.6 million and $126.4 million of standby letters of credit outstanding, respectively. At December 31, 2004, $89.4 million of the $111.6 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource obtained during February 2004. Of the remaining $22.2 million of standby letters of credit outstanding at December 31, 2004, $18.2 million resided under NiSource's 3-year credit facility and $4.0 million resided under an uncommitted arrangement with another financial institution. As of December 31, 2004, $924.2 million of credit was available under the credit facilities.

Debt Covenants
NiSource is subject to two financial covenants under both its existing 364-day and 3-year revolving credit facilities. On a consolidated basis, NiSource must maintain an interest coverage ratio of not less than 1.75, as determined for each period of four consecutive fiscal quarters. Additionally, NiSource must maintain a debt to capitalization ratio that does not exceed 70 percent. As of December 31, 2004, NiSource was in compliance with these financial covenants.

NiSource is also subject to certain negative covenants under the revolving credit facilities. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket equal to 5% of NiSource's consolidated net tangible assets. An asset sale covenant generally restricts the sale, lease and/or transfer of NiSource's assets to no more than 10% of its consolidated total assets. The revolving credit facilities also include a cross-default provision, which triggers an event of default under the credit facility in the event of an uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of $50 million or more.

NiSource's bond indentures generally do not contain any financial maintenance covenants. However, NiSource's bond indentures are generally subject to cross default provisions ranging from uncured payment defaults of $5 million to $50 million, and limitations on the incurrence of liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket capped at either 5% or 10% of NiSource's consolidated net tangible assets.

Sale of Trade Accounts Receivables
On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to Columbia of Ohio Receivables Corporation (CORC), a wholly-owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit sponsored by Dresdner Kleinwort Wasserstein. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement, which replaced a prior similar agreement, expires in May 2005, but can be renewed if mutually agreed to by both parties. As of December 31, 2004, $137.7 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

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On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NIPSCO Receivables Corporation (NRC), a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. The agreement will expire on December 26, 2005, but can be renewed if mutually agreed to by both parties. As of December 31, 2004, NRC had sold $133.3 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Credit Ratings

On July 8, 2003, Moody's Investors Service affirmed the senior unsecured ratings of NiSource at Baa3, and the existing ratings of all other subsidiaries, concluding a review for possible downgrade that began on May 13, 2003. Moody's ratings outlook for NiSource and its subsidiaries is now "stable". On June 30, 2003, Fitch Ratings affirmed their BBB senior unsecured rating for NiSource and the BBB+ rating for Columbia Energy Group (Columbia). Fitch also lowered the rating of Northern Indiana by one notch to BBB+ due to Fitch's policy of restricting the ratings between a parent and its subsidiaries where short-term financing facilities are solely at the holding company level. This did not reflect weakening credit at Northern Indiana. Fitch's outlook for NiSource and all of its subsidiaries is stable. On June 16, 2003, Standard and Poor's affirmed its senior unsecured ratings of NiSource at BBB, and the existing ratings of all other subsidiaries. Standard and Poor's outlook for NiSource and all of its subsidiaries was revised from negative to stable.

Certain EnergyUSA-TPC Corp. (TPC) electric trading agreements contain "ratings triggers" that require increased collateral if the credit ratings of NiSource or certain of its subsidiaries are rated below BBB- by Standard and Poor's or Baa3 by Moody's. The collateral requirement from a downgrade below the ratings trigger levels would amount to approximately $3 million to $5 million. In addition to agreements with ratings triggers, there are other electric or gas trading agreements that contain "adequate assurance" or "material adverse change" provisions. The collateral requirement for those agreements would amount to approximately $50 million to $55 million.

Columbia is the principal for surety bonds issued to guarantee performance under forward gas sales agreements. The surety bonds related to forward gas sales under agreements with Mahonia II Limited have indemnity values amounting to approximately $71.1 million as of December 31, 2004, which decline over time and have ratings triggers if the credit rating of Columbia falls below BBB at Standard and Poor's or Baa2 at Moody's. Columbia's long-term debt ratings are currently BBB and Baa2 at Standard and Poor's and Moody's, respectively. The collateral requirement from a downgrade below the ratings trigger levels would require the posting of a letter of credit of approximately $71.1 million declining over time. In another, but unrelated transaction, the surety, in accordance with the terms of its indemnity agreement, required NiSource to post a letter of credit in the face amount of approximately $131 million, declining over time, to support the bonds. At December 31, 2004, the total amount of letters of credit required with respect to this transaction was $89.4 million.

Contractual Obligations and Commercial Commitments

NiSource has certain contractual obligations that extend beyond 2005. The obligations include long-term debt, mandatorily redeemable preferred stock, lease obligations, and purchase obligations for pipeline capacity, transportation and storage services by NiSource's Gas Distribution Operations subsidiaries. The total contractual obligations in existence at December 31, 2004 and their maturities were:

(in millions)	Total	2005	2006	2007	2008	2009	After
Long-term debt	$ 6,207.2	$ 1,298.7	$ 438.3	$ 370.7	$ 33.5	$ 465.9	$ 3,600.1
Mandatorily redeemable preferred stock	1.5	0.9	0.6	-	-	-	-
Capital leases	2.6	0.4	0.5	0.4	0.4	-	0.9
Operating leases	273.7	46.5	44.5	39.1	33.9	26.8	82.9
Purchase obligations	1,121.3	212.5	162.4	142.5	112.4	87.9	403.6
Total contractual obligations	$ 7,606.3	$ 1,559.0	$ 646.3	$ 552.7	$ 180.2	$ 580.6	$ 4,087.5

NISOURCE INC.

NiSource has obligations associated with interest and tax payments. For 2005, NiSource projects that it will be required to make interest and tax payments of approximately $990 million. Also, NiSource expects to make contributions of $3.6 million to its pension plans and $52.7 million to its postretirement medical and life plans in 2005.

In addition, Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and have current annual charges approximating $17.2 million. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

NiSource has made certain commercial commitments that extend beyond 2005. The commitments include lines of credit, letters of credit and guarantees, which support commercial activities. The total commercial commitments in existence at December 31, 2004, including commercial commitments for discontinued operations, and the years in which they expire were:

(in millions)	Total	2005	2006	2007	2008	2009	After
Lines of credit	$ 307.6	$ 307.6	$ -	$ -	$ -	$ -	$ -
Letters of credit	111.6	19.2	1.9	1.1	89.4	-	-
Guarantees	5,623.5	1,324.2	925.2	63.0	68.8	525.6	2,716.7
Total commercial commitments	$ 6,042.7	$ 1,651.0	$ 927.1	$ 64.1	$ 158.2	$ 525.6	$ 2,716.7

Of the commercial commitments outstanding shown above, NiSource had approximately $3.7 billion of debt and capital lease obligations recorded on its Consolidated Balance Sheets at December 31, 2004.

Pension Funding

Due to strong equity markets, the fair value of NiSource's pension fund assets as of September 30, 2004, have increased for the second year in a row. Additionally, $18.2 million in employer contributions were made during 2004 to certain of NiSource's qualified and non-qualified pension plans. NiSource expects market returns to revert to normal levels as demonstrated in historical periods and expects to contribute $3.6 million in 2005 to certain pension plans and may provide additional funding for the pension obligations if returns on plan assets fall short of the assumed 9.0% long-term earnings rate assumption. As a result of the increase in the fair value of the plan assets, NiSource expects pension expense for 2005 to decrease approximately $3.6 million from the amount recognized in 2004. See Note 10, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements for more information.

Capital Expenditures and Other Investing Activities

The table below reflects actual capital expenditures and other investing activities by segment for 2004 and 2003 and an estimate for year 2005:

(in millions)	2005E	2004	2003
Gas Distribution Operations	$ 255.3	$ 225.2	$ 195.1
Transmission & Storage Operations	206.3	133.3	120.5
Electric Operations	128.1	154.0	225.1
Other Operations	33.9	10.9	31.8
Total	$ 623.6	$ 523.4	$ 572.5

NISOURCE INC.

For 2004, capital expenditures and other investing activities were $523.4 million, a decrease of $49.1 million from 2003. This reduction in capital expenditures was mainly due to a reduction in expenditures for nitrogen oxide (NOx) compliance. The Gas Distribution Operations segment's capital program in 2004 included initiatives to extend service to new areas and develop future markets through new services that may be added to the existing business and to create a potential new pool of customers, as well as expenditures to ensure safe, reliable and improved service to customers and modernize and upgrade facilities. The Gas Transmission and Storage Operations segment invested primarily in modernizing and upgrading facilities and meeting the needs of existing and new customers through the construction of significant new facilities, either wholly-owned by NiSource or in partnership with other qualified project participants. Electric Operations capital program included improvements related to the operational integrity of generation, transmission and distribution assets, expenditures related to environmental compliance regarding NOx reduction, and additions to electric distribution systems related to new customers. Capital expenditures in Other Operations mainly comprise partnership investments and enterprise-wide information technology infrastructure improvement. In 2004, Other Operations included a recovery of funds related to prior year investments.

For 2005, the projected capital program is expected to be $623.6 million, which is $100.2 million higher than the 2004 level. This higher spending is mainly due to increased expenditures for pipeline integrity related work and growth initiatives in the Gas Transmission and Storage Operations segment and system upgrades in the Gas Distribution Operations segment to maintain service and reliability. The program is expected to be funded primarily with cash from operations. Increases in 2005 capital expenditures will be partly offset by a continued reduction in estimated expenditures for NOx compliance.

Market Risk Disclosures

Risk is an inherent part of NiSource's energy businesses. The extent to which NiSource properly and effectively identifies, assesses, monitors and manages each of the various types of risk involved in its businesses is critical to its profitability. NiSource seeks to identify, assess, monitor and manage, in accordance with defined policies and procedures, the following principal trading and non-trading risks that are involved in NiSource's energy businesses: commodity market risk, interest rate risk and credit risk. Risk management at NiSource is a multi-faceted process with committee oversight that requires constant communication, judgment and knowledge of specialized products and markets. NiSource's senior management takes an active role in the risk management process and has developed policies and procedures that require specific administrative and business functions to assist in the identification, assessment and control of various risks. In recognition of the increasingly varied and complex nature of the energy business, NiSource's risk management policies and procedures continue to evolve and are subject to ongoing review and modification.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including value-at-risk and instrument sensitivity to market factors (VaR). VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional ratemaking process and may be more exposed to commodity price risk.

Effective July 1, 2002, TPC sold a significant portion of its net obligations under its gas forward transaction portfolio, physical storage inventory and associated agreements to a third party. Beginning with the effective date of the sale, the primary remaining operations associated with TPC include commercial and industrial gas sales (including arranging supply), power marketing and gas supply associated with Whiting Clean Energy, Inc. and power trading. With the exception of power trading and one remaining gas trading transaction, which expired in October 2002, since July 1, 2002 the gas-related activities at TPC were no longer considered trading activities for accounting purposes.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during 2004 and 2003, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $20.5 million and $16.2 million for the years 2004 and 2003, respectively.

Between October 27, 2004 and November 1, 2004, NiSource Finance entered into $900 million of forward starting interest rate swaps, hedging the future interest payments of long-term debt. The $900 million of forward starting swaps included $450 million notional value of 12-year forward starting swaps entered into with three counterparties and $450 million notional value of 15-year forward starting swaps entered into with three additional counterparties. Entering into these hedge transactions allows NiSource Finance to mitigate the risk from rising interest rates and uncertain interest expense cash flows in the future. Assuming prevailing credit spreads in effect at the time the forward starting swaps were put in place, the swaps would result in a net effective interest rate of approximately 5.55%-5.65% for the planned 12-year note issuance and approximately 5.70%-5.80% for the planned 15-year note issuance. These approximate interest rates assume the relationship between swap spreads embedded in the forward starting swaps and NiSource Finance's credit spread remain constant from execution date of the swaps through the planned notes issuance date anticipated in September 2005. Each of the forward starting swap transactions have both an effective date and a mandatory early termination date of September 7, 2005, which is the date NiSource Finance anticipates completing $900 million of new debt issuance, consisting of $450 million of 12-year notes and $450 million of 15-year notes.

On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month British Banker Association (BBA) London InterBank Offered Rate (LIBOR) plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On May 12, 2004, Columbia terminated all remaining fixed-to-variable interest rate swap agreements.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

On April 11, 2003, Columbia entered into fixed-to-variable interest rate swap agreements in a notional amount of $100 million with two counterparties. Columbia received payments based upon a fixed 7.42% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 2.39% per annum. There was no exchange of premium at the initial date of the swaps. These interest rate swap agreements were terminated on May 12, 2004.

On April 4, 2003, Columbia terminated a fixed-to-variable interest rate swap agreement in a notional amount of $100 million. Columbia received a settlement payment from the counterparty amounting to $8.2 million, which is being amortized as a reduction to interest expense over the remaining term of the underlying debt.

On September 3, 2002, Columbia entered into new fixed-to-variable interest rate swap agreements totaling $281.5 million with three counterparties effective as of September 5, 2002. According to the agreements, Columbia will receive payments based upon a fixed 7.32% interest rate and will pay a floating interest amount based on U.S. 6-month BBA LIBOR plus 2.66% per annum. There was no exchange of premium at inception of the swaps. These interest rate swap agreements were terminated on May 12, 2004.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, standby letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analyses of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

Prior to the July 1, 2002 sale of the TPC gas marketing and trading contracts, NiSource's trading operations consisted of gas- and power-related activities. Beginning July 1, 2002, with the exception of one remaining gas trading transaction, which expired in October 2002, the trading activities of TPC have involved power only.

The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the New York Mercantile Exchange (NYMEX), other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

The fair values of the contracts related to NiSource's trading operations, the activity affecting the changes in the fair values during 2004, the sources of the valuations of the contracts during 2004 and the years in which the remaining contracts (all power trading) mature are:

(in millions at December 31)	**2004**
Fair value of trading contracts outstanding at the beginning of the period	$ **(1.5)**
Contracts realized or otherwise settled during the period (including net option premiums received)	**(0.4)**
Fair value of new contracts entered into during the period	**(8.6)**
Other changes in fair values during the period	**7.5**
Fair value of contracts outstanding at the end of the period	$ **(3.0)**

(in millions)	2005	2006	2007	2008	After
Prices from other external sources	$ (0.7)	$ -	$ -	$ -	$ -
Prices based on models/other method	(2.3)	-	-	-	-
Total fair values	$ (3.0)	$ -	$ -	$ -	$ -

The caption "Prices from other external sources" generally includes contracts traded on electronic exchanges and over-the-counter contracts whose value is based on published indices or other publicly available pricing information. Contracts shown within "Prices based on models/other method" are generally valued employing the widely used Black-Scholes option-pricing model.

Market Risk Measurement
Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was $0.2 million, $0.4 million and effectively zero, during 2004, respectively. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.1 million, $0.4 million and $0.1 million during 2004, respectively. Prospectively, management has set the VaR limits at $2.5 million for power trading and $0.5 million for gas marketing. Exceeding the VaR limits would result in management actions to reduce portfolio risk.

Refer to this Item 7, "Critical Accounting Policies," and Note 1-Q, "Accounting for Risk Management and Energy Trading Activities," and Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of a former subsidiary. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets. In addition, NiSource has other guarantees, purchase commitments, operating leases, lines of credit and letters of credit outstanding. Refer to Note 6, "Risk Management and Energy Trading Activities," and Note 17, "Other Commitments and Contingencies," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and have current annual charges approximating $17.2 million. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

In addition, NiSource has sold certain accounts receivable. NiSource's accounts receivable programs qualify for sale accounting because they meet the conditions specified in Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." In the agreements, all transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. NiSource does not retain any interest in the receivables under these programs. Refer to Note 16, "Fair Value of Financial Instruments," in the Notes to Consolidated Financial Statements for additional information on these agreements.

Other Information

Critical Accounting Policies
NiSource applies certain accounting policies based on the accounting requirements discussed below that have had, and may continue to have, significant impacts on NiSource's results of operations and Consolidated Balance Sheets.

Basis of Accounting for Rate-Regulated Subsidiaries. SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71), provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and if the competitive environment makes it probable that such rates can be charged and collected. NiSource's rate-regulated subsidiaries follow the accounting and reporting requirements of SFAS No. 71. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance Sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers. The total amounts of regulatory assets and liabilities reflected on the Consolidated Balance Sheets were $998.4 million and $1,214.3 million at December 31, 2004, and $893.2 million and $1,164.5 million at December 31, 2003, respectively. For additional information, refer to Note 1-D, "Basis of Accounting for Rate-Regulated Subsidiaries," in the Notes to Consolidated Financial Statements.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery is approved by the appropriate regulatory bodies that would meet the requirements under generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of SFAS No. 71, NiSource would be required to apply the provisions of SFAS No. 101, "Regulated Enterprises – Accounting for the Discontinuation of Application of Financial Accounting Standards Board (FASB) Statement No. 71." In management's opinion, NiSource's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Certain of the regulatory assets reflected on NiSource's Consolidated Balance Sheets require specific regulatory action in order to be included in future service rates. Although recovery of these amounts is not guaranteed, NiSource believes that these costs meet the requirements for deferral as regulatory assets under SFAS No. 71. Regulatory assets requiring specific regulatory action amounted to $174.5 million at December 31, 2004. If NiSource determined that the amounts included as regulatory assets were not recoverable, a charge to income would immediately be required to the extent of the unrecoverable amounts.

Accounting for Risk Management Activities. Under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity," as subsequently amended by SFAS No. 137, SFAS No. 138, and SFAS No. 149 (collectively referred to as SFAS No. 133,) the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation. Unrealized and realized gains and losses are recognized each period as components of other comprehensive income, earnings, or regulatory assets and liabilities depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to other comprehensive income and are recognized in earnings concurrent with the disposition of the hedged risks. For fair value hedges, the gains and losses are recorded in earnings each period along with the change in the fair value of the hedged item. As a result of the rate making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered in revenues through rates.

In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recorded currently in earnings.

Although NiSource applies some judgment in the assessment of hedge effectiveness to designate certain derivatives as hedges, the nature of the contracts used to hedge the underlying risks is such that the correlation of the changes in fair values of the derivatives and underlying risks is high. NiSource generally uses NYMEX exchange-traded natural gas futures and options contracts and over-the-counter swaps based on published indices to hedge the risks underlying its natural-gas-related businesses. NiSource had $209.4 million and $188.7 million of price risk management assets and $52.4 million and $36.7 million of price risk management liabilities, all primarily related to hedges, at December 31, 2004 and 2003, respectively. The amount of unrealized gains recorded to other comprehensive income, net of tax, was $93.9 million and $91.7 million at December 31, 2004 and 2003, respectively.

Accounting for Energy Trading Activities. Energy trading activities refers to energy contracts entered into with the objective of generating profits on or from exposure to shifts or changes in market prices. NiSource evaluates the contracts of its trading operations in accordance with the criteria for derivative contracts under SFAS No. 133. Through 2002, contracts not meeting the criteria under SFAS No. 133 were recorded at fair value under Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" (EITF No. 98-10).

Pursuant to EITF No. 98-10, when certain trading criteria are met, energy contracts, including "energy-related contracts" such as tolling, transportation and storage contracts, should be accounted for at fair value (marked to market) along with any related derivative contracts, recognizing related gains and losses currently in earnings. In the October 2002 EITF meeting, EITF No. 98-10 was rescinded and only contracts meeting the definition in SFAS No. 133 can be marked to market. Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statement for further information.

While the assessment of fair values for NiSource's trading contracts have been mainly based on pricing information for exchange-traded contracts, transportation and storage agreements related to gas trading deals entered into prior to the cessation of gas trading activities were marked to fair value based on the results of internal models. No estimates of fair values on transportation and storage contracts related to gas trading activities remained as of December 31, 2002 due to the sale or expiration of all gas-trading related agreements during the year. In addition, power trading options were marked to fair value through earnings based on internal calculations of fair value employing the widely-used Black-Scholes option pricing model. The fair value of the "mark-to-fair-value" options outstanding was a loss of $3.0 million and a loss of $1.5 million at December 31, 2004 and 2003, respectively.

NiSource's Consolidated Balance Sheets contained price risk management assets of $8.8 million and $21.9 million and price risk management liabilities of $11.9 million and $23.4 million, at December 31, 2004 and 2003, respectively, related to unrealized gains and losses on trading activities.

Pensions and Postretirement Benefits. NiSource has defined benefit plans for both pensions and other postretirement benefits. The plans are accounted for under SFAS No. 87, "Employers' Accounting for Pensions", and SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other than Pensions." The calculation of the net obligations and annual expense related to the plans requires a significant degree of judgment regarding the discount rates to be used in bringing the liabilities to present value, long-term returns on plan assets and employee longevity, among other assumptions. Due to the size of the plans and the long-term nature of the associated liabilities, changes in the assumptions used in the actuarial estimates could have material impacts on the measurement of the net obligations and annual expense recognition. For further discussion of NiSource's pensions and other postretirement benefits see Note 10, "Pension and Other Postretirement Benefits," in the Notes to Consolidated Financial Statements.

Recently Issued Accounting Pronouncements

SFAS No. 123 (revised 2004) -- Share-Based Payment (SFAS No. 123R). In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after June 15, 2005, using a modified version of the prospective application.

NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, the Company awarded stock options that vested immediately, but included a one-year exercise restriction. Due to the one-year vesting terms of the options awarded prior to 2005 and the immediate vesting of the options awarded in January 2005, no amounts from the value of stock options awarded during or prior to June 15, 2005 will result in the recognition of expense during 2005 in accordance with SFAS No. 123R. However, any stock options awarded after June 15, 2005 will result in compensation expense over the related future vesting periods. NiSource anticipates that the adoption of this statement in the third quarter of 2005 will not have a material impact to NiSource's financial position or results of operations for 2005.

FASB Staff Position (FSP) No. FAS 106-2 -- Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-2). (Supersedes FSP 106-1-- Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.) On December 8, 2003, the President of the United States signed the Medicare Prescription Drug, Improvement and Modernization Act into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires presently enacted changes in relevant laws to be considered in current period measurements of postretirement benefit costs and the Accumulated Projected Benefit Obligation. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. NiSource had previously elected to defer accounting for the effects of this pronouncement, as allowed by FSP 106-1. On July 1, 2004, NiSource adopted the provisions of FSP 106-2. The impact of accounting for the federal subsidy was not material to NiSource's financial position or results of operations.

FASB Interpretation No. 46 (Revised December 2003) -- Consolidation of Variable Interest Entities. On January 17, 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" (FIN 46R). FIN 46R requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46R also requires various disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. On December 18, 2003, the FASB deferred the implementation of FIN 46R to the first quarter of 2004. As a result, NiSource consolidated certain low income housing real estate investments beginning in the first quarter of 2004. Upon consolidation, NiSource increased its long-term debt by approximately $40 million. NiSource does not guarantee the debt payment of these low-income housing real estate investments.

Environmental Matters

NiSource affiliates have retained environmental liability, including cleanup liability, associated with some of its former operations including those of propane operations, petroleum operations, certain local gas distribution companies and CER. Most significant environmental liability relates to former manufactured gas plant (MGP) sites whereas less significant liability is associated with former petroleum operations and metering stations using mercury-containing measuring equipment.

The ultimate liability in connection with the contamination sites will depend upon many factors including the extent of environmental response actions required, other potentially responsible parties and their financial viability, and indemnification from previous facility owners. Only those corrective action costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5, "Accounting for Contingencies" and consistent with American Institute of Certified Public Accountants Statement of Position 96-1, "Environmental Remediation Liabilities." As costs become probable and reasonably estimable, reserves will be recorded and adjusted as appropriate. NiSource believes that any environmental response actions required at former operations, for which it is ultimately liable, will not have a material adverse effect on NiSource's financial position.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in United States Environmental Protection Agency (EPA)'s Climate Leaders program and will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Bargaining Unit Contract

As of December 31, 2004, NiSource had 8,628 employees of which 3,361 were subject to collective bargaining agreements. Northern Indiana reached an agreement with its bargaining unit employees to replace the contract agreements that expired May 31, 2004. The new agreements are for five years, expiring May 31, 2009.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

Year Ended December 31, *(in millions)*	**2004**	2003	2002
Net Revenues			
Sales Revenues	**$ 3,859.6**	$ 3,659.9	$ 2,905.4
Less: Cost of gas sold	**2,850.8**	2,625.3	1,921.6
Net Sales Revenues	**1,008.8**	1,034.6	983.8
Transportation Revenues	**431.8**	442.0	405.0
Net Revenues	**1,440.6**	1,476.6	1,388.8
Operating Expenses			
Operation and maintenance	**640.4**	615.4	589.6
Depreciation and amortization	**194.6**	190.2	189.2
Other taxes	**165.3**	164.6	150.9
Total Operating Expenses	**1,000.3**	970.2	929.7
Operating Income	**$ 440.3**	$ 506.4	$ 459.1
Revenues ($ in Millions)			
Residential	**$ 2,388.5**	$ 2,356.2	$ 1,790.7
Commercial	**839.0**	841.3	604.9
Industrial	**197.4**	194.0	101.9
Transportation	**431.8**	442.0	405.0
Off System Sales	**214.2**	86.1	191.5
Other	**220.5**	182.3	216.4
Total	**$ 4,291.4**	$ 4,101.9	$ 3,310.4
Sales and Transportation (MMDth)			
Residential sales	**218.9**	230.4	223.4
Commercial sales	**85.3**	89.7	83.6
Industrial sales	**24.3**	21.8	17.3
Transportation	**534.5**	522.9	536.9
Off System Sales	**34.9**	10.5	62.8
Other	**0.6**	0.9	0.2
Total	**898.5**	876.2	924.2
Heating Degree Days	**4,887**	5,134	4,757
Normal Heating Degree Days	**4,967**	4,949	5,129
% Colder (Warmer) than Normal	**(2%)**	4%	(7%)
Customers			
Residential	**2,389,032**	2,278,768	2,318,862
Commercial	**215,633**	210,967	216,024
Industrial	**5,806**	6,009	5,818
Transportation	**722,379**	779,802	705,430
Other	**61**	135	146
Total	**3,332,911**	3,275,681	3,246,280

NISOURCE INC.
Gas Distribution Operations (continued)

Competition
Gas Distribution Operations competes with investor-owned, municipal, and cooperative electric utilities throughout its service area, and to a lesser extent with other regulated natural gas utilities and propane and fuel oil suppliers. Gas Distribution Operations continues to be a strong competitor in the energy market as a result of strong customer preference for natural gas. Competition with providers of electricity is generally strongest in the residential and commercial markets of Kentucky, southern Ohio, central Pennsylvania and western Virginia where electric rates are primarily driven by low-cost, coal-fired generation. In Ohio and Pennsylvania, gas on gas competition is also common. Gas competes with fuel oil and propane in the New England markets mainly due to the installed base of fuel oil and propane-based heating which, over time, has comprised a declining percentage of the overall market.

Restructuring
Since 2000, NiSource has implemented restructuring initiatives to streamline its operations and realize efficiencies from the acquisition of Columbia. The restructuring activities were primarily associated with reductions in headcount and facility exit costs.

In connection with these restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions throughout all NiSource segments have been identified for elimination. As of December 31, 2004, approximately 1,560 employees throughout all NiSource segments had been terminated, of whom approximately 13 employees were terminated during 2004. Payments made in 2004 in respect of the restructuring items within Gas Distribution Operations was $1.6 million. Additionally, during 2004, the restructuring reserve was decreased by $0.5 million related to previous restructuring initiatives due to adjustments in estimated costs. The liability associated with these restructuring initiatives at December 31, 2004 and 2003 was $7.8 million and $9.9 million, respectively, with $7.3 million related to facility exit costs at December 31, 2004.

Regulatory Matters
Changes in gas industry regulation, which began in the mid-1980s at the federal level, have broadened to retail customers at the state level. For many years, large industrial and commercial customers have had the ability to purchase natural gas directly from marketers and to use Gas Distribution Operations' facilities for transportation services. Beginning in the mid-1990s, Gas Distribution Operations has provided these "CHOICE®" programs for its retail customers. Through the month of December 2004, approximately 713 thousand of Gas Distribution Operations' residential and small commercial and industrial customers selected an alternate supplier.

Gas Distribution Operations continues to offer CHOICE® opportunities through regulatory initiatives in all of its jurisdictions. While CHOICE® programs generally provide all customer classes with the opportunity to obtain gas supplies from alternative merchants, Gas Distribution Operations expects to play a substantial role in supplying gas commodity services to its customers for the foreseeable future. Customer participation in some of these programs can leave the Gas Distribution Operations subsidiaries with pipeline capacity for which it has contracted but no longer has a need. The state commissions in jurisdictions served by Gas Distribution Operations are at various stages in addressing methods for recovering the cost of such capacity. Gas Distribution Operations is currently recovering, or has the opportunity to recover, the costs resulting from the unbundling of its services and believes that most of such future costs will be mitigated or recovered. Methodologies for mitigating or recovering these costs include the use of assets available from previous funding mechanisms, incentive sharing mechanisms, reducing levels of reserved pipeline capacity and mandatory assignment of pipeline capacity to alternative suppliers.

Through October 2004, Columbia of Ohio's rates were established by regulatory stipulation approved by the Public Utilities Commission of Ohio (PUCO). On October 9, 2003, Columbia of Ohio and other parties filed with the PUCO an amended stipulation that would govern Columbia of Ohio's regulatory framework from November 2004 through October 2010. Most of Columbia of Ohio's volumetric capacity under contracts with interstate pipelines expired on October 31, 2004, and the amended stipulation would have provided Columbia of Ohio with guaranteed recovery of the costs of renewing those contracts for firm capacity sufficient to meet up to 100% of the design peak day requirements through October 31, 2005 and up to 95% of the design peak day requirements through October 31, 2010. Among other things, the amended stipulation would also have: (1) extended Columbia of Ohio's CHOICE® program from November 1, 2004 through October 2010; (2) provided Columbia of Ohio with an opportunity to generate revenues sufficient to cover the stranded costs associated with the CHOICE® program; and (3) allowed

Gas Distribution Operations (continued)

Columbia of Ohio to record post-in-service carrying charges on plant placed into service after October 2004, and to defer the property taxes and depreciation associated with such plant.

On March 11, 2004, the PUCO issued an order that adopted and modified the stipulation. The order extended Columbia of Ohio's CHOICE® program through December 31, 2007 and declined to pre-approve the amount of firm interstate pipeline capacity for which Columbia of Ohio could contract and receive assurance of cost recovery. In addition, the PUCO made other modifications which would limit Columbia of Ohio's ability to generate revenues sufficient to cover stranded costs, including declining to mandate that natural gas marketers participating in the CHOICE® program obtain 75% of their interstate capacity directly from Columbia of Ohio and changing the amount of revenues generated through off-system sales or capacity release transactions. The order allowed Columbia of Ohio to record post-in-service carrying charges on plant placed in service between October 2004 and December 31, 2007, and allowed the deferral of property taxes and depreciation associated with such plant for that same time frame.

On April 9, 2004, Columbia of Ohio and other signatory parties to the stipulation (Joint Petitioners), consistent with standard regulatory process, petitioned the PUCO for rehearing on the components that were modified in the March 11 order. That same day the Office of the Ohio Consumers' Counsel (OCC) also filed an application for rehearing, and argued that the PUCO should not have permitted Columbia of Ohio to record post-in-service carrying charges on plant placed into service after October 2004, and to defer the property taxes and depreciation associated with such plant. On April 19, 2004, the OCC filed a motion to dismiss the application for rehearing filed by Columbia of Ohio and other parties.

On May 5, 2004, the PUCO issued an order on rehearing, in which it denied the OCC's motion to dismiss and its application for rehearing. The PUCO granted part of the joint application filed by Columbia of Ohio and others. The PUCO modified its previous orders. Specifically, it (1) revised the term of the stipulation so that it extends through October 31, 2008; (2) restored the mandate that natural gas marketers participating in the CHOICE® program obtain 75% of their interstate pipeline capacity directly from Columbia of Ohio; and (3) revised the mechanism applicable to Columbia of Ohio's sharing of off-system sales and capacity release revenue. Under the revised off-system sales/capacity release revenue sharing mechanism, Columbia of Ohio will begin sharing such revenue with the customers after the annual revenue exceeds $25 million, instead of $35 million as originally proposed in the stipulation. This order further permitted Columbia of Ohio to record post-in-service carrying charges on plant placed in service between October 2004 and October 2008, and allowed the deferral of property taxes and depreciation associated with such plant for that same time frame.

Columbia of Ohio and the other signatory parties to the stipulation accepted the PUCO's modifications. Nevertheless, on May 14, 2004, the OCC filed a Second Application for Rehearing. Therein, the OCC argued that the Joint Petitioners did not meet the statutory requirements for an application for rehearing, and thus the PUCO's rehearing order was unlawful. The OCC also argued that the rehearing order was void as it resulted from settlement negotiations from which the OCC was excluded. The OCC also continued to challenge the PUCO's treatment of off-system sales and capacity release revenues, and post-in-service carrying charges and related deferrals.

On June 3, 2004, Columbia of Ohio filed its proposed tariffs and accounting. On June 9, 2004, the PUCO denied the OCC's Second Application for Rehearing. On July 29, 2004, the OCC filed an appeal with the Supreme Court of Ohio, contesting the PUCO's May 5, 2004 order on rehearing, which granted in part Columbia of Ohio's joint application for rehearing, and the PUCO's June 9, 2004 order, denying the OCC's Second Application for Rehearing. Columbia of Ohio intervened in the appellate proceeding. The briefing process has been completed and the parties are waiting for the Supreme Court of Ohio to schedule oral arguments.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio local distribution companies (LDCs) to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of

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Gas Distribution Operations (continued)

future bad-debt recovery requirements in November 2004. As of December 31, 2004, Columbia of Ohio has $43 million of uncollected accounts receivable pending future recovery.

On December 2, 2004, Columbia of Ohio filed two applications with the Ohio Power Siting Board, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. Columbia of Ohio also filed requests for waivers from certain of the Board's requirements. The waivers were approved on February 4, 2005. The application is currently pending, awaiting further Board action.

On September 10, 2004, the Pennsylvania Public Utility Commission approved a settlement agreement among Columbia Gas of Pennsylvania, Inc. (Columbia of Pennsylvania), The Office of Consumer Advocate, The Office of Small Business Advocate, The Office of Trial Staff, and Commercial & Industrial Intervenors in Columbia of Pennsylvania's annual gas cost recovery proceeding. Under the Settlement Agreement, the signatory parties agreed to financial incentive mechanisms for off-system sales and capacity release transactions performed by Columbia of Pennsylvania. Under the incentive mechanism, customers receive 100% of the total combined proceeds from off-system sales and capacity release transactions up to a benchmark of $6 million. After the benchmark is reached, Columbia of Pennsylvania will retain 50% of proceeds from the transactions; however, Columbia of Pennsylvania may never retain more than 40% of the actual net proceeds generated from off-system sales and capacity release transactions. The incentive mechanism began October 1, 2004 and ends on September 30, 2006.

Northern Indiana's gas costs are recovered under a flexible gas cost adjustment (GCA) mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a gas cost incentive mechanism which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA5 annual demand cost recovery filing, covering the period November 1, 2003 through October 31, 2004, was made on August 26, 2003. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2003. On June 8, 2004, Northern Indiana and the Indiana Office of Utility Consumer Counselor (OUCC) entered into a joint stipulation and agreement resolving all issues in GCA5. Among the settlement agreement's provisions, Northern Indiana has agreed to return $3.8 million to its customers over a twelve-month period following IURC approval, which occurred on August 18, 2004. An additional provision of the agreement extended the current Alternative Regulatory Plan (ARP), including Northern Indiana's gas cost incentive mechanism, from the current expiration date of December 31, 2004 to March 31, 2005.

Northern Indiana's GCA 6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. Northern Indiana expects the IURC's order in the second quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the 1997 ARP to March 31, 2006. The agreement also grandfathers the terms of existing contracts that marketers have with Choice customers and establishes a scope for negotiations that Parties will follow when convening within the next several months to establish a long-term resolution of ARP. The IURC hearing on this settlement was January 13, 2005 with an order expected in the first quarter of 2005.

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On December 15, 2004, Northern Indiana obtained approval from the IURC to implement a low-income energy assistance 1-year pilot program under the name NIPSCO Winter Warmth. Northern Indiana and the OUCC entered into and filed a settlement with the IURC on November 5, 2004. The agreement provides that Northern Indiana will collect from customers approximately $5.0 million over the respective 12-month period and contribute $0.7 million of company funds for a total of $5.7 million of energy assistance. Northern Indiana and the IURC will evaluate the success of NIPSCO Winter Warmth in 2005 to determine if it will become a permanent program.

The Maine Public Utility Commission (Maine PUC) has opened an investigation into the cast iron distribution piping integrity of Northern Utilities, Inc. (Northern Utilities). Northern Utilities has responded that its cast iron piping is operated in accordance with state and federal pipeline safety laws and regulations, and that it is replacing that piping in a safe, cost-effective manner. Northern Utilities has estimated that replacement of its cast-iron system on an accelerated basis would cost over $35 million. The company has asked the Maine PUC to assure recovery of the costs associated with the incremental rate base additions if the Maine PUC requires accelerated replacement.

All of the Columbia distribution companies hold long-term contracts for pipeline and storage services with its affiliate pipelines, Columbia Gas Transmission Corporation (Columbia Transmission) and Columbia Gulf Transmission Company (Columbia Gulf), and a majority of those contracts expired on October 31, 2004. The Columbia distribution companies are comprised of Columbia Gas of Kentucky, Inc., Columbia Gas of Maryland, Inc., Columbia of Ohio, Columbia of Pennsylvania, and Columbia Gas of Virginia, Inc. (Columbia of Virginia). Several distribution companies discussed their plan to renew pipeline and storage contracts with industry stakeholders to ensure the continued ability to serve the requirements of firm customers in a tightening capacity market. All contract negotiations between the distribution companies and Columbia Transmission and Columbia Gulf were resolved prior to the contracts expiring. In addition, certain contracts were subject to the approval of the respective state regulatory agencies. On April 29, 2004, the Pennsylvania Public Utility Commission approved a request by Columbia of Pennsylvania to renew its pipeline and storage contracts with Columbia Transmission and Columbia Gulf. Pursuant to this approval, Columbia of Pennsylvania's storage contracts and approximately half of its pipeline contracts will be renewed for terms of fifteen years, while the remaining pipeline contracts will be renewed on a tiered basis for terms ranging from five to ten years. Columbia of Pennsylvania will also acquire additional capacity to meet customer requirements on peak days. In addition, on August 3, 2004, the Virginia State Corporation Commission approved a request by Columbia of Virginia to renew its pipeline and storage contracts with Columbia Transmission and Columbia Gulf. Pursuant to this approval, Columbia of Virginia's storage and pipeline contracts with Columbia Transmission and Columbia Gulf will be renewed for terms of fifteen years.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of December 31, 2004, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-G, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Distribution Operations segment.

Market Conditions
Spot prices for the winter of 2003-2004 were in the $4.00-$6.00 per dekatherm (Dth) range in line with the prices experienced during the 2002-2003 winter season, except for the spike in prices experienced in late February through early March 2003. Entering the 2003-2004 winter season, storage levels were near the top of the five-year range. Slightly warmer than normal weather for the 2003-2004 winter season left national storage levels near the mid-point of the five-year range.

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Gas Distribution Operations (continued)

During the summer of 2004, prices ranged between $5.00 and $6.75/Dth, buoyed by production concerns, economic improvement and demand for gas-fired electric generation, though storage stocks reached their highest recorded levels entering the winter heating season. Thus far during the winter of 2004-2005 price levels are between $6.00 and $8.00/Dth, though stocks of storage gas continue to be higher than the five-year average and those of the 2003-2004 winter.

All NiSource Gas Distribution Operations companies have state-approved recovery mechanisms that provide a means for full recovery of prudently incurred gas costs. Gas costs are treated as pass-through costs and have no impact on the net revenues recorded in the period. The gas costs included in revenues are matched with the gas cost expense recorded in the period and the difference is recorded on the Consolidated Balance Sheets to be included in future customer billings. During times of unusually high gas prices, throughput and net revenue may be adversely affected as customers may reduce their usage as a result of higher gas cost.

The Gas Distribution Operations companies have pursued non-traditional revenue sources within the evolving natural gas marketplace. These efforts include both the sale of products and services upstream of their service territory, the sale of products and services in their service territories and gas supply cost incentive mechanisms for service to their core markets. The upstream products are made up of transactions that occur between an individual Gas Distribution company and a buyer for the sales of unbundled or rebundled gas supply and capacity. The on-system services are offered by NiSource to customers and include products such as the transportation and balancing of gas on the Gas Distribution Operations company system. The incentive mechanisms give the Gas Distribution Operations companies an opportunity to share in the savings created from such things as gas purchase prices paid below an agreed upon benchmark and its ability to reduce pipeline capacity charges. The treatment of the revenues generated from these types of transactions vary by operating company with some sharing the benefits with customers and others using these revenues to mitigate transition costs occurring as the result of customer choice programs described above under "Regulatory Matters."

Capital Expenditures and Other Investing Activities
The Gas Distribution Operations segment's net capital expenditure program was $225.2 million in 2004 and is projected to be approximately $255.3 million in 2005. The increase is primarily for modernizing and upgrading facilities. Capital expenditures required to provide service to new customers totaled approximately $84.8 million in 2004 and are expected to be $92.5 million in 2005.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees. In 2003, NiSource changed its definition of normal heating degree-days using weather information from the average of 30 years ended 2001. This resulted in a decrease in normal heating degree-days of about 3.5%.

Weather in the Gas Distribution Operations service territories for 2004 was approximately 2% warmer than normal and 5% warmer than 2003, decreasing net revenues by approximately $33 million for the year ended December 31, 2004 compared to 2003.

In 2003, weather in the Gas Distribution Operations service territories was approximately 4% colder than normal and 8% colder than 2002, increasing net revenues by approximately $60 million for the year ended December 31, 2003 compared to 2002.

Throughput
Total volumes sold and transported for the year ended December 31, 2004 were 898.5 million dekatherms (MMDth), compared to 876.2 MMDth for 2003. This increase was primarily due to higher off-system, industrial, and transportation sales, partially offset by reduced residential and commercial sales as a result of warmer weather in 2004 as compared with 2003.

NISOURCE INC.
Gas Distribution Operations (continued)

Total volumes sold and transported for the year ended December 31, 2003 were 876.2 MMDth, compared to 924.2 MMDth for 2002. This reduction was primarily due to a decrease in off-system sales as a result of fewer market opportunities.

Net Revenues
Net revenues for 2004 were $1,440.6 million, down $36.0 million from 2003, mainly as a result of decreased deliveries of natural gas to residential and commercial customers amounting to approximately $33 million due to warmer weather during the first and fourth quarters of 2004 compared to 2003. Additionally, revenues decreased due to lower revenues from contract cost reduction programs, reduced sales of retail products and releases of capacity amounting to $23.4 million, and reduced revenue from gas cost incentives of $9.7 million. These reductions in revenues were partially offset by an increase in residential customers representing higher revenues of approximately $8.5 million for 2004 as compared to 2003, and higher regulatory strategy net revenues of $25.8 million from the stipulation agreement granted for Columbia of Ohio and the recovery for conservation measures granted to Bay State.

Net revenues for 2003 were $1,476.6 million, up $87.8 million from 2002, mainly as a result of increased deliveries of natural gas to residential, commercial and industrial customers of approximately $60 million due to colder weather during the first quarter of 2003, increased revenues of $8.6 million from off-system sales and contract cost reduction arrangements partially offset by lower gas cost incentives and higher cost trackers and gross receipts taxes generally offset in operating expenses.

Operating Income
For the twelve months ended December 31, 2004, operating income for the Gas Distribution Operations segment was $440.3 million, a decrease of $66.1 million compared to the same period in 2003. The decrease was the result of lower net revenue mentioned above, and higher operating expenses of $30.1 million due to an increase in group insurance and outside services expenses of $6.7 million and depreciation expense of $4.4 million. In addition, the comparable 2003 period was favorably impacted by insurance recoveries and accrual adjustments of approximately $14.2 million. Both the 2004 and the 2003 periods benefited from lower uncollectible accounts resulting from the approval of the bad debt tracker for Columbia of Ohio in the fourth quarter of 2003.

For the twelve months ended December 31, 2003, operating income for the Gas Distribution Operations segment was $506.4 million, an increase of $47.3 million over the same period in 2002. The increase was the result of higher net revenue mentioned above, the approval of a bad debt tracker for Columbia of Ohio for the recovery $25.2 million of previously uncollected accounts receivable and reduced administrative and employee related expenses of $14.5 million. These benefits to operating income were offset in part by increased bad debt expense of $25.9 million, higher pension and postretirement expenses of $9.8 million, and $22.4 million of insurance recoveries for environmental expenses recognized in the 2002 period.

NISOURCE INC.
Gas Transmission and Storage Operations

Year Ended December 31, *(in millions)*	2004	2003	2002
Operating Revenues			
Transportation revenues	**$ 668.0**	$ 663.2	$ 730.4
Storage revenues	**178.2**	177.9	178.9
Other revenues	**9.0**	12.2	12.9
Total Operating Revenues	**855.2**	853.3	922.2
Less: Cost of gas sold	**22.6**	16.0	47.8
Net Revenues	**832.6**	837.3	874.4
Operating Expenses			
Operation and maintenance	**301.8**	278.3	316.2
Depreciation and amortization	**114.2**	111.4	109.4
Loss (Gain) on sale or impairment of assets	**1.2**	(1.8)	(2.2)
Other taxes	**52.3**	50.6	52.7
Total Operating Expenses	**469.5**	438.5	476.1
Operating Income	**$ 363.1**	$ 398.8	$ 398.3
Throughput (MMDth)			
Columbia Transmission			
Market Area	**978.3**	1,018.9	1,043.8
Columbia Gulf			
Mainline	**539.1**	612.6	614.4
Short-haul	**102.5**	124.4	146.9
Columbia Pipeline Deep Water	**16.7**	7.4	0.7
Crossroads Gas Pipeline	**40.5**	34.3	29.2
Granite State Pipeline	**32.7**	33.4	33.2
Intrasegment eliminations	**(537.1)**	(592.1)	(553.9)
Total	**1,172.7**	1,238.9	1,314.3

Pipeline Firm Service Contracts

Since implementation of Federal Energy Regulatory Commission (FERC) Order No. 636 in the early 1990's, the services of Columbia Transmission and Columbia Gulf have consisted of open access transportation services, and open access storage services in the case of Columbia Transmission. These services are provided primarily to LDCs. On October 31, 2004, firm contracts expired for both Columbia Transmission and Columbia Gulf, which represented approximately 60% of the Gas Transmission and Storage Operations net annual revenues. Based upon new commitments, Gas Transmission and Storage Operations is projecting a reduction of approximately $40 million in annual revenues under the replacement contracts, which represent approximately 5% of total Segment revenues. The terms of the replacement contracts entered into by Columbia Transmission and Columbia Gulf range from one year to 15 years, with an average term of approximately 7 years. These reductions are projected to be partially offset by increased revenues resulting from remarketing efforts and new firm contracts.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Proposed Millennium Pipeline Project
The proposed Millennium Pipeline Project (Millennium), in which Columbia Transmission is participating and will serve as developer and operator, will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is now being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with the Empire State Pipeline (Empire), an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, N.Y. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, N.Y. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

On September 19, 2002, the FERC issued its order granting final certificate authority for the original Millennium project and specified that Millennium may not begin construction until certain environmental and other conditions are met. One such condition, impacting what is now being marketed as Phase 2 of the project, is compliance with the Coastal Zone Management Act, which is administered by the State of New York's Department of State (NYDOS). NYDOS has determined that the Hudson River crossing plan is not consistent with the Act. Millennium's appeal of that decision to the U.S. Department of Commerce was denied. Millennium filed an appeal of the U.S. Department of Commerce ruling relating to the project's Hudson River crossing plan in the U.S. Federal District Court on February 13, 2004. The procedural schedule calls for all briefings to be completed by the end of 2005.

During the second quarter of 2004, a NiSource affiliate purchased an additional interest in the project. NiSource is finalizing plans to transfer this interest to other sponsors in the first half of 2005. During the third quarter of 2004, KeySpan Millennium, L.L.C. (subsidiary of KeySpan Corporation) purchased the interest of Westcoast Energy Enterprises (U.S.), Inc. and Westcoast Energy (U.S.), L.L.C. (subsidiaries of Duke Energy Corporation). The other sponsors are Columbia Transmission and MCNIC Millennium Company (subsidiary of DTE Energy Company).

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont Natural Gas Company, Inc. (Piedmont) reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States.

Columbia Transmission and Piedmont have formed Hardy Storage Company, L.L.C. (Hardy Storage), to develop a natural gas storage field from a depleted natural gas production field in West Virginia. Columbia Transmission and Piedmont each have a 50 percent equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

An open season for Hardy Storage conducted in early 2004 resulted in full subscription of the project's storage capacity under long-term firm contracts. The field, which will have the capacity to store approximately 12 billion cubic feet (Bcf) of natural gas, is planned to begin service in November 2007, and will ultimately deliver 176 MMDth per day of firm storage service to the four customers subscribing for Hardy Storage capacity. These customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

Hardy Storage and Columbia Transmission anticipate filing the necessary applications for the projects with the FERC in 2005, with plans to begin construction later that year. Service from both projects is expected to be available in 2007.

Regulatory Matters
On February 11, 2004, the FERC issued an order regarding the annual Electric Power Cost Adjustment (EPCA) filing, which upheld Columbia Transmission's ability to fully recover its electric costs, but required Columbia Transmission to implement a separate EPCA rate to recover from specific customers the electric power costs incurred by a newly expanded electric-powered compressor station. The order also limits Columbia Transmission's ability to prospectively discount its EPCA rates. On December 22, 2004, the FERC issued an order affirming

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Columbia Transmission's right to recover its actual electric costs and removed the obligation to make a separate filing to recover these costs from specific customers. The FERC permitted Columbia Transmission to revisit the method for recovering the costs in a new filing. Management does not believe this order will have a material financial impact.

On April 14, 2004 the FERC issued an order accepting Columbia Transmission's Retainage Adjustment Mechanism (RAM) filing and approving the full recovery of gas required in system operations. The FERC will permit parties to pursue certain issues raised in the 2003 filing in connection with consideration of Columbia Transmission's 2004 RAM filing, which became effective April 1, 2004, and is currently pending.

Restructuring
Since 2000, NiSource has implemented restructuring initiatives to streamline its operations and realize efficiencies from the acquisition of Columbia. The restructuring activities were primarily associated with reductions in headcount and facility exit costs.

In connection with these restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions throughout all NiSource segments have been identified for elimination. As of December 31, 2004, approximately 1,560 employees throughout all NiSource segments had been terminated, of whom approximately 13 employees were terminated during 2004. Payments made in 2004 in respect of restructured items within Gas Transmission and Storage Operations was $2.9 million. Additionally, during 2004, the restructuring reserve was increased by $1.6 million related to previous restructuring initiatives due to adjustments in estimated costs and an accrual for vacant office space. The liability associated with these restructuring initiatives at December 31, 2004 and 2003 was $5.8 million and $7.1 million, respectively, with $5.0 million related to facility exit costs at December 31, 2004.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of December 31, 2004, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-G, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Gas Transmission and Storage Operations.

Capital Expenditures and Other Investing Activities
The Gas Transmission and Storage Operations segment's capital expenditure program was $133.3 million in 2004 and is projected to be approximately $206.3 million in 2005. The increase is due to increased expenditures for pipeline integrity related work as well as for the Millennium and Hardy Storage initiatives. The pipeline integrity expenditures are primarily for modernizing and upgrading facilities and complying with the requirements of the U.S. Department of Transportation's (DOT) recently issued Integrity Management Rule. The DOT Integrity Management Rule requires that high consequence areas on transmission lines be assessed and remediated, if required, within a 10-year period beginning December 2002. Compliance will entail extensive assessment, including pipeline modifications to allow for testing devices, and facility replacement depending on test results. New business initiatives totaled approximately $17.6 million in 2004 and are projected to be $46.8 million in 2005.

Throughput
Columbia Transmission's throughput consists of transportation and storage services for LDCs and other customers within its market area, which covers portions of northeastern, mid-Atlantic, midwestern, and southern states and the District of Columbia. Throughput for Columbia Gulf reflects mainline transportation services from Rayne, Louisiana to Leach, Kentucky and short-haul transportation services from the Gulf of Mexico to Rayne, Louisiana. Crossroads serves customers in northern Indiana and Ohio and Granite State provides service in New Hampshire, Maine and Massachusetts.

Throughput for the Gas Transmission and Storage Operations segment totaled 1,172.7 MMDth for 2004, compared to 1,238.9 MMDth in 2003. The decrease of 66.2 MMDth was primarily due to slightly warmer weather in 2004 versus 2003, the continued decline of offshore natural gas production, and other non-weather factors.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Throughput for the Gas Transmission and Storage Operations segment totaled 1,238.9 MMDth for 2003, compared to 1,314.3 MMDth in 2002. The decrease of 75.4 MMDth was primarily due to lower deliveries to dual fueled electric power generators, which chose not to operate during 2003 when gas prices were exceptionally high. Additionally, the continued decline of offshore natural gas production contributed to the decrease in throughput.

Net Revenues
Net revenues were $832.6 million for 2004, a decrease of $4.7 million from 2003. The decrease was due to lower storage and transportation revenues of $5.8 million. This resulted from the expiration of firm service contracts for both Columbia Transmission and Columbia Gulf on October 31, 2004, which represented approximately 60% of Gas Transmission and Storage Operations net annual revenues. Based upon new commitments, Gas Transmission and Storage Operations is projecting a reduction of approximately $40 million in annual revenues under the replacement contracts, which represent approximately 5% of total Segment revenues. This reduction is projected to be partially offset by increased revenues resulting from remarketing efforts and new firm contracts.

Net revenues were $837.3 million for 2003, a decrease of $37.1 million from 2002. The decrease was primarily due to $9.3 million of lower interruptible service revenues and $10.4 million of lower firm service revenues. The decline in interruptible revenues was due to higher use of capacity by firm customers resulting in less capacity available for interruptible services. Firm service revenues were reduced due to actions taken to alleviate late season deliverability limitations in the pipeline's eastern storage fields. The limitations resulted from the cumulative effect of facility outages that restricted eastern storage field inventory, a work stoppage that extended the outages and above-normal demand on storage withdrawals due to sustained cold weather. In addition, storage and transportation revenues decreased $13.5 million primarily due to reduced deliveries to power generating facilities.

Operating Income
Operating income of $363.1 million in 2004 decreased $35.7 million from 2003. While net revenue decreased $4.7 million, as discussed above, operating expenses increased $31.0 million due primarily to the 2003 period being favorably impacted by an $11.0 million reduction in a reserve for environmental expenditures, a $6.6 million reversal of a legal reserve related to a lawsuit settled in 2003, a $3.0 million reversal of a franchise tax reserve and a $2.3 million gain on the sale of certain assets. For the year 2004, pension expense increased by $5.7 million and depreciation expense increased by $2.8 million as compared to the 2003 period.

Operating income of $398.8 million in 2003 increased $0.5 million from 2002. The $37.1 million decline in revenues discussed above was offset by a $12.5 million reduction in employee-related and administrative expense, an improvement to income of $11.0 million from a reduction in a reserve for environmental expenditures, and a $6.6 million reversal of a litigation reserve relating to a lawsuit that was settled in the second quarter of 2003. The 2002 period was favorably impacted by a reduction in a reserve for environmental expenditures of $10.0 million, a $10.0 million reduction in reserves related to unaccounted-for gas, offset by $14.8 million of increased expenses related to NiSource's reorganization initiatives and other employee-related costs and $8.7 million related to the recognition of a reserve related to a long-term note receivable.

NISOURCE INC.
Electric Operations

Year Ended December 31, *(in millions)*	2004	2003	2002
Net Revenues			
Sales revenues	**$ 1,111.2**	$ 1,092.8	$ 1,137.4
Less: Cost of sales	**351.0**	364.2	369.0
Net Revenues	**760.2**	728.6	768.4
Operating Expenses			
Operation and maintenance	**243.3**	224.7	222.8
Depreciation and amortization	**178.1**	175.1	172.2
Gain on sale of assets	**(1.6)**	-	-
Other taxes	**34.2**	61.3	51.1
Total Operating Expenses	**454.0**	461.1	446.1
Operating Income	**$ 306.2**	$ 267.5	$ 322.3
Revenues ($ in millions)			
Residential	**$ 295.1**	$ 294.9	$ 309.5
Commercial	**294.1**	289.8	297.2
Industrial	**414.1**	380.2	393.6
Wholesale	**47.0**	92.8	92.9
Other	**60.9**	35.1	44.2
Total	**$ 1,111.2**	$ 1,092.8	$ 1,137.4
Sales (Gigawatt Hours)			
Residential	**3,104.3**	3,122.5	3,228.4
Commercial	**3,635.0**	3,579.7	3,618.3
Industrial	**9,309.4**	8,972.2	8,822.4
Wholesale	**1,176.2**	2,623.2	2,983.5
Other	**142.6**	141.6	123.3
Total	**17,367.5**	18,439.2	18,775.9
Cooling Degree Days	**582**	572	1,015
Normal Cooling Degree Days	**803**	808	792
% Warmer (Cooler) than Normal	**(28%)**	(29%)	28%
Electric Customers			
Residential	**392,342**	388,123	384,891
Commercial	**50,332**	49,252	48,286
Industrial	**2,528**	2,543	2,577
Wholesale	**22**	21	22
Other	**770**	794	799
Total	**445,994**	440,733	436,575

Market Conditions

The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the Midwest Independent System Operator (MISO) through participation in an independent transmission company (ITC). The MISO has initiated the Midwest Market Initiative (MMI), which will develop the structures and processes to be used to implement an electricity market for the MISO region. This MMI proposes non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. Refer to the "Regulatory Matters" on the following two pages for a more detailed discussion of the MISO.

NiSource Inc.
Electric Operations (continued)

Northern Indiana's Electric Operations has realized an improvement of sales to its industrial customers as a result of the turn-around of the steel industry in Northern Indiana. Although steel demand remains firm, supply data might suggest that this demand is not strong. Customer inventory levels in 2004 are near an all time high. Increasing imports to the U.S. combined with customer perception that prices have peaked, have caused some buyers to hold off placing new orders until inventories come down. With regard to the steel industry's improved financial performance in 2004, the key factors have been (1) the major structural changes in the world economy, (2) higher steel demand and (3) the ongoing industry consolidation and restructuring.

Restructuring

Since 2000, NiSource has implemented restructuring initiatives to streamline its operations and realize efficiencies from the acquisition of Columbia. The restructuring activities were primarily associated with reductions in headcount and facility exit costs.

In connection with the restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions throughout all NiSource segments have been identified for elimination. As of December 31, 2004, approximately 1,560 employees throughout all NiSource segments had been terminated, of whom approximately 13 employees were terminated during 2004. Payments of effectively zero were made in 2004 in respect of the restructured items within Electric Operations. Additionally, during 2004, the restructuring reserve was decreased by $0.4 million related to previous restructuring initiatives due to adjustments in estimated costs. The restructuring program for Electric Operations is substantially complete with a $0.3 million remaining liability associated with these restructuring initiatives at December 31, 2004.

Regulatory Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified cap will be retained by Northern Indiana. Credits amounting to $56.4 million and $52.0 million were recognized for electric customers for 2004 and 2003, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana will incur new categories of transmission charges based upon MISO's FERC-approved tariff. One of the new categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. The MISO Schedule 10 administrative fees are currently estimated to be approximately $3.1 million annually. On October 6, 2004, the IURC denied Northern Indiana's Motion for Reconsideration. Northern Indiana has appealed the IURC's decision to the Indiana Appellate Court, where this matter is pending.

The MISO has initiated the MMI, which will develop the structures and processes to be used to implement an electricity market for the MISO region. This MMI proposes non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO has filed with the FERC detailed tariff information and all market systems will be operational for the mandatory trials until financially binding activities begin with the opening of the market for bids and offers on March 25, 2005, and the Real-Time Market on April 1, 2005. Northern Indiana and TPC are actively pursuing roles in the MMI. At the current time, management believes that the MMI will change the manner in which Northern Indiana and TPC conduct their electric business. Specifically, this detailed tariff information proposes to manage system reliability through the use of a market-based congestion management system. The proposal includes a

NISOURCE INC.
Electric Operations (continued)

centralized dispatch platform, which will dispatch the most economic resources to meet load requirements efficiently and reliably in the MSO region. This FERC tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The tariff also allows for the allocation, auction or sale of Financial Transmission Rights, which are instruments that hedge against congestion costs occurring in the Day-Ahead market. The MISO will perform a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO will also perform the real time resource dispatch for resources under its control on a five minute basis.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the fuel adjustment clause (FAC). The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the industrial customers' challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Dean H. Mitchell Generating Station (Mitchell Station) returns to service.

Currently, Northern Indiana is reviewing options to meet the electric needs of its customers. This review includes an assessment of Northern Indiana's oldest generating units, which includes the Mitchell Station. On October 8, 2004, Northern Indiana requested proposals from wholesale power marketers to provide power under varying terms and conditions. Northern Indiana received conforming bids, which are currently being evaluated. Decisions on purchased power will be made consistent with the start of the MMI.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for the cleanup costs. The associated environmental cleanup costs are estimated to be between $38 million to $53 million. The proposed joint development agreement is currently under review by the IURC.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and Grid America. A hearing in this matter was held December 1st and 2nd of 2004. An IURC order is expected in the second quarter of 2005.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005 and an IURC order is expected in the second quarter of 2005.

In January 2002, Northern Indiana filed for approval to implement an environmental cost tracker (ECT). The ECT was approved by the IURC on November 26, 2002. Under the ECT Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement Indiana Department of Environmental Management's nitrogen oxide State Implementation Plan through an Environmental Cost Recovery Mechanism (ECRM) and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an Environmental Expense Recovery Mechanism (EERM). Under the Commission's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. Northern Indiana

NiSource Inc.
Electric Operations (continued)

currently anticipates a total capital investment amounting to approximately $305 million. This amount was filed in Northern Indiana's latest compliance plan, which was approved by the IURC on January 19, 2005. The ECRM revenues amounted to $18.8 million for the twelve months ended December 31, 2004, and $24.0 million from inception to date, while EERM revenues were $1.2 million for 2004. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004.

Environmental Matters
Currently, various environmental matters impact Electric Operations segment. As of December 31, 2004, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-G, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Capital Expenditures and Other Investing Activities
The Electric Operations segment's capital expenditure program was $154.0 million in 2004 and is projected to be approximately $128.1 million in 2005. This reduction in the capital expenditure budget is mainly due to a continued reduction in estimated expenditures for NOx compliance. Expenditures for 2004 included improvements related to the operational integrity of generation, transmission and distribution assets, expenditures related to environmental compliance (NOx reduction), and additions to electric distribution systems related to new business. Estimated expenditures for 2005 are approximately $3.1 million for the NOx reduction program. The remaining expenditures are for new business initiatives and maintenance programs.

Sales
Electric Operations sales were 17,367.5 gwh for the year 2004, a decrease of 1,071.7 gwh compared to 2003. The decrease in sales resulted from reduced wholesale transaction sales and cooler weather in the third quarter of 2004, partially offset by increased non-weather related usage and customer count. Although cooling degree days (CDD) were up slightly in 2004 over 2003, the increases occurred in May and June, while the CDD were down in the months of July and August, which are the months when the effect of CDD on usage is greater.

Electric Operations sales were 18,439.2 gwh for the year 2003, a decrease of 336.7 gwh compared to 2002. The decrease in sales resulted from cooler weather during the summer cooling season, partially offset by increases in non-weather related usage and increased customer count.

Net Revenues
Electric Operations net revenues were $760.2 million for 2004, an increase of $31.6 million from 2003, primarily as a result of increased revenue from environmental trackers amounting to $14.7 million, increased non-weather related usage and customer count of $17.1 million, and the effect of regulatory rate refunds in the comparable 2003 period of $12.4 million. The above increase in net revenues was partially offset by cooler weather compared to the prior year of approximately $6 million.

Electric Operations net revenues were $728.6 million for 2003, a decrease of $39.8 million from 2002, primarily as a result of $24.0 million in additional credits issued representing a full year of credits pertaining to the IURC electric rate review settlement and the unfavorable impact of cooler weather of approximately $22 million. These decreases were partially offset by increases in non-weather-related usage and customer growth.

Operating Income
Operating income for 2004 was $306.2 million, an increase of $38.7 million from 2003. The increase was primarily a result of the above-mentioned increases in revenues and a reduction in other taxes of $27.1 million, partially offset by higher operation and maintenance expenses of $18.6 million. Other taxes decreased due mainly to a $28.1 million reduction in estimated property tax accruals. Operation and maintenance expenses increased due mainly to incremental MISO administrative expenses of $4.6 million, higher employee and administrative expenses of $3.8 million, $3.3 million recorded from the early extinguishment of certain medium-term notes, and higher outside services expense of $1.6 million. In addition, a $3.8 million adjustment to employee insurance reserves in 2003 contributed to the year-over-year increase in operating expenses.

NISOURCE INC.
Electric Operations (continued)

Operating income for 2003 was $267.5 million, a decrease of $54.8 million from 2002. The decrease was primarily a result of the above-mentioned decreases in revenues, increased pension and post-retirement expenses of $18.7 million and increased property tax expense of $9.6 million, partially offset by decreased employee and administrative expenses of $12.3 million and lower uncollectible accounts receivable expense of $4.6 million.

NiSource Inc.
Other Operations

Year Ended December 31, *(in millions)*	2004	2003	2002
Net Revenues			
Other revenue	**$ 694.4**	$ 466.2	$ 112.0
Less: Cost of products purchased	**667.4**	450.2	98.2
Net Revenues	**27.0**	16.0	13.8
Operating Expenses			
Operation and maintenance	**44.0**	50.9	47.9
Depreciation and amortization	**13.3**	11.2	10.3
Loss (Gain) on sale of assets	**(2.7)**	(6.4)	(5.8)
Other taxes	**4.7**	4.1	4.5
Total Operating Expenses	**59.3**	59.8	56.9
Operating (Loss)	**$ (32.3)**	$ (43.8)	$ (43.1)

Sale of SunPower Corporation
In November 2004, NiSource sold its interest in SunPower Corporation for the purchaser's common shares valued at approximately $5.2 million at the time of sale. In the fourth quarter, NiSource recognized a pre-tax gain of $3.4 million and an after tax gain of $2.0 million related to this sale.

Midtex Gas Storage Company, LLP.
On November 26, 2003, NiSource sold its interest in Midtex Gas Storage Company, LLP for approximately $15.8 million and the assumption, by the buyer, of $1.7 million in debt. In the fourth quarter of 2003, NiSource recognized a pre-tax gain of $7.5 million and an after tax gain of $4.4 million related to this sale.

Sale of PEI Assets
On October 20, 2003, NiSource sold all of the steel-related, "inside-the-fence" assets of its subsidiary PEI, to Private Power. The sale included six PEI operating subsidiaries and the name "Primary Energy". Private Power paid approximately $325.4 million, comprised of $113.1 million in cash and the assumption of debt-related liabilities and other obligations. The assumption of such liabilities and the after tax cash proceeds from the sale, reduced NiSource's debt by $273.6 million, of which $67.3 million was off balance sheet. NiSource has accounted for the assets sold as discontinued operations and has adjusted periods after 1999 accordingly.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, which requires the contractor to pay for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For 2004, the PEI holding companies' consolidated after-tax loss was approximately $32.8 million. The profitability of the Whiting project in future periods will be dependent on, among other things, current negotiations with BP Amoco regarding steam requirements for BP's refinery, an electric sales agreement currently under negotiation, prevailing prices in the energy markets and regional load dispatch patterns. Because of the expected losses from this facility and decreases in estimated forward pricing for electricity versus changes in gas prices, an impairment study was performed in the first quarter of 2003 on this facility in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The study indicated that, at that time, no impairment was necessary.

NISOURCE INC.
Other Operations (continued)

However, the study includes many estimates and assumptions for the 40-year estimated useful life of the facility. Changes in these estimates and assumptions, such as forward prices for electricity and gas, volatility in the market, etc., could result in a situation where total undiscounted net revenues are less than the carrying value of the facility, which would result in a write-down that could be significant.

During the second quarter of 2003, PEI's wholly owned subsidiary Whiting Energy, LLC purchased the Whiting Clean Energy plant from a special purpose lessor entity and the facility is accounted for as an owned asset.

Environmental Matters
Currently, various environmental matters impact Other Operations segment. As of December 31, 2004, a reserve has been recorded to cover probable environmental response actions. Refer to Note 17-G, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Other Operations segment.

Net Revenues
For the year ended 2004, net operating revenues were $27.0 million, an increase of $11.0 million from 2003. The increase in net revenues was primarily due to a $5.1 million settlement of a lawsuit in the third quarter of 2004 and increased income from equity investments of $2.5 million.

For the year ended 2003, net operating revenues were $16.0 million, an increase of $2.2 million from 2002. The increase in net revenues was primarily due to losses of $11.7 million recorded in 2002 associated with NiSource's decision to scale back its gas trading business, slightly offset by losses of $1.6 million recorded in 2003 associated with the power trading business as a result of lower volatility in the market and decreased volumes sold and a decrease in Whiting Clean Energy net revenues of $7.0 million.

All results reflect power trading activities on a net revenue basis. Half of the 2002 results related to gas trading activities are reflected on a net basis. Beginning July 1, 2002 NiSource exited the gas trading business. All gas marketing sales at NiSource after June 30, 2003 were reported on a gross basis pursuant to EITF 02-03. (Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further information on EITF 02-03.)

Operating Loss
The Other Operations segment reported an operating loss of $32.3 million in 2004 compared to an operating loss of $43.8 million in the 2003 period. This improvement is the result of the increase in net revenues mentioned above and lower employee and administrative expenses. An equity investment in SunPower Corporation was sold in the fourth quarter of 2004 for a gain of $3.4 million.

The Other Operations segment reported an operating loss of $43.8 million in 2003 compared to an operating loss of $43.1 million in the 2002 period. The 2003 period included a gain on the sale of NiSource's interest in Mid-Tex Gas Storage, LLP of $7.5 million, a reversal of a litigation reserve of $7.0 million relating to a lawsuit that was settled in the fourth quarter of 2003 and an increase in operating losses at Whiting Clean Energy. 2002 operating expenses were lower as a result of a reduction in estimated sales taxes of $11.4 million that occurred in 2002 related to sales of natural gas to customers of a subsidiary previously engaged in the retail and wholesale gas marketing business, mostly offset by expenses of $9.8 million associated with the July 1, 2002 sale of a portfolio of TPC gas marketing contracts.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and Qualitative Disclosures about Market Risk are reported in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk Disclosures."

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

NISOURCE INC.

NISOURCE INC.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of NiSource Inc.:

We have audited the accompanying Consolidated Balance Sheets, statements of consolidated capitalization and long-term debt of NiSource Inc. and subsidiaries (the "Company") as of December 31, 2004 and 2003, and the related consolidated statements of income, common stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2004. Our audits also included the financial statement schedules listed in the Index at Item 8. We also have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedules, an opinion on management's assessment, and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

NISOURCE INC.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also in our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As explained in Note 1V to the consolidated financial statements, effective January 1, 2003, the Company adopted FASB Statement No. 143, "Accounting for Asset Retirement Obligations."

DELOITTE & TOUCHE LLP
Chicago, Illinois
March 7, 2005

NiSource Inc.
STATEMENTS OF CONSOLIDATED INCOME

Year Ended December 31, *(in millions,* except per share amounts*)*	2004	2003	2002
Net Revenues			
Gas distribution	$ **3,801.8**	$ 3,554.5	$ 2,890.4
Gas transportation and storage	**1,013.4**	1,033.5	1,014.1
Electric	**1,121.0**	1,115.9	1,103.6
Other	**730.0**	542.7	311.7
Gross Revenues	**6,666.2**	6,246.6	5,319.8
Cost of sales	**3,610.5**	3,186.3	2,248.9
Total Net Revenues	**3,055.7**	3,060.3	3,070.9
Operating Expenses			
Operation and maintenance	**1,211.7**	1,185.9	1,185.0
Depreciation and amortization	**509.7**	497.0	491.2
(Gain) on sale or impairment of assets	**(3.1)**	(24.9)	(27.5)
Other taxes	**265.4**	286.0	270.0
Total Operating Expenses	**1,983.7**	1,944.0	1,918.7
Operating Income	**1,072.0**	1,116.3	1,152.2
Other Income (Deductions)			
Interest expense, net	**(403.9)**	(464.7)	(516.4)
Minority interests	**-**	(2.5)	(20.4)
Preferred stock dividends of subsidiaries	**(4.4)**	(4.5)	(6.7)
Other, net	**7.4**	15.3	8.3
Total Other Income (Deductions)	**(400.9)**	(456.4)	(535.2)
Income From Continuing Operations Before Income Taxes and Change in Accounting	**671.1**	659.9	617.0
Income Taxes	**240.9**	234.2	218.9
Income from Continuing Operations Before Change in Accounting	**430.2**	425.7	398.1
Income (Loss) from Discontinued Operations - net of taxes	**6.1**	(0.5)	18.2
Loss on Disposition of Discontinued Operations - net of taxes	**-**	(331.2)	(43.8)
Change in Accounting - net of tax	**-**	(8.8)	-
Net Income	$ **436.3**	$ 85.2	$ 372.5
Basic Earnings (Loss) Per Share ($)			
Continuing operations	$ **1.63**	$ 1.64	$ 1.89
Discontinued operations	**0.02**	(1.28)	(0.12)
Change in accounting	**-**	(0.03)	-
Basic Earnings Per Share	$ **1.65**	$ 0.33	$ 1.77
Diluted Earnings (Loss) Per Share ($)			
Continuing operations	$ **1.62**	$ 1.63	$ 1.87
Discontinued operations	**0.02**	(1.27)	(0.12)
Change in accounting	**-**	(0.03)	-
Diluted Earnings Per Share	$ **1.64**	$ 0.33	$ 1.75
Dividends Declared Per Common Share	$ **0.92**	$ 1.10	$ 1.16
Basic Average Common Shares Outstanding (millions)	**263.7**	259.6	211.0
Diluted Average Common Shares (millions)	**265.5**	261.6	212.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

As of December 31, *(in millions, except share amounts)*	2004	2003
ASSETS		
Property, Plant and Equipment		
Utility Plant	$ **16,194.1**	$ 15,977.3
Accumulated depreciation and amortization	**(7,247.6)**	(7,095.9)
Net utility plant	**8,946.5**	8,881.4
Other property, at cost, less accumulated depreciation	**438.2**	409.3
Net Property, Plant and Equipment	**9,384.7**	9,290.7
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**23.4**	20.7
Unconsolidated affiliates	**108.1**	113.2
Other investments	**72.5**	74.7
Total Investments	**204.0**	208.6
Current Assets		
Cash and cash equivalents	**30.1**	27.3
Restricted cash	**56.3**	22.8
Accounts receivable (less reserve of $44.9 and $54.3, respectively)	**536.7**	546.3
Unbilled revenue (less reserve of $10.9 and $3.5, respectively)	**352.7**	268.0
Gas inventory	**452.9**	429.4
Underrecovered gas and fuel costs	**293.8**	203.2
Materials and supplies, at average cost	**70.8**	71.5
Electric production fuel, at average cost	**29.2**	29.0
Price risk management assets	**61.1**	74.3
Exchange gas receivable	**169.6**	174.8
Regulatory assets	**136.2**	114.5
Prepayments and other	**96.2**	101.8
Total Current Assets	**2,285.6**	2,062.9
Other Assets		
Price risk management assets	**148.3**	114.4
Regulatory assets	**568.4**	575.5
Goodwill	**3,687.2**	3,687.2
Intangible assets	**520.3**	527.1
Deferred charges and other	**189.5**	157.8
Total Other Assets	**5,113.7**	5,062.0
Total Assets	$ **16,988.0**	$ 16,624.2

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
CONSOLIDATED BALANCE SHEETS

As of December 31, *(in millions, except share amounts)*	2004	2003
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 270,625,370 and 262,630,409 shares issued and outstanding, respectively	$ **2.7**	$ 2.6
Additional paid-in-capital, net of deferred stock compensation	**3,924.0**	3,752.2
Retained earnings	**925.4**	731.3
Accumulated other comprehensive loss and other common stock equity	**(65.0)**	(70.2)
Total common stock equity	**4,787.1**	4,415.9
Preferred stocks—Series without mandatory redemption provisions	**81.1**	81.1
Long-term debt, excluding amounts due within one year	**4,835.9**	5,993.4
Total Capitalization	**9,704.1**	10,490.4
Current Liabilities		
Current portion of long-term debt	**1,299.9**	118.3
Short-term borrowings	**307.6**	685.5
Accounts payable	**648.4**	496.6
Dividends declared on common and preferred stocks	**1.1**	1.8
Customer deposits	**87.1**	80.4
Taxes accrued	**160.9**	210.8
Interest accrued	**84.1**	82.4
Overrecovered gas and fuel costs	**15.5**	29.2
Price risk management liabilities	**46.9**	36.5
Exchange gas payable	**325.1**	290.8
Current deferred revenue	**31.5**	28.2
Regulatory liabilities	**30.2**	73.7
Accrued liability for postretirement and postemployment benefits	**85.5**	64.3
Other accruals	**478.4**	418.0
Total Current Liabilities	**3,602.2**	2,616.5
Other Liabilities and Deferred Credits		
Price risk management liabilities	**5.5**	0.2
Deferred income taxes	**1,665.9**	1,589.2
Deferred investment tax credits	**78.4**	87.3
Deferred credits	**58.0**	72.7
Noncurrent deferred revenue	**87.4**	113.0
Accrued liability for postretirement and postemployment benefits	**413.0**	406.9
Preferred stock liabilities with mandatory redemption provisions	**0.6**	2.4
Regulatory liabilities	**1,168.6**	1,061.6
Other noncurrent liabilities	**204.3**	184.0
Total Other Liabilities and Deferred Credits	**3,681.7**	3,517.3
Commitments and Contingencies	**-**	-
Total Capitalization and Liabilities	**$ 16,988.0**	$ 16,624.2

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS

Year Ended December 31, *(in millions)*	2004	2003	2002
Operating Activities			
Net income	$ **436.3**	$ 85.2	$ 372.5
Adjustments to reconcile net income to net cash from continuing operations:			
Depreciation and amortization	**509.7**	497.0	491.2
Net changes in price risk management assets and liabilities	**16.3**	(4.3)	(43.3)
Deferred income taxes and investment tax credits	**97.5**	77.9	95.8
Deferred revenue	**(22.3)**	(6.4)	(15.2)
Stock compensation expense	**8.0**	12.9	7.3
Gain on sale or impairment of assets	**(3.1)**	(24.9)	(27.5)
Change in accounting, net of tax	**-**	8.8	-
Loss (Income) from unconsolidated affiliates	**(0.9)**	5.4	(2.6)
Loss on sale of discontinued operations	**-**	331.2	43.8
Loss (Income) from discontinued operations	**(6.1)**	0.5	(18.2)
Amortization of Discount/Premium on Debt	**21.6**	18.9	21.0
Other Adjustments	**(2.3)**	(2.5)	(1.4)
Changes in assets and liabilities:			
Restricted cash	**(33.5)**	1.4	14.7
Accounts receivable and unbilled revenue	**(92.0)**	67.3	43.6
Inventories	**(23.1)**	(166.9)	117.0
Accounts payable	**153.3**	(41.4)	(50.6)
Customer deposits	**6.7**	15.2	55.2
Taxes accrued	**(57.8)**	(89.5)	(8.1)
Interest accrued	**1.7**	5.9	8.6
(Under) Overrecovered gas and fuel costs	**(104.3)**	18.9	(107.6)
Exchange gas receivable/payable	**93.3**	(196.0)	191.3
Other accruals	**11.4**	(55.5)	(203.1)
Prepayments and other current assets	**4.2**	9.9	25.9
Regulatory assets/liabilities	**18.6**	3.3	(13.7)
Postretirement and postemployment benefits	**35.4**	82.6	(19.2)
Deferred credits	**(14.3)**	(28.1)	(11.8)
Deferred charges and other noncurrent assets	**(36.3)**	14.2	243.5
Other noncurrent liabilities	**2.6**	(26.6)	(38.1)
Net Cash Flows from Continuing Operations	**1,020.6**	614.4	1,171.0
Net Cash Flows (used for) or from Discontinued Operations	**2.2**	(141.5)	(133.3)
Net Cash Flows from Operating Activities	**1,022.8**	472.9	1,037.7
Investing Activities			
Capital expenditures	**(517.0)**	(574.6)	(531.9)
Proceeds from disposition of assets	**7.1**	586.5	419.2
Other investing activities	**(9.2)**	(17.6)	(2.2)
Net Cash Flows used for Investing Activities	**(519.1)**	(5.7)	(114.9)
Financing Activities			
Issuance of long-term debt	**450.0**	1,401.5	-
Retirement of long-term debt	**(486.6)**	(1,366.9)	(462.8)
Change in short-term debt	**(377.9)**	(227.6)	(941.2)
Retirement of preferred shares	**-**	(346.2)	(46.7)
Issuance of common stock	**160.8**	354.7	734.9
Acquisition of treasury stock	**(4.1)**	(2.5)	(6.9)
Dividends paid - common shares	**(243.1)**	(284.0)	(241.5)
Net Cash Flows for Financing Activities	**(500.9)**	(471.0)	(964.2)
Increase (decrease) in cash and cash equivalents	**2.8**	(3.8)	(41.4)
Cash and cash equivalents at beginning of year	**27.3**	31.1	72.5
Cash and cash equivalents at end of period	$ **30.1**	$ 27.3	$ 31.1
Supplemental Disclosures of Cash Flow Information			
Cash paid for interest	$ **383.0**	$ 442.3	$ 493.8
Interest capitalized	**2.3**	2.5	2.4
Cash paid for income taxes	**184.6**	256.8	118.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements

NISOURCE INC.
STATEMENTS OF CONSOLIDATED CAPITALIZATION

As of December 31, *(in millions, except shares outstanding and par value)*	2004	2003
Common shareholders' equity	**$ 4,787.1**	$ 4,415.9
Preferred Stocks, which are redeemable solely at option of issuer:		
Northern Indiana Public Service Company—		
Cumulative preferred stock—$100 par value—		
4-1/4% series—209,035 outstanding	**20.9**	20.9
4-1/2% series—79,996 shares outstanding	**8.0**	8.0
4.22% series—106,198 shares outstanding	**10.6**	10.6
4.88% series—100,000 shares outstanding	**10.0**	10.0
7.44% series—41,890 shares outstanding	**4.2**	4.2
7.50% series—34,842 shares outstanding	**3.5**	3.5
Premium on preferred stock and other	**0.3**	0.3
Cumulative preferred stock—no par value—		
Adjusted rate series A (stated value—$50 per share), 473,285 shares outstanding	**23.6**	23.6
Series without mandatory redemption provisions	**81.1**	81.1
Long-term debt	**4,835.9**	5,993.4
Total Capitalization	**$ 9,704.1**	$ 10,490.4

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT

As of December 31, *(in millions)*	2004	2003
NiSource Inc.:		
Senior Debentures - 3.628%, due November 1, 2006	$ **144.4**	$ -
Debentures due November 1, 2006, with interest imputed at 7.77% (SAILS)	**-**	135.8
Unamortized discount on long-term debt	**0.4**	-
Total long-term debt of NiSource, Inc.	**144.8**	135.8
Bay State Gas Company:		
Medium-Term Notes -		
Interest rates between 6.26% and 9.20% with a weighted average interest rate of 6.81% and maturities between June 6, 2011 and February 15, 2028	**48.5**	68.5
Northern Utilities:		
Medium-Term Note--Interest rate of 6.93% and maturity of September 1, 2010	**4.2**	5.0
Total long-term debt of Bay State Gas Company	**52.7**	73.5
Columbia Energy Group:		
Debentures -		
6.80% Series C - due November 28, 2005	**-**	281.5
7.05% Series D - due November 28, 2007	**281.5**	281.5
7.32% Series E - due November 28, 2010	**281.5**	281.5
7.42% Series F - due November 28, 2015	**281.5**	281.5
7.62% Series G - due November 28, 2025	**229.2**	229.2
Fair value adjustment of debentures for interest rate swap agreements	**-**	11.2
Unamortized discount on long-term debt	**(96.0)**	(98.2)
Subsidiary debt - Capital lease obligations	**2.2**	1.7
Total long-term debt of Columbia Energy Group	**979.9**	1,269.9
PEI Holdings, Inc.:		
Long-Term Notes -		
Whiting Clean Energy, Inc. -		
Interest rates between 6.73% and 8.58% with a weighted average interest rate of 8.30% and maturity of June 20, 2011	**298.6**	301.5
Total long-term debt of PEI Holdings, Inc.	**298.6**	301.5
NiSource Capital Markets, Inc:		
Senior Unsecured Notes - 4.25%, due February 19, 2005	**-**	0.3
Senior Notes - 6.78%, due December 1, 2027	**75.0**	75.0
Medium-term notes -		
Issued at interest rates between 7.38% and 7.99%, with a weighted average interest rate of 7.77% and various maturities between April 17, 2006 and May 5, 2027	**190.0**	220.0
Total long-term debt of NiSource Capital Markets, Inc.	**265.0**	295.3
NiSource Development Company, Inc.:		
NDC Douglas Properties, Inc. - Notes Payable--		
Interest rates between 3.8% and 12.6% with a weighted average interest rate of 7.4%.	**36.7**	2.6
Total long-term debt of NiSource Development Company, Inc.	**36.7**	2.6

NiSource Inc.
STATEMENTS OF CONSOLIDATED LONG-TERM DEBT (continued)

As of December 31, *(in millions)*	2004	2003
NiSource Finance Corp.:		
Long-Term Notes -		
Floating Rate Notes - 1.93% at December 31, 2003, due May 4, 2005	-	250.0
7-5/8% - due November 15, 2005	-	900.0
3.20% - due November 1, 2006	250.0	250.0
7-7/8% - due November 15, 2010	1,000.0	1,000.0
Senior Unsecured Notes - 6.15%, due March 1, 2013	345.0	345.0
5.40% - due July 15, 2014	500.0	500.0
Floating Rate Notes - 2.92% at December 31, 2004, due November 23, 2009	450.0	-
Fair value adjustment of notes for interest rate swap agreements	29.9	3.3
Unamortized discount on long-term debt	(14.6)	(15.5)
Total long-term debt of NiSource Finance Corp, Inc.	2,560.3	3,232.8
Northern Indiana Public Service Company:		
Pollution control bonds -		
Issued at interest rates between 1.65% and 1.85%, with a weighted average interest rate of 1.75% and various maturities between November 1, 2007 and April 1, 2019	278.0	278.0
Medium-term notes -		
Issued at interest rates between 6.69% and 7.69%, with a weighted average interest rate of 7.30% and various maturities between June 6, 2007 and August 4, 2027	221.2	405.5
Unamortized premiums and discount on long-term debt, net	(1.3)	(1.5)
Total long-term debt of Northern Indiana Public Service Company	497.9	682.0
Total long-term debt, excluding amount due within one year	$ 4,835.9	$ 5,993.4

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NiSource Inc.

STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Deferred Stock Compensation	Accum Other Comp Income/(Loss)	Total	Comp Income
Balance January 1, 2002	$ 2.1	$ 0.0	$ 2,637.3	$ 798.6	$ (19.8)	$ 51.2	$ 3,469.4	
Comprehensive Income:								
Net Income				372.5			372.5	$ 372.5
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized						(6.0)	(6.0)	(6.0)
Realized						0.3	0.3	0.3
Net unrealized gains on derivatives qualifying as cash flow hedges						17.7	17.7	17.7
Minimum pension liability adjustment						(203.7)	(203.7)	(203.7)
Total comprehensive income								$ 180.8
Dividends:								
Common stock				(240.8)			(240.8)	
Treasury stock acquired		(6.9)					(6.9)	
Issued:								
Common stock issuance	0.4		734.3				734.7	
Employee stock purchase plan			0.9				0.9	
Long-term incentive plan			17.0		(0.7)		16.3	
Amortization of unearned compensation					19.9		19.9	
Other				0.6			0.6	
Balance December 31, 2002	$ 2.5	$ (6.9)	$ 3,389.5	$ 930.9	$ (0.6)	$ (140.5)	$ 4,174.9	
Comprehensive Income:								
Net Income				85.2			85.2	$ 85.2
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized						1.4	1.4	1.4
Gain/loss on foreign currency translation:								
Unrealized						0.7	0.7	0.7
Net unrealized gains on derivatives qualifying as cash flow hedges						23.9	23.9	23.9
Minimum pension liability adjustment						53.5	53.5	53.5
Total comprehensive income								$ 164.7
Dividends:								
Common stock				(284.8)			(284.8)	
Treasury stock acquired		(2.5)					(2.5)	
Issued:								
Common stock issuance	0.1		344.9				345.0	
Employee stock purchase plan			0.6				0.6	
Long-term incentive plan			21.6		(4.5)		17.1	
Amortization of unearned compensation					0.9		0.9	
Balance December 31, 2003	$ 2.6	$ (9.4)	$ 3,756.6	$ 731.3	$ (4.2)	$ (61.0)	$ 4,415.9	
Comprehensive Income:								
Net Income				436.3			436.3	$ 436.3
Other comprehensive income, net of tax:								
Gain/loss on available for sale securities:								
Unrealized						1.5	1.5	1.5
Gain/loss on foreign currency translation:								
Unrealized						0.7	0.7	0.7
Net unrealized gains on derivatives qualifying as cash flow hedges						2.2	2.2	2.2
Minimum pension liability adjustment						5.2	5.2	5.2
Total comprehensive income								$ 445.9
Dividends:								
Common stock				(242.3)			(242.3)	
Treasury stock acquired		(4.1)					(4.1)	
Issued:								
Common stock issuance	0.1		144.3				144.4	
Employee stock purchase plan			0.7				0.7	
Long-term incentive plan			23.0		(3.0)		20.0	
Tax benefits of options, PIES and other			5.2	0.1			5.3	
Amortization of unearned compensation					1.3		1.3	
Balance December 31, 2004	$ 2.7	$ (13.5)	$ 3,929.8	$ 925.4	$ (5.9)	$ (51.4)	$ 4,787.1	

NISOURCE INC.
STATEMENTS OF CONSOLIDATED COMMON STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME *(continued)*

Shares (in thousands)	Common Shares	Treasury Shares
Balance January 1, 2002	**207,492**	**-**
Treasury stock acquired		(350)
Issued:		
Stock issuance	41,400	-
Employee stock purchase plan	43	-
Long-term incentive plan	275	-
Balance December 31, 2002	**249,210**	**(350)**
Treasury stock acquired		(128)
Issued:		
Stock issuance	13,111	-
Employee stock purchase plan	33	-
Long-term incentive plan	754	-
Balance December 31, 2003	**263,108**	**(478)**
Treasury stock acquired		(190)
Issued:		
Stock issuance	6,814	-
Employee stock purchase plan	35	-
Long-term incentive plan	1,337	-
Balance December 31, 2004	**271,294**	**(668)**

NISOURCE INC.
Notes to Consolidated Financial Statements

1. Nature of Operations and Summary of Significant Accounting Policies

A. Company Structure and Principles of Consolidation. NiSource Inc. (NiSource), a Delaware corporation, is a holding company whose subsidiaries provide natural gas, electricity and other products and services to over 3.7 million customers located within a corridor that runs from the Gulf Coast through the Midwest to New England. Subsequent to the completion of the acquisition of Columbia Energy Group (Columbia) on November 1, 2000, NiSource became a holding company registered under the Public Utility Holding Company Act of 1935, as amended. NiSource derives substantially all of its revenues and earnings from the operating results of its 16 direct subsidiaries.

The consolidated financial statements include the accounts of NiSource and its majority-owned subsidiaries after the elimination of all intercompany accounts and transactions. Investments for which at least a 20% interest is owned, certain joint ventures and limited partnership interests of more than 3% are accounted for under the equity method. Except where noted above and in the event where NiSource has significant influence, investments with less than a 20% interest are accounted for under the cost method. In the second quarter of 2004, a NiSource affiliate purchased an additional interest in the Millennium Pipeline Project that temporarily raised the company's interest in the project entities above the 50% threshold normally requiring consolidation. As of December 31, 2004, NiSource did not consolidate the Millennium Pipeline Project entities because it plans to transfer this additional interest to other sponsors in the first half of 2005. NiSource also consolidates variable interest entities for which NiSource is the primary beneficiary as a result of the adoption in January 2003 of Financial Accounting Standards Board (FASB) Interpretation No. 46, "Consolidation of Variable Interest Entities."

Certain amounts in 2003 and 2002 have been reclassified to conform to the current year presentation.

B. Cash, Cash Equivalents, and Restricted Cash. NiSource considers all investments with original maturities of three months or less to be cash equivalents. NiSource reports amounts deposited in brokerage accounts for margin requirements in the restricted cash balance sheet caption. In addition, NiSource has amounts deposited in trust to satisfy requirements for the provision of various property, liability, workers compensation, and long-term disability insurance, which is classified as restricted cash and disclosed as an operating cash flow on the Statement of Consolidated Cash Flows.

C. Investments in Debt and Equity Securities. NiSource's investments in debt and marketable securities are carried at fair value and are designated as available-for-sale. These investments are included within "Other investments" on the Consolidated Balance Sheets. Unrealized gains and losses, net of deferred income taxes, are reflected as accumulated other comprehensive income. These investments are monitored for other than temporary declines in market value. Realized gains and losses and permanent impairments are reflected in the Statements of Consolidated Income.

At December 31, 2004 and December 31, 2003, respectively, approximately $36 million and $32 million of investments were pledged as collateral for trust accounts related to NiSource's wholly owned insurance company.

D. Basis of Accounting for Rate-Regulated Subsidiaries. NiSource's rate-regulated subsidiaries follow the accounting and reporting requirements of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation" (SFAS No. 71). SFAS No. 71 provides that rate-regulated subsidiaries account for and report assets and liabilities consistent with the economic effect of the way in which regulators establish rates, if the rates established are designed to recover the costs of providing the regulated service and it is probable that such rates can be charged and collected. Certain expenses and credits subject to utility regulation or rate determination normally reflected in income are deferred on the Consolidated Balance sheets and are recognized in income as the related amounts are included in service rates and recovered from or refunded to customers.

In the event that regulation significantly changes the opportunity for NiSource to recover its costs in the future, all or a portion of NiSource's regulated operations may no longer meet the criteria for the application of SFAS No. 71. In such event, a write-down of all or a portion of NiSource's existing regulatory assets and liabilities could result. If transition cost recovery was approved by the appropriate regulatory bodies that would meet the requirements under

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

generally accepted accounting principles for continued accounting as regulatory assets and liabilities during such recovery period, the regulatory assets and liabilities would be reported at the recoverable amounts. If unable to continue to apply the provisions of SFAS No. 71, NiSource would be required to apply the provisions of SFAS No. 101, "Regulated Enterprises – Accounting for the Discontinuation of Application of Financial Accounting Standards Board Statement No. 71." In management's opinion, NiSource's regulated subsidiaries will be subject to SFAS No. 71 for the foreseeable future.

Regulatory assets and liabilities were comprised of the following items:

At December 31, *(in millions)*	2004	2003
Assets		
Reacquisition premium on debt	**$ 26.1**	$ 27.3
R. M. Schahfer Unit 17 and Unit 18 carrying charges and deferred depreciation (see Note 1F)	**37.0**	41.2
Bailly scrubber carrying charges and deferred depreciation (see Note 1F)	**3.3**	4.3
Postemployment and other postretirement costs (see Note 10)	**150.4**	161.2
Retirement income plan costs	**16.2**	22.4
Environmental costs	**26.7**	28.6
Regulatory effects of accounting for income taxes (see Note 1R)	**163.5**	190.5
Underrecovered gas and fuel costs	**293.8**	203.2
Depreciation (see Note 1F)	**131.7**	103.0
Uncollectible accounts receivable deferred for future recovery	**52.4**	36.7
Other	**97.3**	74.8
Total Assets	**$ 998.4**	$ 893.2
Liabilities		
Rate refunds and reserves	**$ 4.9**	$ 4.4
Overrecovered gas and fuel costs	**15.5**	29.2
Cost of Removal (see note 1W)	**1,089.8**	1,034.9
Regulatory effects of accounting for income taxes	**18.9**	19.7
Transition capacity cost	**71.2**	68.7
Emissions allowance	**6.8**	5.3
Other	**7.2**	2.3
Total Liabilities	**$ 1,214.3**	$ 1,164.5

Regulatory assets of approximately $809.1 million are not presently included in rate base and consequently are not earning a return on investment. These regulatory assets are being recovered as components of cost of service over a remaining life of up to 11 years. Regulatory assets of approximately $174.5 million require specific rate action. NiSource reclassified its cost of removal as of December 31, 2002 from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets and, upon adoption of SFAS No. 143 "Accounting for Asset Retirement Obligations" (SFAS No. 143), recharacterized the liability as a regulatory liability as of December 31, 2003.

E. Utility Plant and Other Property and Related Depreciation and Maintenance. Property, plant and equipment (principally utility plant) are stated at cost. The rate-regulated subsidiaries record depreciation using composite rates on a straight-line basis over the remaining service lives of the electric, gas and common properties.

For rate-regulated companies, an allowance for funds used during construction (AFUDC) is capitalized on all classes of property except organization, land, autos, office equipment, tools and other general property purchases. The allowance is applied to construction costs for that period of time between the date of the expenditure and the date on which such project is completed and placed in service, reducing gross interest expense during the respective construction period. The pre-tax rate for AFUDC was 2.5% in 2004, 2.0% in 2003, and 2.8% in 2002. Short-term borrowings were used to fund construction efforts for all three years presented. The short-term rates in 2004 increased as compared to short-term rates in 2003, while short-term interest rates declined in 2003 from 2002.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The depreciation provisions for utility plant, as a percentage of the original cost, for the periods ended December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Electric Operations	**3.5**	3.6	3.6
Gas Distribution and Transmission Operations	**2.9**	2.9	3.0

The Whiting Clean Energy facility owned by PEI Holdings, Inc. (PEI), a consolidated subsidiary of NiSource, is being depreciated on a straight-line basis over a 40-year useful life.

Generally, NiSource's subsidiaries follow the practice of charging maintenance and repairs, including the cost of removal of minor items of property, to expense as incurred. When property that represents a retired unit is replaced or removed, the cost of such property is credited to utility plant, and such cost, net of salvage, is charged to the accumulated provision for depreciation.

F. Carrying Charges and Deferred Depreciation. Upon completion of units 17 and 18 at the R. M. Schahfer Generating Station, Northern Indiana Public Service Company (Northern Indiana) capitalized the carrying charges and deferred depreciation in accordance with orders of the Indiana Utility Regulatory Commission (IURC), pending the inclusion of the cost of each unit in rates. Such carrying charges and deferred depreciation are being amortized over the remaining service life of each unit.

Northern Indiana has capitalized carrying charges and deferred depreciation and certain operating expenses relating to its scrubber service agreement for its Bailly Generating Station in accordance with an order of the IURC. The accumulated balance of the deferred costs and related carrying charges is being amortized over the remaining life of the scrubber service agreement.

In Columbia Gas of Ohio, Inc.'s (Columbia of Ohio) 1999 rate agreement, the Public Utilities Commission of Ohio (PUCO) authorized Columbia of Ohio to revise its depreciation accrual rates for the period January 1, 1999 through October 31, 2004. The revised depreciation rates are lower than those which would have been utilized if Columbia of Ohio were not subject to regulation and, accordingly, a regulatory asset has been established for the difference. The amount of depreciation that would have been recorded for 2004 had Columbia of Ohio not been subject to rate regulation is $36.4 million, a $20.5 million increase over the $15.9 million reflected in rates. The amount of depreciation that would have been recorded for 2003 had Columbia of Ohio not been subject to rate regulation is $36.6 million, a $22.1 million increase over the $14.5 million reflected in rates. The balance of the regulatory asset was $131.7 million and $103.0 million as of December 31, 2004 and 2003, respectively.

G. Amortization of Software Costs. External and internal costs associated with computer software developed for internal use are capitalized. Capitalization of such costs commences upon the completion of the preliminary stage of each project in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." Once the installed software is ready for its intended use, such capitalized costs are amortized on a straight-line basis over a period of five to ten years. NiSource amortized $35.0 million in 2004, $29.1 million in 2003 and $28.1 million in 2002 related to software costs.

H. Intangible Assets. NiSource has approximately $4.2 billion in goodwill and other intangible assets. Substantially all goodwill relates to the excess of cost over the fair value of the net assets acquired in the Columbia acquisition. In addition, NiSource has other intangible assets consisting primarily of franchise rights apart from goodwill that were identified as part of the purchase price allocations associated with the acquisition of Bay State Gas Company (Bay State), a wholly owned subsidiary of NiSource, which are being amortized over forty years from the date of acquisition. NiSource accounts for it's intangible assets, including goodwill, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets. Refer to Note 8, "Goodwill and Other Intangible Assets," in the Notes to Consolidated Financial Statements for additional information.

I. Revenue Recognition. With the exception of amounts recognized for energy trading activities, revenues are recorded as products and services are delivered. Utility revenues are billed to customers monthly on a cycle basis. Revenues are recorded on the accrual basis and include estimates for electricity and gas delivered. Cash

NISOURCE INC.
***Notes to* Consolidated Financial Statements (continued)**

received in advance from sales of commodities to be delivered in the future is recorded as deferred revenue and recognized as income upon delivery of the commodities.

Revenues relating to energy trading operations are recorded based upon changes in the fair values, net of reserves, of the related energy trading contracts. Changes in the fair values of energy trading contracts are recognized in revenues net of associated costs. Gains and losses relating to non-trading derivatives designated as cash flow or fair value hedges are reported on a gross basis, upon settlement, in the same income statement category as the related hedged item. Normal purchase or sale contracts are reported on a gross basis upon settlement and recorded in the corresponding income statement category based on commodity type.

Beginning with financial statements issued for the first quarter 2003, revenues associated with trading activities are displayed net of related costs pursuant to Emerging Issues Task Force Issue (EITF) No. 02-03 "Issues Involved in Accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management Activities" (EITF No. 02-03), whether or not resulting in physical delivery. All periods have been adjusted to conform to the net presentation. Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further information.

J. Earnings Per Share. Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans and the forward equity contracts associated with the Stock Appreciation Income Linked Securities^{SM} (SAILS^{SM}) being settled as described in Note 12, "Common Stock," in the Notes to Consolidated Financial Statements.

The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

Diluted Average Common Shares Computation	**2004**	2003	2002
Denominator *(thousands)*			
Basic average common shares outstanding	**263,682**	259,550	211,009
Dilutive potential common shares			
Nonqualified stock options	**162**	73	130
Shares contingently issuable under employee stock plans	**1,069**	1,157	880
SAILS^{SM}	**-**	-	458
Shares restricted under employee stock plans	**618**	805	297
Diluted Average Common Shares	**265,531**	261,585	212,774

K. Estimated Rate Refunds. Certain rate-regulated subsidiaries collect revenues subject to refund pending final determination in rate proceedings. In connection with such revenues, estimated rate refund liabilities are recorded which reflect management's current judgment of the ultimate outcomes of the proceedings. No provisions are made when, in the opinion of management, the facts and circumstances preclude a reasonable estimate of the outcome.

L. Accounts Receivable Sales Program. NiSource enters into agreements with third parties to sell certain accounts receivable without recourse. These sales are reflected as reductions of accounts receivable in the accompanying Consolidated Balance Sheets and as operating cash flows in the accompanying Statements of Consolidated Cash Flows. The costs of these programs, which are based upon the purchasers' level of investment and borrowing costs, are charged to other income in the accompanying Statements of Consolidated Income.

M. Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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N. Fuel Adjustment Clause. All metered electric rates contain a provision for adjustment to reflect increases and decreases in the cost of fuel and the fuel cost of purchased power through operation of a fuel adjustment clause. As prescribed by order of the IURC applicable to metered retail rates, the adjustment factor has been calculated based on the estimated cost of fuel and the fuel cost of purchased power in a future three-month period. If two statutory requirements relating to expense and return levels are satisfied, any under-recovery or over-recovery caused by variances between estimated and actual costs in a given three-month period will be included in a future filing. The differences are recognized in income when rates are adjusted to accommodate the differences. Northern Indiana records any under-recovery or over-recovery as a current regulatory asset or liability until such time as it is billed or refunded to its customers. The fuel adjustment factor is subject to a quarterly hearing by the IURC and remains in effect for a three-month period.

O. Gas Cost Adjustment Clause. All of NiSource's Gas Distribution Operations subsidiaries except for Northern Indiana defer most differences between gas purchase costs and the recovery of such costs in revenues, and adjust future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions. Northern Indiana adjusts its revenues for differences between amounts collected from customers and actual gas costs and adjusts future billings for such deferrals on a basis consistent with applicable state-approved tariff provisions.

P. Gas Inventory. Both the last-in, first-out (LIFO) inventory methodology and the weighted average methodology are used to value natural gas in storage. The application of different methodologies is due to the acquisition of Bay State. Bay State uses the weighted average cost of gas method, as approved by state regulators, in setting its rates while both Northern Indiana and the Columbia subsidiaries use the LIFO methodology when setting rates in their respective jurisdictions. Inventory valued using LIFO was $392.4 million and $378.2 million at December 31, 2004, and 2003, respectively. Based on the average cost of gas using the LIFO method, the estimated replacement cost of gas in storage at December 31, 2004 and December 31, 2003, exceeded the stated LIFO cost by $342.8 million and $220.1 million, respectively. Inventory valued using the weighted average methodology was $60.5 million at December 31, 2004 and $51.2 million at December 31, 2003.

Q. Accounting for Risk Management and Energy Trading Activities. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity," as subsequently amended by SFAS No. 137, SFAS No. 138, and SFAS No. 149 (collectively referred to as SFAS No. 133) establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities on the Consolidated Balance Sheets at fair value, unless such contracts are exempted as normal under the provisions of the standard. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and resulting designation.

NiSource uses a variety of derivative instruments (exchange traded futures & options, physical forwards & options, financial commodity swaps, and interest rate swaps) to effectively manage its commodity price risk and interest rate risk exposure. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction. In order for a derivative contract to be designated as a hedge, the relationship between the hedging instrument and the hedged item or transaction must be highly effective. The effectiveness test is performed at the inception of the hedge and each reporting period thereafter, throughout the period that the hedge is designated. Any amounts determined to be ineffective are recognized currently in earnings. For the years ended December 31, 2004, 2003 and 2002 the ineffectiveness on NiSource's hedged instruments was immaterial.

Unrealized and realized gains and losses are recognized each period as components of other comprehensive income, regulatory assets and liabilities or earnings depending on the nature of such derivatives. For subsidiaries that utilize derivatives for cash flow hedges, the effective portions of the gains and losses are recorded to other comprehensive income and are recognized in earnings concurrent with the disposition of the hedged risks. If a forecasted transaction corresponding to a cash flow hedge is not expected to occur, the accumulated gains or losses on the derivative are recognized currently in earnings. For fair value hedges, the gains and losses are recorded in earnings each period along with the change in the fair value of the hedged item. As a result of the rate-making process, the rate-regulated subsidiaries generally record gains and losses as regulatory liabilities or assets and recognize such gains or losses in earnings when both the contracts settle and the physical commodity flows. These gains and losses recognized in earnings are then subsequently recovered in revenues through rates. When gains and losses are recognized in earnings, they are recognized in cost of sales for derivatives that correspond to commodity risk activities and are recognized in interest expense for derivatives that correspond to interest-rate risk activities.

Energy trading activities refers to energy contracts entered into with the objective of generating profits on, or from exposure to, shifts or changes in market prices. NiSource evaluates the contracts of its trading operations in accordance with the criteria for derivative contracts under SFAS No. 133. Trading contracts not meeting the criteria to be accounted for as derivatives under SFAS No. 133 are recorded at fair value under EITF No. 02-03. EITF No. 02-03 indicates that when certain trading criteria are met, energy contracts, including "energy-related contracts" such as tolling, transportation and storage contracts, should be accounted for at fair value (marked to market) along with any related derivative contracts. The resulting gains and losses resulting from marking these contracts to fair value are reported on a net basis and included currently in earnings. Refer to Note 6, "Risk Management and Energy Trading Activities," of the Notes to Consolidated Financial Statements for further information.

R. Income Taxes and Investment Tax Credits. NiSource records income taxes to recognize full interperiod tax allocations. Under the liability method, deferred income taxes are recognized for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Previously recorded investment tax credits of the regulated subsidiaries were deferred and are being amortized over the life of the related properties to conform to regulatory policy.

To the extent certain deferred income taxes of the regulated companies are recoverable or payable through future rates, regulatory assets and liabilities have been established. Regulatory assets for income taxes are primarily attributable to property related tax timing differences for which deferred taxes had not been provided in the past, when regulators did not recognize such taxes as costs in the rate-making process. Regulatory liabilities for income taxes are primarily attributable to the regulated companies' obligation to credit to ratepayers deferred income taxes provided at rates higher than the current federal income tax rate currently being credited to ratepayers using the average rate assumption method and unamortized deferred investment tax credits.

NiSource files a consolidated federal and state income tax return with certain of its other affiliated companies. NiSource and its subsidiaries are parties to a tax allocation agreement under which the consolidated tax is allocated among the members of the group in proportion to each member's relative contribution to the group's consolidated tax liability. Additionally, NiSource's tax benefits from its tax losses, with the exception of interest expense on acquisition indebtedness, are allocated to its subsidiaries with positive separate return tax liabilities.

S. Environmental Expenditures. NiSource accrues for costs associated with environmental remediation obligations when the incurrence of such costs is probable and the amounts can be reasonably estimated, regardless of when the expenditures are actually made. The undiscounted estimated future expenditures are based on currently enacted laws and regulations, existing technology and site-specific costs. The liability is adjusted as further information is discovered or circumstances change. The reserves for estimated environmental expenditures are recorded on the statement of financial position in "Other Accruals" for short-term portions of these liabilities and "Other Non-current Liabilities" for the respective long-term portions of these liabilities. Rate-regulated subsidiaries applying SFAS No. 71 establish regulatory assets on the Consolidated Balance Sheets to the extent that future recovery of environmental remediation costs is probable through the regulatory process.

In addition, Northern Indiana received approval from the IURC in 2003 to recover costs associated with environmental compliance-programs for nitrogen oxide pollution-reduction equipment at the company's generating stations. Refer to Note 5, "Regulatory Matters," in the Notes to Consolidated Financial Statements for further information.

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T. Stock Options and Awards. SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), encourages, but does not require, entities to adopt the fair value method of accounting for stock-based compensation plans. The fair value method would require the amortization of the fair value of stock-based compensation at the date of grant over the related vesting period. NiSource continues to apply the intrinsic value method of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), for awards granted under its stock-based compensation plans. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

(in millions, except per share data)	**2004**	2003	2002
Net Income (Loss)			
As reported	$ **436.3**	$ 85.2	$ 372.5
Add: Stock-based employee compensation expense included in reported net income , net of related tax effects	**5.1**	8.3	4.7
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	**(11.5)**	(14.7)	(11.2)
Pro forma	$ **429.9**	$ 78.8	$ 366.0
Earnings per share ($)			
Basic - as reported	**1.65**	0.33	1.77
- pro forma	**1.63**	0.30	1.73
Diluted - as reported	**1.64**	0.33	1.75
- pro forma	**1.62**	0.30	1.72

U. Excise Taxes. NiSource accounts for excise taxes that are customer liabilities by separately stating on its invoices the tax to its customers and recording amounts invoiced as liabilities payable to the applicable taxing jurisdiction. These types of taxes, comprised largely of sales taxes collected, are presented on a net basis affecting neither revenues nor cost of sales. NiSource accounts for other taxes for which it is liable by recording a liability for the expected tax with a corresponding charge to "Other Taxes" expense.

V. Equity Forward Contracts. NiSource accounted for equity forward contracts on its own common shares as permanent equity consistent with the provisions of EITF Issue No. 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock" (EITF No. 00-19). Accordingly, the Corporate PIES and SAILS^{SM} were recorded in equity at fair value at the date of inception through the settlement of the their associated equity forward agreements with changes in fair value not recognized as long as the contracts were classified as equity. Refer to Note 12, "Common Stock," in the Notes to Consolidated Financial Statements for additional information on the Corporate PIES and the SAILS^{SM}.

W. Asset Retirement Obligations. NiSource accounts for retirement obligations on its assets in accordance with SFAS No. 143. This accounting standard requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71.

NiSource adopted the provisions of SFAS No. 143 on January 1, 2003, and as a result an asset retirement obligation liability of $54.3 million was recognized, of which $43.4 was related to assets sold in 2003. In addition, NiSource capitalized $41.3 million in additions to plant assets, net of accumulated amortization, of which $27.1 million was related to assets sold in 2003, and recognized regulatory assets and liabilities of $1.2 million and $4.6 million, respectively. NiSource believes that the amounts recognized as regulatory assets will be recoverable in future rates. The cumulative after-tax effect of adopting SFAS No. 143 amounted to $8.8 million. Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.0 billion at December 31, 2004 and 2003 based on rates for estimated removal costs embedded in composite depreciation rates. NiSource reclassified its cost of removal as of December 31, 2002 from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets and upon adoption of SFAS No. 143 "Accounting for Asset Retirement Obligations" recharacterized the liability as a regulatory liability as of December 31, 2003.

For the twelve months ended December 31, 2004, and December 31, 2003, NiSource recognized accretion expense of $0.3 million and $0.6 million, respectively. Accretion expense decreased in 2004 as compared to 2003 due to certain assets becoming fully accreted and the sale of three Transmission storage fields. The sale reduced the retirement obligations liability by approximately $2.8 million. The asset retirement obligations liability totaled $9.3 million and $11.4 million at December 31, 2004, and December 31, 2003, respectively.

2. Recent Accounting Pronouncements

SFAS No. 123 (revised 2004) -- Share-Based Payment (SFAS No. 123R). In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after June 15, 2005, using a modified version of the prospective application.

NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, the Company awarded stock options that vested immediately, but included a one-year exercise restriction. Due to the one-year vesting terms of the options awarded prior to 2005 and the immediate vesting of the options awarded in January 2005, no amounts from the value of stock options awarded during or prior to June 15, 2005 will result in the recognition of expense during 2005 in accordance with SFAS No. 123R. However, any stock options awarded after June 15, 2005 will result in compensation expense over the related future vesting periods. NiSource anticipates that the adoption of this statement in the third quarter of 2005 will not have a material impact to NiSource's financial position or results of operations for 2005.

FASB Staff Position (FSP) No. FAS 106-2 -- Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (FSP 106-2). (Supersedes FSP 106-1-- Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003.) On December 8, 2003, the President of the United States signed the Medicare Prescription Drug, Improvement and Modernization Act into law. The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," requires presently enacted changes in relevant laws to be considered in current period measurements of postretirement benefit costs and the Accumulated Projected Benefit Obligation. FSP 106-2 is effective for the first interim or annual period beginning after June 15, 2004. NiSource had previously elected to defer accounting for the effects of this pronouncement, as allowed by FSP 106-1. On July 1, 2004, NiSource adopted the provisions of FSP 106-2. The impact of accounting for the federal subsidy was not material to NiSource's financial position or results of operations.

FASB Interpretation No. 46 (Revised December 2003) -- Consolidation of Variable Interest Entities (FIN 46R). On January 17, 2003, the FASB issued FIN 46R which required a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns. A company that consolidates a variable interest entity is called the primary beneficiary of that entity. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights, or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46R also requires various disclosures about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. On December 18, 2003, the

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FASB deferred the implementation of FIN 46R to the first quarter of 2004. As a result, NiSource consolidated certain low income housing real estate investments beginning in the first quarter of 2004. Upon consolidation, NiSource increased its long-term debt by approximately $40 million. However, this debt is nonrecourse to NiSource and NiSource's direct and indirect subsidiaries. Refer to Note 14, "Long-Term Debt," in the Notes to Consolidated Financial Statements for additional information.

3. Restructuring Activities

Since 2000, NiSource has implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Dean H. Mitchell Generating Station (Mitchell Station) in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees.

In connection with these restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions have been identified for elimination. As of December 31, 2004, approximately 1,560 employees had been terminated, of whom approximately 13 employees were terminated during 2004. At December 31, 2004 and 2003, the Consolidated Balance Sheets reflected liabilities of $14.6 million and $19.5 million related to the restructuring initiatives, respectively. Of the remaining restructuring liability, $12.3 million was related to facility exit costs. During 2004 and 2003, payments of $4.7 million and $22.6 million were made in association with the restructuring initiatives, respectively. Additionally, during 2004, the liability associated with the restructuring initiatives was reduced by $0.2 million due to a $1.0 million reduction in estimated expenses related to previous restructuring initiatives partially offset by a $0.8 million accrual for vacant office space. The reduction in the estimated liability was reflected in "Operation and Maintenance" expense.

4. Discontinued Operations and Assets Held for Sale

In November 2004, NiSource sold its interest in SunPower Corporation for the purchaser's common shares valued at approximately $5.2 million at the time of sale. In the fourth quarter, NiSource had an after-tax gain of $2.0 million related to this sale.

In May 2004, Columbia Gas Transmission Corporation (Columbia Transmission) identified certain facilities as being non-core to the operation of the pipeline system. As a result, Columbia Transmission is in the process of selling these facilities to third parties. NiSource has accounted for the assets of these facilities, with a net book value of approximately $14.2 million, as assets held for sale. During the third quarter of 2004, $1.1 million of these assets were sold for a nominal amount. In the fourth quarter of 2004, Columbia Transmission signed a letter of intent to sell an additional facility valued at $ 4.2 million, which was classified as an asset held for sale. NiSource is also actively pursuing a buyer of certain assets formerly held by Columbia Transmission Communications Corporation (Transcom) valued at $6.1 million.

On November 26, 2003, NiSource sold its interest in Midtex Gas Storage Company, LLP for approximately $15.8 million and the assumption, by the buyer, of $1.7 million in debt. In the fourth quarter of 2003, NiSource recognized an after tax gain of $4.4 million related to this sale.

On October 20, 2003, NiSource sold all of the steel-related, "inside-the-fence" assets of its subsidiary PEI, to Private Power, LLC (Private Power). The sale included six PEI operating subsidiaries and the name "Primary Energy". Private Power paid approximately $325.4 million, comprised of $113.1 million in cash and the assumption of debt-related liabilities and other obligations. The assumption of such liabilities and the after tax cash proceeds from the sale reduced NiSource's debt by $206.3 million. NiSource has accounted for the assets sold as discontinued operations and has adjusted all periods presented accordingly. During 2003, NiSource recognized an after-tax loss of $29.1 million related to the sale.

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On September 30, 2003, NiSource sold Columbia Service Partners, Inc. (Columbia Service Partners), a subsidiary of Columbia for approximately $22.5 million. In 2003, NiSource recognized a pre-tax gain of $16.6 million related to the sale. Columbia Service Partners had been reported as assets held for sale.

On August 29, 2003, NiSource sold its exploration and production subsidiary, Columbia Energy Resources, Inc. (CER), to a subsidiary of Triana Energy Holdings (Triana). Under the CER sales agreement, Triana , an affiliate of Morgan Stanley Dean Witter Capital Partners IV, L.P. (MSCP), purchased all of the stock of CER for $330 million, plus the assumption of obligations to deliver approximately 94.0 billion cubic feet (Bcf) of natural gas pursuant to existing forward sales contracts. The sale transferred 1.1 trillion cubic feet of natural gas reserves. Approximately $220 million of after-tax cash proceeds from the sale were used to reduce NiSource's debt. In addition, a $213 million liability related to the forward sales contracts was removed from the Consolidated Balance Sheets. On January 28, 2003, NiSource's former subsidiary Columbia Natural Resources, Inc. sold its interest in certain natural gas exploration and production assets in New York for approximately $95 million. NiSource has accounted for CER as discontinued operations and has adjusted all periods presented accordingly. During 2004, NiSource realized after-tax net income due primarily to tax adjustments, while an after-tax loss of $301.2 million related to the sale of CER was recorded in 2003.

During 2002, NiSource decided to exit the telecommunications business. The results of operations related to Transcom were displayed as discontinued operations on NiSource's Statements of Consolidated Income and its assets and liabilities were separately aggregated and reflected as assets and liabilities of discontinued operations on the Consolidated Balance Sheets in 2002. On September 15, 2003, NiSource's subsidiary Columbia sold 100% of its shares in Transcom. During 2003, NiSource recognized an additional after-tax loss of $1.3 million related to the sale.

On April 30, 2002, NiSource sold the water utility assets of the Indianapolis Water Company and other assets of IWC Resources Corporation and its subsidiaries to the City of Indianapolis for $540.0 million. The divestiture of the water utilities was required as part of the U.S. Securities and Exchange Commission order approving the November 2000 acquisition of Columbia. The water utilities' operations were reported as discontinued operations through 2002.

On January 28, 2002, NiSource sold all of the issued and outstanding capital stock of SM&P Utility Resources, Inc. (SM&P), a wholly-owned subsidiary of NiSource, to The Laclede Group, Inc. for $37.9 million. SM&P operated an underground line locating and marking service in ten midwestern states. In the first quarter 2002, NiSource recognized an after-tax gain of $12.5 million related to the sale. SM&P was reported as assets held for sale.

Results from discontinued operations of CER (including the New York State properties), the six PEI subsidiaries, Transcom and the water utilities are provided in the following table:

Twelve months ended December 31, *(in millions)*	**2004**	2003	2002
Revenues from discontinued operations	**$ -**	$ 154.7	$ 308.5
Income (Loss) from discontinued operations	**(10.5)**	2.0	25.3
Income taxes	**(16.6)**	2.5	7.1
Net Income (Loss) from discontinued operations	**$ 6.1**	$ (0.5)	$ 18.2

The assets of discontinued operations and assets held for sale were net property, plant, and equipment of $23.4 million and $20.7 million at December 31, 2004 and December 31, 2003, respectively.

5. Regulatory Matters

Gas Distribution Operations Related Matters

Changes in gas industry regulation, which began in the mid-1980s at the federal level, have broadened to retail customers at the state level. For many years, large industrial and commercial customers have had the ability to purchase natural gas directly from marketers and to use Gas Distribution Operations' facilities for transportation services. Beginning in the mid-1990s, Gas Distribution Operations has provided these "CHOICE®" programs for its retail customers. Through the month of December 2004, approximately 713 thousand of Gas Distribution Operations' residential and small commercial and industrial customers selected an alternate supplier.

Gas Distribution Operations continues to offer CHOICE® opportunities through regulatory initiatives in all of its jurisdictions. While CHOICE® programs generally provide all customer classes with the opportunity to obtain gas supplies from alternative merchants, Gas Distribution Operations expects to play a substantial role in supplying gas commodity services to its customers for the foreseeable future. Customer participation in some of these programs can leave the Gas Distribution Operations subsidiaries with pipeline capacity for which it has contracted but no longer has a need. The state commissions in jurisdictions served by Gas Distribution Operations are at various stages in addressing methods for recovering the cost of such capacity. Gas Distribution Operations is currently recovering, or has the opportunity to recover, the costs resulting from the unbundling of its services and believes that most of such future costs will be mitigated or recovered. Methodologies for mitigating or recovering these costs include the use of assets available from previous funding mechanisms, incentive sharing mechanisms, reducing levels of reserved pipeline capacity and mandatory assignment of pipeline capacity to alternative suppliers.

Through October 2004, Columbia of Ohio's rates were established by regulatory stipulation approved by the PUCO. On October 9, 2003, Columbia of Ohio and other parties filed with the PUCO an amended stipulation that would govern Columbia of Ohio's regulatory framework from November 2004 through October 2010. Most of Columbia of Ohio's volumetric capacity under contracts with interstate pipelines expired on October 31, 2004, and the amended stipulation would have provided Columbia of Ohio with guaranteed recovery of the costs of renewing those contracts for firm capacity sufficient to meet up to 100% of the design peak day requirements through October 31, 2005 and up to 95% of the design peak day requirements through October 31, 2010. Among other things, the amended stipulation would also have: (1) extended Columbia of Ohio's CHOICE® program from November 1, 2004 through October 2010; (2) provided Columbia of Ohio with an opportunity to generate revenues sufficient to cover the stranded costs associated with the CHOICE® program; and (3) allowed Columbia of Ohio to record post-in-service carrying charges on plant placed into service after October 2004, and to defer the property taxes and depreciation associated with such plant.

On March 11, 2004, the PUCO issued an order that adopted and modified the stipulation. The order extended Columbia of Ohio's CHOICE® program through December 31, 2007 and declined to pre-approve the amount of firm interstate pipeline capacity for which Columbia of Ohio could contract and receive assurance of cost recovery. In addition, the PUCO made other modifications which would limit Columbia of Ohio's ability to generate revenues sufficient to cover stranded costs, including declining to mandate that natural gas marketers participating in the CHOICE® program obtain 75% of their interstate capacity directly from Columbia of Ohio and changing the amount of revenues generated through off-system sales or capacity release transactions. The order allowed Columbia of Ohio to record post-in-service carrying charges on plant placed in service between October 2004 and December 31, 2007, and allowed the deferral of property taxes and depreciation associated with such plant for that same time frame.

On April 9, 2004, Columbia of Ohio and other signatory parties to the stipulation (Joint Petitioners), consistent with standard regulatory process, petitioned the PUCO for rehearing on the components which were modified in the March 11 order. That same day the Office of the Ohio Consumers' Counsel (OCC) also filed an application for rehearing, and argued that the PUCO should not have permitted Columbia of Ohio to record post-in-service carrying charges on plant placed into service after October 2004, and to defer the property taxes and depreciation associated with such plant. On April 19, 2004, the OCC filed a motion to dismiss the application for rehearing filed by Columbia of Ohio and other parties.

On May 5, 2004, the PUCO issued an order on rehearing, in which it denied the OCC's motion to dismiss and its application for rehearing. The PUCO granted part of the joint application filed by Columbia of Ohio and others. The PUCO modified its previous orders. Specifically, it (1) revised the term of the stipulation so that it extends through October 31, 2008; (2) restored the mandate that natural gas marketers participating in the CHOICE® program obtain 75% of their interstate pipeline capacity directly from Columbia of Ohio; and (3) revised the mechanism applicable to Columbia of Ohio's sharing of off-system sales and capacity release revenue. Under the revised off-system sales/capacity release revenue sharing mechanism, Columbia of Ohio will begin sharing such revenue with the customers after the annual revenue exceeds $25 million, instead of $35 million as originally proposed in the stipulation. This order further permitted Columbia of Ohio to record post-in-service carrying charges on plant placed in service between October 2004 and October 2008, and allowed the deferral of property taxes and depreciation associated with such plant for that same time frame.

Columbia of Ohio and the other signatory parties to the stipulation accepted the PUCO's modifications. Nevertheless, on May 14, 2004, the OCC filed a Second Application for Rehearing. Therein, the OCC argued that the Joint Petitioners did not meet the statutory requirements for an application for rehearing, and thus the PUCO's rehearing order was unlawful. The OCC also argued that the rehearing order was void as it resulted from settlement negotiations from which the OCC was excluded. The OCC also continued to challenge the PUCO's treatment of off-system sales and capacity release revenues, and post-in-service carrying charges and related deferrals.

On June 3, 2004, Columbia of Ohio filed its proposed tariffs and accounting. On June 9, 2004, the PUCO denied the OCC's Second Application for Rehearing. On July 29, 2004, the OCC filed an appeal with the Supreme Court of Ohio, contesting the PUCO's May 5, 2004 order on rehearing, which granted in part Columbia of Ohio's joint application for rehearing, and the PUCO's June 9, 2004 order, denying the OCC's Second Application for Rehearing. Columbia of Ohio intervened in the appellate proceeding. The briefing process has been completed and the parties are waiting for the Supreme Court of Ohio to schedule oral arguments.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio local distribution companies (LDCs) to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad-debt recovery requirements in November 2004. As of December 31, 2004, Columbia of Ohio has $43 million of uncollected accounts receivable pending future recovery.

On December 2, 2004, Columbia of Ohio filed two applications with the Ohio Power Siting Board, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. Columbia of Ohio also filed requests for waivers from certain of the Board's requirements. The waivers were approved on February 4, 2005. The application is currently pending, awaiting further Board action.

On September 10, 2004, the Pennsylvania Public Utility Commission approved a settlement agreement among Columbia Gas of Pennsylvania, Inc. (Columbia of Pennsylvania), The Office of Consumer Advocate, The Office of Small Business Advocate, The Office of Trial Staff, and Commercial & Industrial Intervenors in Columbia of Pennsylvania's annual gas cost recovery proceeding. Under the Settlement Agreement, the signatory parties agreed to financial incentive mechanisms for off-system sales and capacity release transactions performed by Columbia of Pennsylvania. Under the incentive mechanism, customers receive 100% of the total combined proceeds from off-system sales and capacity release transactions up to a benchmark of $6 million. After the benchmark is reached, Columbia of Pennsylvania will retain 50% of proceeds from the transactions; however, Columbia of Pennsylvania may never retain more than 40% of the actual net proceeds generated from off-system sales and capacity release transactions. The incentive mechanism began October 1, 2004 and ends on September 30, 2006.

Northern Indiana's gas costs are recovered under a flexible gas cost adjustment (GCA) mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a gas cost incentive mechanism which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA5 annual demand cost recovery filing, covering the period November 1, 2003 through October 31, 2004, was made on August 26, 2003. The IURC authorized the collection of the demand charge,

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subject to refund, effective November 1, 2003. On June 8, 2004, Northern Indiana and the Indiana Office of Utility Consumer Counselor (OUCC) entered into a joint stipulation and agreement resolving all issues in GCA5. Among the settlement agreement's provisions, Northern Indiana has agreed to return $3.8 million to its customers over a twelve-month period following IURC approval, which occurred on August 18, 2004. An additional provision of the agreement extended the current Alternative Regulatory Plan (ARP), including Northern Indiana's gas cost incentive mechanism, from the current expiration date of December 31, 2004 to March 31, 2005.

Northern Indiana's GCA 6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. Northern Indiana expects the IURC's order in the second quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the 1997 ARP to March 31, 2006. The agreement also grandfathers the terms of existing contracts that marketers have with Choice customers and establishes a scope for negotiations that Parties will follow when convening within the next several months to establish a long-term resolution of ARP. The IURC hearing on this settlement was January 13, 2005 with an order expected in the first quarter of 2005.

On December 15, 2004, Northern Indiana obtained approval from the IURC to implement a low-income energy assistance 1-year pilot program under the name NIPSCO Winter Warmth. Northern Indiana and the OUCC entered into and filed a settlement with the IURC on November 5, 2004. The agreement provides that Northern Indiana will collect from customers approximately $5.0 million over the respective 12-month period and contribute $0.7 million of company funds for a total of $5.7 million of energy assistance. Northern Indiana and the IURC will evaluate the success of NIPSCO Winter Warmth in 2005 to determine if it will become a permanent program.

The Maine Public Utility Commission (Maine PUC) has opened an investigation into the cast iron distribution piping integrity of Northern Utilities (Northern Utilities). Northern Utilities has responded that its cast iron piping is operated in accordance with state and federal pipeline safety laws and regulations, and that it is replacing that piping in a safe, cost-effective manner. Northern Utilities has estimated that replacement of its cast-iron system on an accelerated basis would cost over $35 million. The company has asked the Maine PUC to assure it of recovery of the costs associated with the incremental rate base additions if the Maine PUC requires accelerated replacement.

All of the Columbia distribution companies hold long-term contracts for pipeline and storage services with its affiliate pipelines, Columbia Transmission and Columbia Gulf Transmission Company (Columbia Gulf), and a majority of those contracts expired on October 31, 2004. The Columbia distribution companies are comprised of Columbia Gas of Kentucky, Inc. (Columbia of Kentucky), Columbia Gas of Maryland, Inc., Columbia of Ohio, Columbia of Pennsylvania, and Columbia Gas of Virginia, Inc. (Columbia of Virginia). Several distribution companies discussed their plan to renew pipeline and storage contracts with industry stakeholders to ensure the continued ability to serve the requirements of firm customers in a tightening capacity market. All contract negotiations between the distribution companies and Columbia Transmission and Columbia Gulf were resolved prior to the contracts expiring. In addition, certain contracts were subject to the approval of the respective state regulatory agencies. On April 29, 2004, the Pennsylvania Public Utility Commission approved a request by Columbia of Pennsylvania to renew its pipeline and storage contracts with Columbia Transmission and Columbia Gulf. Pursuant to this approval, Columbia of Pennsylvania's storage contracts and approximately half of its pipeline contracts will be renewed for terms of fifteen years, while the remaining pipeline contracts will be renewed on a tiered basis for terms ranging from five to ten years. Columbia of Pennsylvania will also acquire additional capacity to meet customer requirements on peak days. In addition, on August 3, 2004, the Virginia State Corporation Commission approved a request by Columbia of Virginia to renew its pipeline and storage contracts with Columbia Transmission and Columbia Gulf. Pursuant to this approval, Columbia of Virginia's storage and pipeline contracts with Columbia Transmission and Columbia Gulf will be renewed for terms of fifteen years.

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Electric Operations Related Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified cap will be retained by Northern Indiana. Credits amounting to $56.4 million and $52.0 million were recognized for electric customers for 2004 and 2003, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the Midwest Independent System Operator (MISO) through participation in an independent transmission company (ITC). Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana will incur new categories of transmission charges based upon MISO's FERC-approved tariff. One of the new categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. The MISO Schedule 10 administrative fees are currently estimated to be approximately $3.1 million annually. On October 6, 2004, the IURC denied Northern Indiana's Motion for Reconsideration. Northern Indiana has appealed the IURC's decision to the Indiana Appellate Court, where this matter is pending.

The MISO has initiated the Midwest Market Initiative (MMI), which will develop the structures and processes to be used to implement an electricity market for the MISO region. This MMI proposes non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO has filed with the FERC detailed tariff information and all market systems will be operational for the mandatory trials until financially binding activities begin with the opening of the market for bids and offers on March 25, 2005, and the Real-Time Market on April 1, 2005. Northern Indiana and TPC are actively pursuing roles in the MMI. At the current time, management believes that the MMI will change the manner in which Northern Indiana and TPC conduct their electric business. Specifically, this detailed tariff information proposes to manage system reliability through the use of a market-based congestion management system. The proposal includes a centralized dispatch platform, which will dispatch the most economic resources to meet load requirements efficiently and reliably in the MISO region. This FERC tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The tariff also allows for the allocation, auction or sale of Financial Transmission Rights, which are instruments that hedge against congestion costs occurring in the Day-Ahead market. The MISO will perform a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO will also perform the real time resource dispatch for resources under its control on a five minute basis.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the fuel adjustment clause (FAC). The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the industrial customers' challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

Currently, Northern Indiana is reviewing options to meet the electric needs of its customers. This review includes an assessment of Northern Indiana's oldest generating units, which includes the Mitchell Station. On October 8, 2004, Northern Indiana requested proposals from wholesale power marketers to provide power under varying terms and conditions. Northern Indiana received conforming bids, which are currently being evaluated. Decisions on purchased power will be made consistent with the start of the MMI.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for the cleanup costs. The proposed joint development agreement is currently under review by the IURC.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and Grid America. A hearing in this matter was held December 1st and 2nd of 2004. An IURC order is expected in the second quarter of 2005.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005 and an order is expected in the second quarter of 2005.

In January 2002, Northern Indiana filed for approval to implement an environmental cost tracker (ECT). The ECT was approved by the IURC on November 26, 2002. Under the ECT Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement Indiana Department of Environmental Management's nitrogen oxide State Implementation Plan through an Environmental Cost Recovery Mechanism (ECRM) and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an Environmental Expense Recovery Mechanism (EERM). Under the Commission's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. Northern Indiana currently anticipates a total capital investment amounting to approximately $305 million. This amount was filed in Northern Indiana's latest compliance plan, which was approved by the IURC on January 19, 2005. The ECRM revenues amounted to $18.8 million for the twelve months ended December 31, 2004, and $24.0 million from inception to date, while EERM revenues were $1.2 million for 2004. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004.

6. Risk Management and Energy Trading Activities

NiSource uses derivative financial instruments to manage certain risks in its business including commodity price risk. NiSource accounts for its derivatives under SFAS No. 133, as amended. Refer to Note 1-Q, "Accounting for Risk Management Activities," in the Notes to Consolidated Financial Statements for additional information.

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Hedging Activities. Many of the risk management programs in use by NiSource's operating companies qualify for hedge accounting. The cash flow hedge activity affecting other comprehensive income for the years 2004 and 2003 was as follows:

(in millions, net of tax)	2004	2003
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 91.7**	$ 67.8
Unrealized hedging gains arising during the period on derivatives qualifying as cash flow hedges	**44.7**	13.0
Reclassification adjustment for net loss (gain) included in net income	**(42.5)**	10.9
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 93.9**	$ 91.7

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $200.0 million and $165.6 million at December 31, 2004 and 2003, respectively, of which $51.7 million and $51.3 million were included in "Current Assets", $148.3 million and $114.3 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $26.7 million and $9.5 million at December 31, 2004 and 2003, respectively, of which $21.3 million and $9.3 million were included in "Current Liabilities", $5.4 million and $0.2 million were included in "Other Assets."

During 2004 and 2003, a gain of $0.1 million and $2.0 million, net of tax respectively, was recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During 2004 and 2003, NiSource reclassified zero and $0.9 million respectively, related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $32.3 million, net of tax.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light Company, Kokomo Gas and Fuel Company, Northern Utilities, Inc., and Columbia of Pennsylvania use New York Mercantile Exchange (NYMEX) derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $0.5 million and $1.2 million of price risk management assets associated with these programs at December 31, 2004 and December 31, 2003, respectively. In addition, the Consolidated Balance Sheets reflected $9.2 million and $0.5 million of price risk management liabilities associated with these programs at December 31, 2004 and December 31, 2003, respectively.

Northern Indiana offers a Price Protection Service as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price and the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges.

Northern Indiana also offers a Dependabill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases

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associated with these obligations, Northern Indiana purchases fixed priced gas and the option to call on additional volumes that match the anticipated delivery needs of the program and currently uses NYMEX futures and options contracts for these hedge transactions. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected $6.2 million of price risk management liabilities associated with the Price Protection Service and the Dependabill programs.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counter parties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia Gas of Kentucky, Columbia of Ohio, and Columbia of Pennsylvania, (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71, "Accounting for the Effects of Certain Types of Regulation." The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $4.6 million and $3.3 million of price risk management liabilities associated with the programs at December 31, 2004 and December 31, 2003, respectively.

Columbia Energy Services Corporation (Columbia Energy Services) has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases.

Interest Rate Risk Activities. Between October 27, 2004 and November 1, 2004, NiSource Finance entered into $900 million of forward starting interest rate swaps, hedging the future interest payments of long-term debt. The $900 million of forward starting swaps included $450 million notional value of 12-year forward starting swaps entered into with three counterparties and $450 million notional value of 15-year forward starting swaps entered into with three additional counterparties. Entering into these hedge transactions allows NiSource Finance to mitigate the risk from rising interest rates and uncertain interest expense cash flows in the future. Assuming prevailing credit spreads in effect at the time the forward starting swaps were put in place, the swaps would result in a net effective interest rate of approximately 5.55%-5.65% for the planned 12-year note issuance and approximately 5.70%-5.80% for the planned 15-year note issuance. These approximate interest rates assume the relationship between swap spreads embedded in the forward starting swaps and NiSource Finance's credit spread remain constant from execution date of the swaps through the planned notes issuance date anticipated in September 2005. Each of the forward starting swap transactions have both an effective date and a mandatory early termination date of September 7, 2005, which is the date NiSource Finance anticipates completing $900 million of new debt issuance, consisting of $450 million of 12-year notes and $450 million of 15-year notes.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance Corp. (NiSource Finance) entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month British Banker Association (BBA) London InterBank Offered Rate (LIBOR) plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

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On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

On May 12, 2004, Columbia terminated all remaining fixed-to-variable interest rate swap agreements.

On April 11, 2003, Columbia entered into fixed-to-variable interest rate swap agreements in a notional amount of $100 million with two counterparties. Columbia received payments based upon a fixed 7.42% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 2.39% per annum. There was no exchange of premium at the initial date of the swaps. These interest rate swap agreements were terminated on May 12, 2004.

On April 4, 2003, Columbia terminated a fixed-to-variable interest rate swap agreement containing a notional amount of $100 million. Columbia received a settlement payment from the counterparty amounting to $8.2 million, which will be amortized as a reduction to interest expense over the remaining term of the underlying debt.

On September 3, 2002, Columbia entered into new fixed-to-variable interest rate swap agreements totaling $281.5 million with three counterparties effective as of September 5, 2002. Under the agreements, Columbia received payments based upon a fixed 7.32% interest rate and paid a floating interest amount based on U.S. 6-month BBA LIBOR plus 2.66% per annum. There was no exchange of premium at inception of the swaps. These interest rate swap agreements were terminated on May 12, 2004.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Marketing and Trading Activities. Effective July 1, 2002, TPC sold a significant portion of its net obligations under its gas forward transaction portfolio, physical storage inventory and associated agreements to a third party. Prior to the sale, TPC's operations included the activities of its gas and power trading businesses. Beginning with the effective date of the sale, the remaining operations associated with TPC include commercial and industrial gas sales (including arranging supply), gas supply and power marketing associated with NiSource's Whiting Clean Energy facility and power trading. With the exception of power trading and one remaining gas trading deal, which expired in October 2002, since July 1, 2002 the gas-related activities at TPC have no longer been considered trading activities, and all positions were marked to fair value pursuant to SFAS No. 133.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges.

The fair market values of NiSource's power trading assets and liabilities were $8.8 million and $11.9 million, respectively, at December 31, 2004 and $21.9 million and $23.4 million, respectively, at December 31, 2003. The fair market values of NiSource's gas marketing assets and liabilities were $24.8 million and $22.4 million, respectively, at December 31, 2002.

Pursuant to the October 25, 2002 consensus reached regarding EITF No. 02-03, beginning in 2003 the results of derivatives related to trading activities were presented on a net basis. All periods presented have been adjusted to conform to the revised presentation.

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Notes to Consolidated Financial Statements (continued)

7. Equity Investment Subsidiaries

Certain investments of NiSource are accounted for under the equity method of accounting. Income and losses are reflected in net income on NiSource's Statements of Consolidated Income. All investments shown as limited partnerships are limited partnership interests.

In the second quarter of 2004, a NiSource affiliate purchased an additional interest in the Millennium Pipeline Project that temporarily raised the company's interest in the project entities above the 50% threshold normally requiring consolidation. As of December 31, 2004, NiSource did not consolidate the Millennium Pipeline Project entities because it plans to transfer this additional interest to other sponsors in the first half of 2005.

The following is a list of NiSource's equity investments at December 31, 2004.

Investee	Type of Investment	% of Voting Power or Interest Held
Chicago South Shore & South Bend Railroad Co.	General Partnership	40.0
EnerTek Partners, LP	Limited Partnership	16.5
House Investments - Midwest Corporate Tax Credit Fund, L.P.	Limited Partnership	12.2
Illinois Indiana Development Company, L.L.C.	LLC Membership	40.0
Millennium Pipeline Company, L.P.	Limited Partnership	68.5
Millennium Pipeline Management Company, L.L.C.	LLC Membership	68.5
N Squared Aviation, L.L.C.	LLC Membership	33.3
Nth Power Technologies Fund II, L.P.	Limited Partnership	4.1
Nth Power Technologies Fund II-A, L.P.	Limited Partnership	5.4
The Wellingshire Joint Venture	General Partnership	50.0
Utech Climate Challenge Fund, L.P.	Limited Partnership	17.9

8. Goodwill and Other Intangible Assets

NiSource's goodwill of $3,687.2 million at December 31, 2004 and 2003, pertains primarily to the acquisition of Columbia on November 1, 2000. NiSource has aggregated the subsidiaries related to the acquisition of Columbia into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment, for the purpose of testing goodwill for impairment. NiSource performs its annual impairment test of goodwill every June 30. The results of the June 30, 2004 impairment test indicated that no impairment charge was required.

Intangible assets apart from goodwill, consisting of franchise rights, were identified as part of the purchase price allocations associated with the acquisition of Bay State, a wholly owned subsidiary of NiSource, and its subsidiaries. These amounts were $462.9 million and $475.2 million, net of amortization of $82.5 million and $69.0 million at December 31, 2004, and 2003, respectively, and are being amortized over forty years from the date of acquisition. In the fourth quarter 2004, Bay State tested for impairment its intangible assets and found that no impairment existed. NiSource had approximately $57.6 million and $51.9 million of other intangible assets recorded at December 31, 2004 and 2003, respectively, which reflected the additional minimum liability associated with the unrecognized service cost of the pension plans pursuant to SFAS No. 87, "Employers' Accounting for Pensions" (SFAS No. 87).

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Notes to Consolidated Financial Statements (continued)

9. Income Taxes

The components of income tax expense were as follows:

Year Ended December 31, *(in millions)*	2004	2003	2002
Income Taxes			
Current			
Federal	$ 117.0	$ 132.0	$ 126.4
State	26.4	24.3	(3.3)
Total Current	143.4	156.3	123.1
Deferred			
Federal	102.4	82.4	74.8
State	4.0	4.4	29.9
Total Deferred	106.4	86.8	104.7
Deferred Investment Credits	(8.9)	(8.9)	(8.9)
Income Taxes Included in Continuing Operations	$ 240.9	$ 234.2	$ 218.9

Total income taxes from continuing operations were different from the amount that would be computed by applying the statutory Federal income tax rate to book income before income tax. The major reasons for this difference were as follows:

Year Ended December 31, *(in millions)*	2004		2003		2002	
Book income from Continuing Operations before income taxes	$ 671.1		$ 659.9		$ 617.0	
Tax expense at statutory Federal income tax rate	234.9	35.0%	231.0	35.0%	216.0	35.0%
Increases (reductions) in taxes resulting from:						
State income taxes, net of federal income tax benefit	19.8	3.0	18.6	2.8	17.1	2.8
Regulatory treatment of depreciation differences	4.5	0.7	1.2	0.2	(2.2)	(0.4)
Amortization of deferred investment tax credits	(8.9)	(1.3)	(8.9)	(1.3)	(8.9)	(1.4)
Low-income housing	(3.9)	(0.6)	(5.1)	(0.8)	(5.1)	(0.8)
Other, net	(5.5)	(0.9)	(2.6)	(0.4)	2.0	0.3
Income Taxes from Continuing Operations	$ 240.9	35.9%	$ 234.2	35.5%	$ 218.9	35.5%

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Notes to Consolidated Financial Statements (continued)

Deferred income taxes resulted from temporary differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. The principal components of NiSource's net deferred tax liability were as follows:

At December 31, *(in millions)*	2004	2003
Deferred tax liabilities		
Accelerated depreciation and other property differences	**$ 1,680.3**	$ 1,596.5
Unrecovered gas & fuel costs	**112.6**	68.0
Other regulatory assets	**303.9**	279.0
SFAS No. 133 and price risk adjustments	**40.9**	49.0
Premiums and discounts associated with long-term debt	**54.1**	56.6
Total Deferred Tax Liabilities	**2,191.8**	2,049.1
Deferred tax assets		
Deferred investment tax credits and other regulatory liabilities	**(177.9)**	(156.5)
Pension and other postretirement/postemployment benefits	**(192.4)**	(190.9)
Environmental liabilities	**(21.4)**	(20.1)
Other accrued liabilities	**(43.9)**	(30.0)
Other, net	**(19.2)**	(5.4)
Total Deferred Tax Assets	**(454.8)**	(402.9)
Less: Deferred income taxes related to current assets and liabilities	**71.1**	57.0
Non-Current Deferred Tax Liability	**$ 1,665.9**	$ 1,589.2

10. Pension and Other Postretirement Benefits

NiSource provides defined contribution plans and noncontributory defined benefit retirement plans that cover its employees. Benefits under the defined benefit retirement plans reflect the employees' compensation, years of service and age at retirement. Additionally, NiSource provides health care and life insurance benefits for certain retired employees. The majority of employees may become eligible for these benefits if they reach retirement age while working for NiSource. The expected cost of such benefits is accrued during the employees' years of service. Current rates of rate-regulated companies include postretirement benefit costs on an accrual basis, including amortization of the regulatory assets that arose prior to inclusion of these costs in rates. For most plans, cash contributions are remitted to grantor trusts. NiSource uses September 30 as its measurement date for its pension and postretirement benefit plans.

NiSource employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and asset class volatility. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value, small and large capitalizations. Other assets such as private equity and hedge funds are used judiciously to enhance long-term returns while improving portfolio diversification. Derivatives may be used to gain market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying assets. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

The most important component of an investment strategy is the portfolio asset mix, or the allocation between the various classes of securities available to the pension plan for investment purposes. The asset mix and acceptable minimum and maximum ranges established represents a long-term view and are as follows:

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Asset Mix Policy of Total Fund:

Asset Category	Minimum	Maximum
Domestic Equities	40%	60%
International Equities	10%	20%
Fixed Income	15%	45%
Real Estate/Alternative Investments	0%	10%
Short-Term Investments	0%	10%

Pension Plan and Postretirement Plan Asset Mix at September 30, 2004:

(in millions)	Defined Benefit Pension Assets	9/30/2004	Post Retirement Welfare Plan Assets	9/30/2004
Asset Class	**Asset Value**	**% of Total Assets**	**Asset Value**	**% of Total Assets**
Domestic Equities	$ 942.2	49.3%	$ 105.1	54.8%
International Equities	311.5	16.3%	35.6	18.6%
Fixed Income	546.3	28.6%	49.8	26.0%
Alternative Investments	92.6	4.9%	-	0.0%
Cash/Other	18.0	0.9%	1.1	0.6%
Total	**$ 1,910.6**	100.0%	**$ 191.6**	100.0%

NiSource employs a building block approach with proper consideration of diversification and rebalancing in determining the long-term rate of return for plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are analyzed to ensure that they are consistent with the widely accepted capital market principle that assets with higher volatility generate greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonability and appropriateness.

NiSource pension fund assets earned a return of 12.8% for the plan year ended September 30, 2004 and 22.0% for the plan year ended September 30, 2003. However, the discount rate used to measure the accumulated benefit obligation has decreased over the past two years, which slightly offset the fair-value increase in the pension assets. In accordance with SFAS No. 87, NiSource adjusted its minimum pension liability at December 31, 2004 and 2003. The adjustment for 2004 was not material. The 2003 adjustment resulted in a decrease to the retirement benefit liabilities of $94.8 million, a decrease in intangible assets of $6.1 million, a decrease to deferred income tax assets of $35.2 million and an increase to other comprehensive income of $53.5 million after-tax. NiSource expects pension expense for 2005 to decrease approximately $3.6 million and other post-retirement benefits expense to remain approximately the same from the amounts recognized in 2004. In addition, NiSource expects to make contributions of $3.6 million to its pension plans and $52.7 million to its postretirement medical and life plans in 2005.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The following tables provide a reconciliation of the plans' funded status and amounts reflected in NiSource's Consolidated Balance Sheets at December 31 based on a September 30 measurement date:

	Pension Benefits		Other Benefits	
(in millions)	**2004**	2003	**2004**	2003
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 2,113.6**	$ 1,948.3	**$ 659.0**	$ 541.3
Service cost	**39.4**	35.1	**8.6**	7.2
Interest cost	**127.0**	131.0	**39.1**	36.5
Plan participants' contributions	**-**	-	**2.7**	1.7
Plan amendments	**13.1**	15.1	**(13.7)**	10.7
Settlement loss	**0.2**	-	**-**	-
Actuarial loss	**83.6**	141.4	**70.4**	103.5
Benefits paid	**(161.9)**	(157.3)	**(46.0)**	(41.9)
Benefit obligation at end of year	**$ 2,215.0**	$ 2,113.6	**$ 720.1**	$ 659.0
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 1,829.5**	$ 1,651.1	**$ 168.1**	$ 138.3
Actual return on plan assets	**224.8**	334.0	**18.0**	25.3
Employer contributions	**18.2**	1.7	**48.8**	44.7
Plan participants' contributions	**-**	-	**2.7**	1.7
Benefits paid	**(161.9)**	(157.3)	**(46.0)**	(41.9)
Fair value of plan assets at end of year	**$ 1,910.6**	$ 1,829.5	**$ 191.6**	$ 168.1
Funded status	**$ (304.4)**	$ (284.1)	**$ (528.5)**	$ (490.9)
Contributions made after measurement date and before fiscal year end	**0.7**	0.6	**11.7**	14.5
Unrecognized actuarial loss	**415.3**	417.2	**78.6**	57.1
Unrecognized prior service cost	**65.2**	61.6	**12.9**	13.3
Unrecognized transition obligation	**-**	-	**121.3**	104.1
Net amount recognized at end of year	**$ 176.8**	$ 195.3	**$ (304.0)**	$ (301.9)
Amounts recognized in the statement of financial position consist of:				
Prepaid Benefit Cost	**22.6**	15.7		
Accrued benefit liability	**(147.6)**	(123.6)		
Intangible asset	**57.0**	51.2		
Accumulated other comprehensive income, pre-tax	**244.8**	252.0		
Net amount recognized at end of year	**$ 176.8**	$ 195.3		
Other comprehensive loss, pre-tax, attributable to change in additional minimum liability recognition	**$ (7.2)**	$ (88.7)		

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

	Pension Benefits		Other Benefits	
	2004	2003	**2004**	2003
Weighted-average assumptions as of September 30,				
Discount rate assumption	**6.00%**	6.25%	**6.00%**	6.25%
Compensation growth rate assumption	**4.0%**	4.0%	**-**	-
Medical cost trend assumption	**-**	-	**5.0%**	5.0%
Assets earnings rate assumption	**9.0%**	9.0%	**8.8%**	9.0%

The following table provides benefits expected to be paid in each of the next five fiscal years, and in the aggregate for the five fiscal years thereafter. The expected benefits are estimated based on the same assumptions used to measure the company's benefit obligation at the end of the year and includes benefits attributable to the estimated future service of employees.

(in millions)	Pension Benefits	Other Post-retirement Benefits	Federal Subsidy (Receipts)
Year(s)			
2005	$ 153.3	$ 51.4	$ (0.6)
2006	158.5	54.7	(0.8)
2007	163.6	56.8	(0.9)
2008	169.0	58.7	(1.1)
2009	172.0	60.5	(1.3)
2010-2014	977.7	309.2	(8.9)

The following table provides the components of the plans' net periodic benefits cost (benefit) for each of the three years:

	Pension Benefits			Other Benefits		
(in millions)	**2004**	2003	2002	**2004**	2003	2002
Net periodic cost						
Service cost	**$ 39.4**	$ 35.1	$ 39.5	**$ 8.6**	$ 7.2	$ 11.3
Interest cost	**127.0**	131.0	125.8	**39.1**	36.5	33.3
Expected return on assets	**(157.3)**	(141.7)	(161.1)	**(14.0)**	(10.2)	(10.0)
Amortization of transitional obligation	**-**	5.5	6.3	**11.5**	11.6	11.8
Amortization of prior service cost	**9.4**	8.3	9.9	**0.8**	0.1	1.5
Recognized actuarial (gain) loss	**18.1**	25.7	1.4	**2.2**	(3.5)	(8.5)
Settlement loss	**0.2**	-	-	**-**	-	-
Net Periodic Benefits Cost	**$ 36.8**	$ 63.9	$ 21.8	**$ 48.2**	$ 41.7	$ 39.4

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

(in millions)	1% point increase	1% point decrease
Effect on service and interest components of net periodic cost	$ 4.8	$ (4.3)
Effect on accumulated postretirement benefit obligation	49.3	(45.7)

11. Authorized Classes of Cumulative Preferred and Preference Stocks

NiSource has 20,000,000 authorized shares of Preferred with a $0.01 par value, of which 4,000,000 shares are designated Series A Junior Participating Preferred Shares and are reserved for issuance pursuant to the Share Purchase Rights Plan described in Note 12-C, "Shareholder Rights Plan," in the Notes to Consolidated Financial Statements.

The authorized classes of par value and no par value cumulative preferred and preference stocks of Northern Indiana are as follows: 2,400,000 shares of Cumulative Preferred with a $100 par value; 3,000,000 shares of Cumulative Preferred with no par value; 2,000,000 shares of Cumulative Preference with a $50 par value (none outstanding); and 3,000,000 shares of Cumulative Preference with no par value (none outstanding).

The preferred stockholders of Northern Indiana have no voting rights, except in the event of default on the payment of four consecutive quarterly dividends, or as required by Indiana law to authorize additional preferred shares, or by the Articles of Incorporation in the event of certain merger transactions.

The redemption prices at December 31, 2004, for the cumulative preferred stock, which is redeemable solely at the option of Northern Indiana, in whole or in part, at any time upon thirty days' notice, were as follows:

	Series	Redemption Price per Share
Northern Indiana Public Service Company:		
Cumulative preferred stock - $100 par value -	4-1/4%	$ 101.20
	4-1/2%	$ 100.00
	4.22%	$ 101.60
	4.88%	$ 102.00
	7.44%	$ 101.00
	7.50%	$ 101.00
Cumulative preferred stock - no par value adjustable rate (6.00% at December 31, 2004), Series A (stated value $50 per share)		$ 50.00

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The redemption prices at December 31, 2004, as well as sinking fund provisions, for the cumulative preferred stock subject to mandatory redemption requirements, or whose redemption is outside the control of Northern Indiana, were as follows:

Series	Redemption Price per Share	Sinking Fund or Mandatory Redemption Provisions
Cumulative preferred stock -	$100 par value -	
8.35%	$101.97, reduced periodically	6,000 shares on or before July 1; noncumulative option to double amount each year
7-3/4%	$103.00, reduced periodically	2,777 shares on or before December 1; noncumulative option to double amount each year

Sinking fund requirements with respect to redeemable preferred stocks outstanding at December 31, 2004, for each of the subsequent five years were as follows:

Year Ending December 31, *(in millions)*		
2005	$	0.9
2006		0.6
2007		-
2008		-
2009		-
Total	$	1.5

12. Common Stock

As of December 31, 2004, NiSource had 400,000,000 authorized shares of common stock with a $0.01 par value.

A. SAILS[SM] Remarketing. On November 1, 2004 NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS[SM]. NiSource received approximately $144.4 million in satisfaction of the SAILS[SM] holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the other component of the SAILS[SM] was reset to 3.628% per annum. The debentures mature November 1, 2006.

B. Corporate PIES Remarketing. In February 2003, NiSource issued approximately 13.1 million shares of common stock associated with the settlement of forward equity agreements comprising a component of the Corporate PIES. Concurrently with the settlement of the forward agreements, NiSource remarketed the underlying debentures, due February 19, 2005, and reset the interest rate to 4.25%. NiSource received net proceeds of $344.1 million from the remarketing in satisfaction of the Corporate PIES holders' obligation under the forward equity agreements. As a result of the transaction, the underlying subsidiary trust was dissolved.

C. Shareholder Rights Plan. NiSource's Board of Directors (Board) has adopted a Shareholder Rights Plan, pursuant to which one right accompanies each share of common stock. Each right, when exercisable, would initially entitle the holder to purchase from NiSource one one-hundredth of a share of Series A Junior Participating Preferred Stock, with $0.01 par value, at a price of $60 per one one-hundredth of a share. In certain circumstances, if an acquirer obtained 25% of NiSource's outstanding shares, or merged into NiSource or merged NiSource into the acquirer, the rights would entitle the holders to purchase NiSource's or the acquirer's common shares for one-half of the market price. The rights will not dilute NiSource's common stock nor affect earnings per share unless they become exercisable for common stock. The plan was not adopted in response to any specific attempt to acquire control of NiSource. The rights are not currently exercisable.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

D. Northern Indiana Dividend Restriction. So long as any shares of Northern Indiana's cumulative preferred stock are outstanding, no cash dividends shall be paid or declared on its common stock in excess of 75% of the net income available for the preceding calendar year, unless the aggregate of the capital applicable to stocks subordinate as to assets and dividends to the cumulative preferred stock plus the surplus, after giving effect to such common stock dividends, would equal or exceed 25% of the sum of all obligations evidenced by bonds, notes, debentures or other securities, plus the total capital and surplus. At December 31, 2004, the sum of the capital applicable to stocks subordinate to the cumulative preferred stock plus the surplus was equal to 50% of the total capitalization including surplus.

E. Common Stock Dividend. Holders of shares of NiSource's common stock are entitled to receive dividends when, as and if declared by the Board out of funds legally available. The policy of the Board has been to declare cash dividends on a quarterly basis payable on or about the 20th day of February, May, August and November. Beginning with the November 2003 dividend, NiSource reduced its annual dividend to $0.92 per share from $1.16 per share. NiSource paid quarterly common dividends totaling $0.92 per share for the 2004 year. At its January 6, 2005 meeting, the Board declared a quarterly common dividend of $0.23 per share, payable on February 18, 2005 to holders of record on January 31, 2005.

13. Long-Term Incentive Plans

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights (SARs), performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Under the plan, each option has a maximum term of ten years from the date of grant. NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, the Company awarded stock options that vested immediately, but included a one-year exercise restriction. SARs may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof. In addition, NiSource currently has non-qualified option grants outstanding and vested which were granted under a 1988 long-term incentive plan.

The amended and restated 1994 Plan provides for the issuance of up to 21 million shares through December 31, 2005. NiSource intends to seek stockholder approval at the annual meeting scheduled for May 10, 2005, to increase the number of shares authorized for issuance under the 1994 Plan and to extend the term of the Plan to May 10, 2015. At December 31, 2004, there were 5,896,485 shares reserved for future awards under the amended and restated 1994 Plan. In connection with the acquisition of Columbia, no options were converted or assumed.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, for the Chief Executive Officer, awards may vest upon death, disability, termination without cause, or upon a change of control or retirement. There were 472,595 restricted shares outstanding at December 31, 2004, which were not a part of the time accelerated restricted stock award plan described below.

At December 31, 2004, NiSource had 345,103 outstanding awards of contingent stock. The terms of the awards contain a provision that varies the number of shares to be issued based on the level of attainment of certain stock performance targets and also allows for the payment of dividends on the contingent stock awards. In 2004, based on the performance of NiSource's common stock through December 31, 2004, NiSource recorded expense of $5.2 million for the 2004 year related to the awards of contingent shares under the 1994 Plan.

In January 2003, NiSource began awarding restricted shares and restricted stock units under a time accelerated restricted stock award plan (TARSAP). Under the plan, key executives are granted awards of restricted stock or restricted stock units that generally vest over a period of six years or at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. On January 1, 2004, 646,880 grants of restricted stock and contingent stock units were granted under the TARSAP for which NiSource recognized expense of $3.5 million. At December 31, 2004, NiSource had 1,251,844 awards outstanding under the TARSAP plan.

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of December 31, 2004, 100,500 restricted shares and 69,450 restricted stock units had been issued under the Plan.

The long-term incentive plans have been accounted for using the intrinsic value method under APB No. 25. The compensation cost that was charged against operating income for share-based awards was $8.0 million; $12.9 million and $7.3 million for years ended December 31, 2004, 2003 and 2002, respectively. Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant.

Stock option transactions for the three years ended December 31, 2004, were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2002	5,483,066	22.62
Granted	2,190,745	21.80
Exercised	(307,978)	15.47
Cancelled	(401,080)	24.06
Outstanding at December 31, 2002	6,964,753	22.62
Granted	2,464,996	19.79
Exercised	(544,327)	17.44
Cancelled	(728,726)	23.19
Outstanding at December 31, 2003	8,156,696	22.03
Granted	2,168,200	21.84
Exercised	(817,017)	18.88
Cancelled	(346,844)	24.17
Outstanding at December 31, 2004	**9,161,035**	**22.18**
Exercisable at December 31, 2004	**7,043,835**	**22.29**
Exercisable at December 31, 2003	5,856,044	22.91
Exercisable at December 31, 2002	5,017,914	22.90

The following table summarizes information on stock options outstanding and exercisable at December 31, 2004:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
$14.61 - $17.53	105,300	16.22	0.6	105,300	16.22
$17.54 - $20.45	2,402,293	19.57	6.7	2,402,293	19.57
$20.46 - $23.38	4,097,742	21.59	7.1	1,980,542	21.34
$23.39 - $26.30	2,153,200	25.20	5.2	2,153,200	25.20
$26.31 - $29.22	402,500	29.22	3.1	402,500	29.22
	9,161,035	22.18	6.3	7,043,835	22.29

There were no SARs outstanding at December 31, 2004, 2003 or 2002.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.2%. The weighted average fair value of options granted was $4.77, $3.44 and $6.03 during the years 2004, 2003 and 2002, respectively. The following assumptions were used for grants in 2004, 2003 and 2002:

	2004	2003	2002
Expected Life (yrs.)	**4.8**	5.9	5.8
Interest Rate	**3.1-3.3%**	3.2-3.3%	4.4-5.1%
Volatility	**33.3%**	31.2%	40.7-42.0%

14. Long-Term Debt

In November 2004, NiSource issued $450 million of floating rate notes that will mature on November 23, 2009, and are callable on or after November 23, 2006. The notes will bear interest at 3-month LIBOR plus a spread of 57 basis points, reset quarterly. NiSource used $250 million of the proceeds to fund the early redemption of floating rate notes during December 2004 that would have become due in May 2005. The remaining $200 million in proceeds was used to repay a portion of the company's short-term debt.

In October 2004, NiSource remarketed $80.6 million of the senior debentures included in its SAILS[SM]. Interest on these debentures and the remaining $63.8 million of SAILS[SM] debentures that were not remarketed is fixed at 3.628% per annum. These debentures are due November 1, 2006. The SAILS[SM] were issued as a portion of the consideration payable in the acquisition of Columbia as one unit consisting of two separate instruments: a debenture with a stated amount of $2.60 and a purchase contract requiring the holder to purchase for $2.60 cash, a fractional number of shares of NiSource common stock based on a settlement rate indexed to the market price of NiSource common stock. The debentures, which had a maturity date of November 1, 2006, were originally pledged to secure the holders' obligation to purchase common stock under the purchase contract.

On November 4, 2003, NiSource Finance issued $250 million of 18-month floating rate unsecured notes that mature May 4, 2005. The notes were subsequently called on December 10, 2004 at par value. Also on November 4, 2003, NiSource Finance issued $250 million of 3.20% three-year unsecured notes that mature November 1, 2006. On July 21, 2003, NiSource issued $500 million of 5.40% eleven-year senior unsecured notes that mature July 15, 2014.

In February 2003, NiSource remarketed most of the underlying debentures due February 19, 2005, which were comprised of a component of the Corporate PIES, resetting the interest rate to 4.25%. NiSource received net proceeds of $344.1 million from the remarketing in satisfaction of the Corporate PIES holders' obligation under the forward equity agreements. The sole purchaser of the remarketed securities purchased newly offered 6.15% notes due March 1, 2013, using the remarketed debentures as consideration.

Following are the outstanding long-term debt sinking fund requirements and maturities at December 31, 2004, for each of the five years subsequent to December 31, 2004. The long-term debt maturities shown below exclude the debt of certain low-income housing real estate investments, as NiSource does not guarantee the long-term debt payment of these entities. Under the provisions of FIN No. 46R, the low-income housing real estate investments were required to be consolidated beginning in the first quarter of 2004.

Year Ending December 31, *(in millions)*	
2005	$ 1,299.1
2006	438.8
2007	371.1
2008	33.9
2009	465.9
Total	$ 2,608.8

NiSource Inc.
Notes to Consolidated Financial Statements (continued)

Unamortized debt expense, premium and discount on long-term debt applicable to outstanding bonds are being amortized over the lives of such bonds. Reacquisition premiums have been deferred and are being amortized. These premiums are not earning a return during the recovery period.

Of NiSource's $4,835.9 million of long-term debt at December 31, 2004, $265 million was issued by NiSource's affiliate, NiSource Capital Markets, Inc. (Capital Markets). The financial obligations of Capital Markets are subject to a Support Agreement between NiSource and Capital Markets, under which NiSource has committed to make payments of interest and principal on Capital Market's obligations in the event of a failure to pay by Capital Markets. Under the terms of the Support Agreement, in addition to the cash flow of cash dividends paid to NiSource by any of its consolidated subsidiaries, the assets of NiSource, other than the stock and assets of Northern Indiana, are available as recourse for the benefit of Capital Market's creditors. The carrying value of the assets of NiSource, other than the assets of Northern Indiana, was $12.8 billion at December 31, 2004.

NiSource has entered into interest rate swap agreements for $1,160 million of its outstanding long-term debt. The effect of these agreements is to modify the interest rate characteristics of a portion of their respective long-term debt from fixed to variable. Refer to Note 6, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further information regarding interest rate swaps.

NiSource is subject to two financial covenants under both its existing 364-day and 3-year revolving credit facilities. On a consolidated basis, NiSource must maintain an interest coverage ratio of not less than 1.75, as determined for each period of four consecutive fiscal quarters. Additionally, NiSource must maintain a debt to capitalization ratio that does not exceed 70%. As of December 31, 2004, NiSource was in compliance with these financial covenants. Under NiSource's current renewal of the credit facilities, it is anticipated that only a debt to capitalization covenant of 70% will be required under the new facility.

NiSource is also subject to certain negative covenants under the revolving credit facilities. Such covenants include a limitation on the creation or existence of new liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket equal to 5% of NiSource's consolidated net tangible assets. An asset sale covenant generally restricts the sale, lease and/or transfer of NiSource's assets to no more than 10% of its consolidated total assets. The revolving credit facilities also include a cross-default provision, which triggers an event of default under the credit facility in the event of any uncured payment default relating to any indebtedness of NiSource or any of its subsidiaries in a principal amount of $50 million or more.

NiSource's bond indentures generally do not contain any financial maintenance covenants. However, NiSource's bond indentures are generally subject to cross default provisions ranging from uncured payment defaults of $5 million to $50 million, and limitations on the incurrence of liens on NiSource's assets, generally exempting liens on utility assets, purchase money security interests, preexisting security interests and an additional asset basket capped at either 5% or 10% of NiSource's consolidated net tangible assets.

15. Short-Term Borrowings

During March 2004, NiSource obtained a new $500 million 364-day credit facility and a $750 million 3-year credit facility with a syndicate of banks led by Barclays Capital. The new facilities replaced an expiring $1.25 billion credit facility. NiSource is currently in the process of renewing its $500 million 364-day credit facility, and plans to incorporate this facility and its $750 million 3-year facility into a combined $1.25 billion 5-year credit facility. The new facility is expected to close in March 2005 and will include sub-limits for letters of credit of $500 million and swingline loans of $200 million. As of December 31, 2004 and 2003, NiSource had $18.2 million of letters of credit outstanding under the $750 million 3-year credit facility.

NiSource Inc.
Notes to Consolidated Financial Statements (continued)

Short-term borrowings were as follows:

At December 31, *(in millions)*		2004		2003
Credit facility (3-Year Facility) borrowings weighted average interest rate of 3.04% at December 31, 2004		**307.6**		685.5
Total short-term borrowings	**$**	**307.6**	$	685.5

The decrease in short-term borrowings resulted primarily from strong cash flows from operating activities and two financing activities in the 2004 year. NiSource closed a $450 million floating rate note in the fourth quarter of 2004 and used the proceeds to redeem $250 million floating rate notes due in May 2005 and used the remaining $200 million to repay a portion of NiSource's short-term borrowings. Also in the fourth quarter of 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS[SM]. NiSource received approximately $144.4 million in satisfaction of the SAILS[SM] holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings.

16. Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate fair value:

Investments. Where feasible, the fair value of investments is estimated based on market prices for those or similar investments.

Long-term Debt, Preferred Stock and Preferred Securities. The fair values of these securities are estimated based on the quoted market prices for the same or similar issues or on the rates offered for securities of the same remaining maturities. Certain premium costs associated with the early settlement of long-term debt are not taken into consideration in determining fair value.

The carrying amount and estimated fair values of financial instruments were as follows:

At December 31, *(in millions)*		**Carrying Amount 2004**		**Estimated Fair Value 2004**		Carrying Amount 2003		Estimated Fair Value 2003
Long-term investments	**$**	**77.6**	**$**	**77.6**	$	76.0	$	76.0
Long-term debt (including current portion)		**6,135.8**		**6,532.1**		6,111.7		6,733.3
Preferred stock (including current portion)		**82.6**		**83.1**		84.4		84.8

Sale of Trade Accounts Receivable. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to Columbia of Ohio Receivables Corporation (CORC), a wholly-owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit sponsored by Dresdner Kleinwort Wasserstein. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement, which replaced a prior similar agreement, expires in May 2005, but can be renewed if mutually agreed to by both parties. As of December 31, 2004, $137.7 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NIPSCO Receivables Corporation (NRC), a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the

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accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. The agreement will expire on December 26, 2005, but can be renewed if mutually agreed to by both parties. As of December 31, 2004, NRC had sold $133.3 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

NiSource's accounts receivable programs qualify for sale accounting based upon the conditions met in SFAS No. 140 "Accounting for Transfers and Servicing of Financial Asset and Extinguishments of Liabilities." In the agreements, all transferred assets have been isolated from the transferor and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership. NiSource does not retain any interest in the receivables under both agreements.

17. Other Commitments and Contingencies

A. Capital Expenditures and Other Investing Activities. NiSource expects that approximately $623.6 million will be expended for construction and other investment purposes during 2005.

B. Service Agreements. Northern Indiana has a service agreement with Pure Air, a general partnership between Air Products and Chemicals, Inc. and First Air Partners LP, under which Pure Air provides scrubber services to reduce sulfur dioxide emissions for Units 7 and 8 at the Bailly Generating Station. Services under this contract commenced on June 15, 1992, and have current annual charges approximating $17.2 million. The agreement provides that, assuming various performance standards are met by Pure Air, a termination payment would be due if Northern Indiana terminated the agreement prior to the end of the twenty-year contract period.

C. Assets Under Lien. Substantially all of Columbia Transmission properties have been pledged to Columbia as security for debt owed by Columbia Transmission to Columbia.

D. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by-letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at December 31, 2004 and the years in which they expire were:

(in millions)	Total	2005	2006	2007	2008	2009	After
Guarantees of subsidiaries debt	$ 4,041.8	$ 933.2	$ 293.1	$ 32.4	$ 8.7	$ 464.0	$ 2,310.4
Guarantees supporting commodity transactions of subsidiaries	1,216.8	341.0	632.1	30.6	50.9	53.5	108.7
Lines of credit	307.6	307.6	-	-	-	-	-
Letters of credit	111.6	19.2	1.9	1.1	89.4	-	-
Other guarantees	364.9	50.0	-	-	9.2	8.1	297.6
Total commercial commitments	$ 6,042.7	$ 1,651.0	$ 927.1	$ 64.1	$ 158.2	$ 525.6	$ 2,716.7

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $4.0 billion of debt for various wholly-owned subsidiaries including Whiting Leasing LLC, NiSource Finance, and through a support agreement, Capital Markets. Other than debt associated with the former PEI subsidiaries that were sold, the debt is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance also maintains lines of credit with financial institutions. At December 31, 2004, the amount outstanding under the lines of credit and guaranteed by NiSource amounted to $307.6 million. NiSource has also issued standby letters of credit of approximately $111.6 million through financial institutions for the benefit of third parties that have extended credit to certain subsidiaries. If a subsidiary does not pay amounts when due under covered contracts, the beneficiary may present its claim for payment to the financial institution, which will in turn request payment from NiSource.

Other Guarantees. After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. The total of the outstanding debt guaranteed for Whiting Clean Energy at December 31, 2004 was $324.3 million, of which approximately $301.5 million of debt related to Whiting Clean Energy was included in NiSource's Consolidated Balance Sheets.

NiSource retains certain operational and financial guarantees with respect to the former PEI subsidiaries and CER. NiSource has retained guarantees of $145.7 million as of December 31, 2004 of debt outstanding related to three of the PEI projects. In addition, NiSource has retained several operational guarantees related to the former PEI subsidiaries. These operational guarantees are related to environmental compliance, inventory balances, employee relations, and a residual future purchase guarantee. The fair value of the guarantees was determined to be $11.1 million and a portion of the net proceeds in the sale amount were assumed allocated to the guarantees as prescribed by FIN 45.

Off Balance Sheet Items. NiSource has purchase and sales agreement guarantees totaling $137.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia II Limited (Mahonia) for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale and decline over time as volumes (approximately 30.6 Bcf as of December 31, 2004) are delivered in satisfaction of the contractual obligations, ending in February 2006. NiSource will be indemnified by Triana, and MSCP will fund up to a maximum of $71.1 million of additional equity to Triana to support Triana's indemnity, for Triana's gas delivery and related obligations to Mahonia. The MSCP commitment declines over time in concert with the surety bonds and the guaranteed obligation to deliver gas to Mahonia.

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, combined with the Triana indemnity and the $71.1 million of further commitments to Triana from MSCP, adequately offset any losses that may be incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource has not recognized a liability related to the retention of the Mahonia guarantees.

E. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

F. Income Tax Examinations. NiSource records liabilities for potential income tax assessments. The accruals relate to tax positions in a variety of taxing jurisdictions and are based on what management believes will be the ultimate resolution of these positions. These liabilities may be affected by changing interpretations of laws, rulings by tax authorities, or the expiration of the statute of limitations. NiSource is under continuous examination by the Internal Revenue Service (IRS). The IRS has completed its audits through tax year 2000. Years through 1998 have been settled and are closed to further assessment. For years 1999 and 2000, NiSource disagreed with three adjustments proposed by the IRS and filed a protest of those issues with the IRS Appeals Division. The opening Appeals conference was held on March 2, 2005. The audit of NiSource's 2001 and 2002 federal income tax returns started on June 1, 2004 and is expected to be completed by the end of the third quarter, 2005. Management currently believes that the ultimate resolution of these matters, individually or in the aggregate, will not have a material adverse effect on NiSource's business, financial condition, results of operations or liquidity.

G. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

Proposals for voluntary initiatives and mandatory controls are being discussed both in the United States and worldwide to reduce so-called "greenhouse gases" such as carbon dioxide, a by-product of burning fossil fuels, and methane, a component of natural gas. Certain NiSource affiliates engage in efforts to voluntarily report and reduce their greenhouse gas emissions. NiSource is currently a participant in the United States Environmental Protection Agency (EPA)'s Climate Leaders program and will continue to monitor and participate in developments related to efforts to register and potentially regulate greenhouse gas emissions.

Gas Distribution Operations. Several Gas Distribution Operations subsidiaries are potentially responsible parties at waste disposal sites under the Comprehensive Environmental Response Compensation and Liability Act (CERCLA) (commonly known as Superfund) and similar state laws, as well as at former manufactured gas plant (MGP) sites, which such subsidiaries, or their corporate predecessors, own or previously owned or operated. Gas Distribution Operations subsidiaries may be required to share in the cost of clean up of such sites. In addition, some Gas Distribution Operations subsidiaries have responsibility for corrective action under the Resource Conservation and Recovery Act (RCRA) for closure and clean-up costs associated with underground storage tanks, under the Toxic Substances Control Act for clean up of polychlorinated biphenyls, and for mercury releases. The final costs of clean up have not yet been determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

A program has been instituted to identify and investigate former MGP sites where Gas Distribution Operations subsidiaries or predecessors are the current or former owner. The program has identified 85 such sites and initial investigations have been conducted at 49 sites. Additional investigation activities have been completed or are in progress at 44 sites and remedial measures have been implemented or completed at 27 sites. This effort includes the sites contained in the January 2004 agreement entered into by the Indiana Department of Environmental Management, Northern Indiana, Kokomo Gas and Fuel Company, and other Indiana utilities under the Indiana Voluntary Remediation Program. Only those site investigation, characterization and remediation costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5, "Accounting for Contingencies" (SFAS No. 5). As costs become probable and reasonably estimable, reserves will be adjusted. As reserves are recorded, regulatory assets are recorded to the extent environmental expenditures are expected to be recovered through rates. NiSource is unable, at this time, to accurately estimate the time frame and potential costs of the entire program. Management expects that, as characterization is completed, additional remediation work is performed and more facts become available, NiSource will be able to develop a probable and reasonable estimate for the entire program or a major portion thereof consistent with the Securities and Exchange Commission's Staff Accounting Bulletin No. 92, "Accounting and Disclosures Relating to Loss Contingencies," SFAS No. 5, and American Institute of Certified Public Accountants Statement of Position 96-1, "Environmental Remediation Liabilities" (SOP No. 96-1).

As of December 31, 2004, a reserve of approximately $62.7 million has been recorded to cover probable environmental response actions. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, years of ownership or operation, the number of other potentially responsible parties and their financial viability and the extent of environmental response actions required. Based upon investigations and management's understanding of current environmental laws and regulations,

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NiSource believes that any environmental response actions required will not have a material effect on its financial position.

Gas Transmission and Storage Operations. Columbia Transmission continues to conduct characterization and remediation activities at specific sites under a 1995 EPA Administrative Order by Consent (AOC). The program pursuant to the AOC covers approximately 245 facilities, approximately 13,000 liquid removal points, approximately 2,200 mercury measurement stations and about 3,700 storage well locations. Field characterization has been performed at all sites. Site characterization reports and remediation plans, which must be submitted to the EPA for approval, are in various stages of development and completion. Remediation has been completed at the mercury measurement stations, liquid removal point sites and storage well locations and at most of the 245 facilities. As of December 31, 2004, the remaining environmental liability recorded on the Consolidated Balance Sheets of Columbia Transmission was approximately $3.6 million.

Columbia Transmission and Columbia Gulf are potentially responsible parties at several waste disposal sites under CERCLA and similar state laws. The potential liability is believed to be de minimis. However, the final allocation of clean-up costs has yet to be determined. As site investigations and clean-ups proceed and as additional information becomes available reserves will be adjusted.

After a lengthy legal proceeding, the EPA has begun implementing the Particulate Matter and Ozone National Ambient Air Quality Standards it revised in July 1997. As a result, the EPA has designated areas not attaining the standards. The Clean Air Act provides for a process that would provide for promulgation of rules specifying a compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. In the interim, existing ozone ambient air quality standards will remain in place and may require imposition of additional controls in areas of non-attainment. In addition, the EPA has reissued the portion of the nitrogen oxide (NOx) State Implementation Plan (SIP) Call regulation (dealing with regional ozone transport) which is applicable to certain pipeline engines, but which was remanded by the Court of Appeals after challenge by the pipeline industry. The resulting rules require additional reductions in NOx emissions from reciprocating engines and turbines at pipeline compressor stations (including compressor stations owned by Columbia Transmission and Columbia Gulf). The EPA and state regulatory authorities are in the process of setting final implementation requirements. Certain states have already begun to propose new NOx emission requirements that may be applicable to pipeline compressor station engines and turbines. NiSource believes that the costs relating to compliance with any new limits may be significant but are dependent upon the ultimate control program established by the targeted states and the EPA, and currently are not reasonably estimable. NiSource will continue to closely monitor developments in this area.

Electric Operations.
Air. In December 2001, the EPA approved regulations developed by the State of Indiana to comply with the EPA's NOx SIP call. The NOx SIP call requires certain states, including Indiana, to reduce NOx levels from several sources, including industrial and utility boilers, to lower regional transport of ozone. Compliance with the NOx limits contained in these rules was required by May 31, 2004. To comply with the rule, Northern Indiana developed a NOx Compliance plan and is currently in compliance with the NOx limits. In implementing the NOx compliance plan, Northern Indiana has expended approximately $250.7 million as of December 31 2004 to install Selective Catalytic Reduction NOx reduction technology at each of its active generating stations and estimates total capital costs of approximately $305 million. Actual compliance costs may vary depending on a number of factors including market demand and resource constraints, uncertainty of future equipment and construction costs, and the potential need for additional control technology.

On April 15, 2004, the EPA finalized the 8-hour ozone non-attainment area designations. After designation, the Clean Air Act provides for a process for promulgation of rules specifying a compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. Resulting state rules could require additional reductions in NOx emissions from coal-fired boilers including Northern Indiana's electric generating stations. Until the rules are promulgated, the potential impact on Northern Indiana is uncertain. Northern Indiana will continue to closely monitor developments in this area.

On June 28 and 29, 2004, the EPA responded to the states' initial recommendations for the EPA designation of areas meeting and not meeting the National Ambient Air Quality Standards (NAAQS) for fine particles. (Fine particles

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are those less than or equal to 2.5 micrometers in diameter and are also referred to as PM2.5.) The EPA's PM2.5 nonattainment designations were announced on December 17, 2004 and published in the Federal Register on January 5, 2005. The designations become effective on April 5, 2005. Indiana has disputed some of the June 2004, EPA designation recommendations and submitted final 2004 monitoring data on February 17, 2005, for EPA re-evaluation of the disputed areas. On March 7, 2005, the Indiana Attorney General filed a legal action on behalf of the Indiana Department of Environmental Management (IDEM) asking that all but three areas (none of these three areas are in Northern Indiana's service territory) be removed from the EPA's nonattainment list. The EPA is expected to finalize by early 2006, an implementation rule detailing state obligations to bring the nonattainment areas into attainment with the PM2.5 NAAQS. Indiana and other states will be required to finalize state rulemaking by April 2008 that specify emissions reductions consistent with the final EPA implementation rule to bring the designated areas into attainment by as early as April 2010. Northern Indiana will continue to closely monitor developments in this area.

The EPA is scheduled to issue final regulations in March of 2005, the Clean Air Interstate Rule (CAIR) and the Clean Air Mercury Rule (CAMR), that will require multipollutant (sulfur dioxide (SO2), NOx and mercury) emissions reductions from electric power generating stations. As an alternative to the regulatory approach, the Administration will again pursue multipollutant legislation in 2005, the Clear Skies Act, which would require significant reductions of SO2, NOx and mercury emissions from electric power generating stations, including Northern Indiana's stations. Both the EPA's proposed regulations and legislation contain phased-in reductions for these three pollutants under alternative control approaches, including trading programs. Until the legislation passes and/ or the rulemaking is completed by the EPA and implemented by the States, the potential impact on Northern Indiana will be uncertain. Nonetheless, if implemented, these potential reduction requirements could impose substantial costs on affected utilities, including Northern Indiana.

In late 1999 the EPA initiated a New Source Review enforcement action against several industries including the electric utility industry concerning rule interpretations that have been the subject of recent (prospective) reform regulations. Northern Indiana has received and responded to the EPA information requests on this subject, most recently in June 2002. The EPA issued a Notice of Violation (NOV) to Northern Indiana on September 29, 2004, for alleged violations of the Clean Air Act and the SIP. Specifically, the NOV alleges that modifications were made to certain boiler units at the Michigan City, Schahfer, and Bailly Generating Stations between the years of 1985 and 1995 without obtaining appropriate air permits for the modifications. Northern Indiana has held meetings with the EPA to discuss the violations alleged in the NOV but is unable, at this time, to predict the timing or likely outcome of this EPA action.

The EPA has issued final Maximum Achievable Control Technology standards for hazardous air pollutants for stationary combustion turbines, industrial boilers and reciprocating internal combustion engines. The final regulations are not expected to have a substantial impact on Northern Indiana.

On April 15, 2004, the EPA proposed amendments to its July 1999 Regional Haze Rule that requires states to set periodic goals for improving visibility in 156 natural areas across the United States by implementing state emission reduction rules. These amendments would apply to the best available retrofit technology (BART) for BART eligible industrial facilities emitting air pollutants that reduce visibility. States must develop implementation rules by January 2008. Resulting rules could require additional reductions of NOx, SO2 and particulate matter from coal-fired boilers including Northern Indiana's electric generating stations, depending upon the outcome of multipollutant regulations/legislation. Until the state rules are promulgated, the potential impact on Northern Indiana is uncertain. Northern Indiana will continue to closely monitor developments in this area.

Water. The Great Lakes Water Quality Initiative (GLI) program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. Northern Indiana expects that IDEM will issue a proposed permit renewal for each of its operating lakeside stations. Pending issuance of these permits, the costs of complying with these requirements cannot be predicted at this time.

On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the mortality of aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, plants will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems whose compliance is based on any of five options. Specific impacts of the final Phase II rule on the four (4) Northern Indiana generating stations are in the process of being determined at this time.

Remediation. Northern Indiana is a potentially responsible party under the CERCLA and similar State laws at two waste disposal sites and shares in the cost of their cleanup with other potentially responsible parties. At one site, investigations are ongoing and final costs of clean up have not yet been determined. At the second site, Northern Indiana has entered into EPA Administrative Orders on Consent to perform an interim action, in conjunction with the landfill owner/operator, which includes providing a municipal water supply system for approximately 275 homes. Northern Indiana has also agreed to conduct a Remedial Investigation and Feasibility Study in the vicinity of the third party, state-permitted landfill where Northern Indiana contracted for fly ash disposal.

In addition, Northern Indiana has corrective action liability under the Resource Conservation & Recovery Act (RCRA) for 3 facilities that historically stored hazardous waste. As of December 31, 2004, a reserve of approximately $0.9 million has been recorded to cover probable environmental investigation costs. The ultimate liability in connection with these sites cannot be estimated at this time but could be significant.

In October 2004, Northern Indiana received from the EPA a draft Administrative Order on Consent proceeding under the authority of Section 3008(h) of the Resource Conservation and Recovery Act. According to the draft order, the EPA has allegedly determined that corrective action is necessary at Northern Indiana's Bailly Generating Station to address documented releases of hazardous wastes or hazardous constituents and to protect human health and the environment. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility with the goal of no unacceptable human exposures to contamination and the stabilization of any contaminated groundwater from the facility. It is anticipated that Northern Indiana and the EPA will enter into a consent order sometime during the first quarter of 2005. A reserve has been established to fund the required investigations and conduct interim measures at the facility. The final costs of clean up have not yet been determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

Other Operations.
PEI. In connection with the sale of certain PEI assets mentioned above, NiSource has agreed to provide indemnification to the purchaser for specified potential environmental liabilities. However, the total amount of these liabilities is not reasonably estimable at this time.

On June 26, 2002, the EPA issued an NOV to three companies involved with a project at Ispat Inland Inc.'s East Chicago, Indiana facility, including PEI's former subsidiary, Cokenergy. The NOV alleges violations of the construction permit requirements of the Clean Air Act. At issue is whether air emissions permitting requirements for major sources applied to the construction of the project in 1997. NiSource maintains that the project was properly permitted by the IDEM and cannot predict whether any fines or penalties will be assessed or if additional compliance costs will be incurred.

Other Information.
Other Affiliates NiSource affiliates have retained environmental liabilities, including cleanup liabilities associated with some of its former operations including those of propane operations, petroleum operations, certain local gas distribution companies and CER. The most significant environmental liability relates to former MGP sites whereas less significant liabilities are associated with former petroleum operations and former mercury metering stations.

The ultimate liability in connection with these contamination sites will depend upon many factors including the extent of environmental response actions required, other potentially responsible parties and their financial viability, and indemnification from previous facility owners. Only those corrective action costs currently known and determinable can be considered "probable and reasonably estimable" under SFAS No. 5 and consistent with SOP No. 96-1. As costs become probable and reasonably estimable, reserves will be adjusted as appropriate. NiSource

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believes that any environmental response actions required at former operations, for which it is ultimately liable, will not have a material adverse effect on NiSource's financial position.

Environmental Reserves. It is management's continued intent to address environmental issues in cooperation with regulatory authorities in such a manner as to achieve mutually acceptable compliance plans. However, there can be no assurance that fines and penalties will not be incurred. Management expects most environmental assessment and remediation costs to be recoverable through rates for certain NiSource companies.

As of December 31, 2004, a reserve of approximately $72.6 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

H. Operating Leases. Payments made in connection with operating leases are primarily charged to operation and maintenance expense as incurred. Such amounts were $62.4 million in 2004, $54.8 million in 2003 and $60.3 million in 2002.

Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are:

(in millions)		
2005	$	46.5
2006		44.5
2007		39.1
2008		33.9
2009		26.8
After		82.9
Total operating leases	$	273.7

I. Purchase Commitments. NiSource has service agreements that provide for pipeline capacity, transportation and storage services. These agreements, which have expiration dates ranging from 2005 to 2024, require NiSource to pay fixed monthly charges. The estimated aggregate amounts of such payments at December 31, 2004, were:

(in millions)		
2005	$	212.5
2006		162.4
2007		142.5
2008		112.4
2009		87.9
After		403.6
Total purchase commitments	$	1,121.3

Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, which requires the contractor to pay for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

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For 2004, the PEI holding companies' consolidated after-tax loss was approximately $32.8 million. The profitability of the Whiting project in future periods will be dependent on, among other things, current negotiations with BP Amoco regarding steam requirements for BP's refinery, an electric sales agreement currently under negotiation, prevailing prices in the energy markets and regional load dispatch patterns. Because of the expected losses from this facility and decreases in estimated forward pricing for electricity versus changes in gas prices, an impairment study was performed in the first quarter of 2003 on this facility in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". The study indicated that, at that time, no impairment was necessary.

However, the study includes many estimates and assumptions for the 40-year estimated useful life of the facility. Changes in these estimates and assumptions, such as forward prices for electricity and gas, volatility in the market, etc., could result in a situation where total undiscounted net revenues are less than the carrying value of the facility, which would result in a write-down that could be significant.

18. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss.

Year Ended December 31, *(in millions)*	**2004**	2003
Other comprehensive income, before tax:		
Foreign currency translation adjustments	**$ -**	$ (0.7)
Unrealized losses on securities	**(0.4)**	(3.9)
Unrealized gains on cash flow hedges	**142.8**	141.6
Minimum pension liability adjustment	**(243.6)**	(252.0)
Other comprehensive income, before tax	**(101.2)**	(115.0)
Income tax expense related to items of other comprehensive income	**(49.8)**	(54.0)
Total Accumulated Other Comprehensive Loss, net of tax	**$ (51.4)**	$ (61.0)

19. Other, Net

Year Ended December 31, *(in millions)*	**2004**	2003	2002
Interest income	**$ 9.4**	$ 14.8	$ 12.3
Miscellaneous	**(2.0)**	0.5	(4.0)
Total Other, Net	**$ 7.4**	$ 15.3	$ 8.3

20. Interest Expense, Net

Year Ended December 31, *(in millions)*	**2004**	2003	2002
Interest on long-term debt	**$ 372.2**	$ 427.1	$ 458.9
Interest on short-term borrowings	**6.8**	8.9	28.4
Discount on prepayment transactions	**21.6**	19.0	21.0
Allowance for borrowed funds used and interest during construction	**(2.3)**	(2.5)	(2.4)
Other	**5.6**	12.2	10.5
Total Interest Expense, Net	**$ 403.9**	$ 464.7	$ 516.4

21. Segments of Business

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

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Notes to Consolidated Financial Statements (continued)

During the second quarter 2003, NiSource re-aligned its reportable segments to reflect the announced sale of its exploration and production operations. As of the second quarter 2003, NiSource no longer reported an Exploration and Production Operations segment. In addition, the PEI subsidiaries sold are reported as discontinued operations. All periods have been adjusted to conform with the realignment.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for local distribution companies, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Other Operations segment primarily includes gas marketing, power marketing and trading and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following tables provide information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

(in millions)	**2004**	2003	2002
REVENUES			
Gas Distribution Operations			
Unaffiliated	**$ 4,283.3**	$ 4,084.4	$ 3,290.8
Intersegment	**8.1**	17.5	19.6
Total	**4,291.4**	4,101.9	3,310.4
Transmission and Storage Operations			
Unaffiliated	**590.7**	604.0	621.8
Intersegment	**264.5**	249.3	300.4
Total	**855.2**	853.3	922.2
Electric Operations			
Unaffiliated	**1,096.9**	1,074.0	1,104.3
Intersegment	**14.3**	18.8	33.1
Total	**1,111.2**	1,092.8	1,137.4
Other Operations			
Unaffiliated	**669.0**	415.9	101.0
Intersegment	**25.4**	50.3	11.0
Total	**694.4**	466.2	112.0
Adjustments and eliminations	**(286.0)**	(267.6)	(162.2)
Consolidated Revenues	**$ 6,666.2**	$ 6,246.6	$ 5,319.8

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

(in millions)	**2004**	2003	2002
Operating Income (Loss)			
Gas Distribution Operations	**$ 440.3**	$ 506.4	$ 459.1
Gas Transmission and Storage Operations	**363.1**	398.8	398.3
Electric Operations	**306.2**	267.5	322.3
Other Operations	**(32.3)**	(43.8)	(43.1)
Corporate	**(5.3)**	(12.6)	15.6
Consolidated	**$ 1,072.0**	$ 1,116.3	$ 1,152.2
Depreciation and Amortization			
Gas Distribution Operations	**$ 194.6**	$ 190.2	$ 189.2
Gas Transmission and Storage Operations	**114.2**	111.4	109.4
Electric Operations	**178.1**	175.1	172.2
Other Operations	**13.3**	11.2	10.3
Corporate	**9.5**	9.1	10.1
Consolidated	**$ 509.7**	$ 497.0	$ 491.2
Assets			
Gas Distribution Operations	**$ 6,332.2**	$ 6,096.4	$ 5,967.0
Gas Transmission and Storage Operations	**3,053.3**	2,920.4	2,940.1
Electric Operations	**3,114.2**	3,079.7	2,968.8
Other Operations	**1,467.9**	1,412.5	1,727.1
Corporate	**3,020.4**	3,115.2	4,339.6
Consolidated	**$ 16,988.0**	$ 16,624.2	$ 17,942.6
Capital Expenditures			
Gas Distribution Operations	**$ 226.7**	$ 193.5	$ 196.4
Gas Transmission and Storage Operations	**130.4**	126.7	128.0
Electric Operations	**159.5**	224.1	197.8
Other Operations	**(8.2)**	19.3	5.3
Corporate	**8.6**	11.0	4.4
Consolidated	**$ 517.0**	$ 574.6	$ 531.9

NISOURCE INC.
Notes to Consolidated Financial Statements (continued)

22. Quarterly Financial Data (Unaudited)

Quarterly financial data does not always reveal the trend of NiSource's business operations due to nonrecurring items and seasonal weather patterns, which affect earnings, and related components of net revenues and operating income.

(in millions, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
Gross revenues	$ 2,473.2	$ 1,245.0	$ 979.8	$ 1,968.2
Operating Income	442.6	157.5	127.8	344.1
Income from Continuing Operations	216.5	35.3	21.5	157.0
Income (Loss) from Discontinued Operations - net of taxes	(3.0)	(0.7)	7.3	2.4
Net Income	213.5	34.6	28.8	159.4
Basic Earnings Per Share of Common Stock				
Continuing Operations	0.83	0.13	0.08	0.59
Discontinued Operations	(0.02)	-	0.03	0.01
Basic Earnings Per Share	$ 0.81	$ 0.13	$ 0.11	$ 0.60
Diluted Earnings Per Share of Common Stock				
Continuing Operations	0.82	0.13	0.08	0.58
Discontinued Operations	(0.01)	-	0.03	0.01
Diluted Earnings Per Share	$ 0.81	$ 0.13	$ 0.11	$ 0.59
2003				
Gross revenues	$ 2,524.5	$ 1,141.2	$ 898.3	$ 1,682.6
Operating Income	472.3	175.8	148.9	319.3
Income from Continuing Operations	222.3	39.3	23.5	140.6
Income (Loss) from Discontinued Operations - net of taxes	41.4	(364.2)	(8.1)	(0.8)
Change in Accounting - net of taxes	(8.8)	-	-	-
Net Income (Loss)	254.9	(324.9)	15.4	139.8
Basic Earnings Per Share of Common Stock				
Continuing Operations	0.88	0.15	0.09	0.54
Discontinued Operations	0.16	(1.39)	(0.03)	-
Change in Accounting	(0.04)	-	-	-
Basic Earnings (Loss) Per Share	$ 1.00	$ (1.24)	$ 0.06	$ 0.54
Diluted Earnings Per Share of Common Stock				
Continuing Operations	0.87	0.15	0.09	0.53
Discontinued Operations	0.16	(1.38)	(0.03)	-
Change in Accounting	(0.04)	-	-	-
Diluted Earnings (Loss) Per Share	$ 0.99	$ (1.23)	$ 0.06	$ 0.53

NiSource Inc. and Subsidiaries

Schedule I
Condensed Financial Information of Registrant

Balance Sheet

As of December 31, *(in millions)*	2004	2003
ASSETS		
Other property, at cost, less accumulated depreciation	$ 10.1	$ 12.3
Investments and Other Assets:		
Net assets of discontinued operations	6.1	6.5
Investments in subsidiary companies	8,520.5	7,871.0
Total Investments	8,526.6	7,877.5
Current Assets:		
Cash and cash equivalents	2.4	2.5
Amounts receivable from subsidiaries	44.3	67.5
Other Current Assets	92.4	100.6
Total Current Assets	139.1	170.6
Other (principally notes receivable from associated companies)	33.7	28.6
TOTAL ASSETS	$ 8,709.5	$ 8,089.0
CAPITALIZATION AND LIABILITIES		
Capitalization:		
Common stock equity	$ 4,787.1	$ 4,415.9
Long-term debt, excluding amounts due within one year	144.4	135.8
Total Capitalization	4,931.5	4,551.7
Current Liabilities	84.7	22.5
Other (principally notes payable to associated companies)	3,693.3	3,514.8
TOTAL CAPITALIZATION AND LIABILITIES	$ 8,709.5	$ 8,089.0

See accompanying Notes to Condensed Financial Statements

NiSource Inc. and Subsidiaries

Schedule I
Condensed Financial Information of Registrant

Statement of Income

Year Ended December 31, *(in millions, except per share amounts)*	**2004**	2003	2002
Equity in net earnings of subsidiaries	**$ 567.1**	$ 596.7	$ 607.2
Other income (deductions):			
Administrative and general expenses	**(17.1)**	(34.7)	(21.8)
Loss on sale or impairment of assets	**-**	-	19.5
Interest income	**1.4**	6.8	9.0
Interest expense	**(213.7)**	(237.0)	(292.1)
Other, net	**(2.4)**	2.6	(10.5)
	(231.8)	(262.3)	(295.9)
Income from continuing operations before income taxes	**335.3**	334.4	311.3
Income taxes	**(94.9)**	(91.3)	(86.8)
Income from continuing operations	**430.2**	425.7	398.1
Income (Loss) from discontinued operations - net of tax	**6.1**	(0.5)	18.2
Loss on Disposition of discontinued operations - net of tax	**-**	(331.2)	(43.8)
Change in accounting - net of taxes	**-**	(8.8)	-
NET INCOME	**$ 436.3**	**$ 85.2**	**$ 372.5**
Average common shares outstanding (thousands)	**263.7**	259.6	211.0
Basic earnings per share			
Continuing operations	**$ 1.63**	$ 1.64	$ 1.89
Discontinued Operations	**0.02**	(1.28)	(0.12)
Change in accounting	**-**	(0.03)	-
Basic earnings per share	**$ 1.65**	$ 0.33	$ 1.77
Diluted earnings per share			
Continuing operations	**$ 1.62**	$ 1.63	$ 1.87
Discontinued Operations	**0.02**	(1.27)	(0.12)
Change in accounting	**-**	(0.03)	-
Diluted earnings per share	**$ 1.64**	$ 0.33	$ 1.75

See accompanying Notes to Condensed Financial Statements

NISOURCE INC. AND SUBSIDIARIES

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

STATEMENT OF CASH FLOWS

Year Ended December 31, *(in millions, except per share amounts)*	**2004**	2003	2002
Net cash provided in operating activities	**$ (128.2)**	$ 182.3	$ 119.8
Cash flows provided by (used in) investing activities:			
Constuction work in progress	**$ (0.1)**	$ -	$ -
Proceeds from disposition of assets	**-**	-	35.6
Investments	**(6.2)**	(18.0)	(261.9)
Net cash provided by (used in) investing activities	**(6.3)**	(18.0)	(226.3)
Cash flows provided by (used in) financing activities:			
Issuance of common shares	**159.4**	354.7	734.9
Increase (decrease) in notes payable to subsidiaries	**208.3**	(818.1)	(298.0)
Increase in notes receivable from subsidiaries	**13.9**	586.8	(88.5)
Cash dividends paid on common shares	**(243.1)**	(284.0)	(241.5)
Acquisition of treasury shares	**(4.1)**	(2.5)	(6.9)
Net cash provided by (used in) financing activities	**134.4**	(163.1)	100.0
Net increase (decrease) in cash and cash equivalents	**(0.1)**	1.2	(6.5)
Cash and cash equivalents at beginning of year	**2.5**	1.3	7.8
Cash and cash equivalents at end of year	**$ 2.4**	$ 2.5	$ 1.3

See accompanying Notes to Condensed Financial Statements

NISOURCE INC. AND SUBSIDIARIES

SCHEDULE I
CONDENSED FINANCIAL INFORMATION OF REGISTRANT

NOTES TO CONDENSED FINANCIAL STATEMENTS

1. Dividends from Subsidiaries

Cash dividends paid to NiSource by its consolidated subsidiaries were (in millions of dollars): $50.0, $465.8 and $444.4 in 2004, 2003 and 2002, respectively. In addition, NiSource received (in millions of dollars): $3.8, $2.9 and $2.9 in cash distributions from equity investments adjusted for investments sold in connections with discontinued operations in 2004, 2003 and 2002, respectively.

2. Notes to Condensed Financial Statements

See Item 8 for the full text of notes to the Consolidated Financial Statements.

NISOURCE INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Twelve months ended December 31, 2004

Description ($ in millions)	Balance Jan. 1, 2004	Acquisitions	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account	Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2004
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:							
Reserve for accounts receivable	57.8	-	61.7	55.9	7.1	112.5	55.8
Reserve for other investments	29.2	-	-	-	-	19.1	10.1
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:							
Environmental reserves	76.6	-	14.0	1.4	-	19.4	72.6
Restructuring reserve	19.5	-	(0.2)	-	-	4.7	14.6
Reserve for cost of operational gas	4.0	-	0.6	-	-	1.4	3.2
Accumulated provision for rate refund	14.4	-	11.9	3.7	-	20.6	9.4
Unpaid medical claims	8.7	-	6.8	(2.4)	-	8.0	5.1
Gas air conditioning development funding reserve	0.2	-	-	(0.2)	-	-	-
Amount owed for purchase gas imbalance	-	-	-	-	-	-	-
Construction project reserve	-	-	-	-	-	-	-

Twelve months ended December 31, 2003

Description ($ in millions)	Balance Jan. 1, 2003	Acquisitions	Additions: Charged to Costs and Expenses	Additions: Charged to Other Account	Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2003
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:							
Reserve for accounts receivable	52.3	-	167.4	37.1	-	199.0	57.8
Reserve for other investments	29.4	-	(0.2)	-	-	-	29.2
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:							
Environmental reserves	132.1	-	4.7	(33.2)	-	27.0	76.6
Restructuring reserve	49.6	-	(7.5)	-	-	22.6	19.5
Reserve for cost of operational gas	4.0	-	-	-	-	-	4.0
Accumulated provision for rate refund	12.0	-	14.4	(3.1)	-	8.9	14.4
Unpaid medical claims	8.7		7.5			7.5	8.7
Gas air conditioning development funding reserve	1.3	-	-	-	-	1.1	0.2
Amount owed for purchase gas imbalance	0.4	-	-	(0.4)	-	-	-
Construction project reserve	3.2	-	-	-	-	3.2	-

NISOURCE INC.

SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS

Twelve months ended December 31, 2002

			Additions				
Description ($ in millions)	Balance Jan. 1, 2002	Acquisitions	Charged to Costs and Expenses	Charged to Other Account	Sale of Assets	Deductions for Purposes for which Reserves were Created	Balance Dec. 31, 2002
Reserves Deducted in Consolidated Balance Sheet from Assets to Which They Apply:							
Reserve for accounts receivable	53.9	-	54.3	46.4	-	102.3	52.3
Reserve for other investments	25.6	-	(0.5)	4.3	-	-	29.4
Reserves Classified Under Reserve Section of Consolidated Balance Sheet:							
Environmental reserves	167.4	-	(2.9)	(5.5)	-	26.9	132.1
Restructuring reserve	58.3	-	41.2	(13.3)	-	36.6	49.6
Reserve for cost of operational gas	13.7	-	(6.8)	-	-	2.9	4.0
Accumulated provision for rate refund	11.7	-	25.4	0.5	-	25.6	12.0
Unpaid medical claims	10.4	-	6.8	-	-	8.5	8.7
Gas air conditioning development funding reserve	1.3	-	-	-	-	-	1.3
Amount owed for purchase gas imbalance	0.4	-	-	-	-	-	0.4
Construction project reserve	3.2	-	-	-	-	-	3.2

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

NISOURCE INC.

On May 21, 2002 the Board of Directors of NiSource Inc. (NiSource), upon recommendation of its Audit Committee, dismissed Arthur Andersen LLP as the independent public accountants for NiSource and its subsidiaries, Columbia Energy Group and Northern Indiana Public Service Company (collectively, the "Registrants"), and engaged Deloitte & Touche LLP to serve as the Registrants' independent public accountants for 2002. Information with respect to this matter is included in NiSource's current report on Form 8-K filed May 21, 2002, which information is incorporated herein by reference.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource Inc. (NiSource) 's principal executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were adequate and effective to ensure that material information relating to NiSource and its consolidated subsidiaries would be made known to them by others within those entities.

Management's Report on Internal Control Over Financial Reporting

NiSource management, including NiSource's principal executive officer and principal financial officer, are responsible for establishing and maintaining NiSource's internal control over financial reporting, as such term is defined under Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended. However, management would note that a control system can provide only reasonable, not absolute, assurance that the objectives of the control system are met. During 2004, NiSource's management chose as its framework for evaluating the effectiveness of its internal control over financial reporting the framework set forth in the Committee of Sponsoring Organizations of the Treadway Commission report, *Internal Control – Integrated Framework*, the most commonly used and understood framework for evaluating internal control over financial reporting. During 2004, NiSource conducted an evaluation of its internal control over financial reporting. Based on this evaluation, NiSource management concluded that NiSource's internal control over financial reporting was effective as of the end of the period covered by this annual report. Deloitte & Touche LLP, NiSource's auditors, issued an attestation report on management's assessment of NiSource's internal controls over financial reporting, which is contained within their audit opinion in Item 8, "Financial Statements and Supplementary Data."

Changes in Internal Controls

There was no change in NiSource's internal control over financial reporting during the last quarter of the fiscal year covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

NISOURCE INC.

Information regarding executive officers is included as a supplemental item at the end of Item 4 of Part I of the Form 10-K.

Information regarding directors will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2005, which information is incorporated by reference.

Information regarding delinquent filings under Section 16 of the Securities Exchange Act of 1934 by executive officers and directors will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2005, which information is incorporated by reference.

Information regarding NiSource Inc.'s code of ethics, corporate governance guidelines and Board of Directors Committee charters will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2005, which information is incorporated by reference.

ITEM 11. EXECUTIVE COMPENSATION

NISOURCE INC.

Information regarding executive compensation will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2005, which information is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information regarding security ownership of certain beneficial owners and management and the Equity Compensation Plan Information will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2005, which information is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Not Applicable.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information regarding principle accounting fees and services will be included in the Notice of Annual Meeting and Proxy Statement for the Annual Meeting of Stockholders to be held on May 10, 2005, which information is incorporated by reference.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

NISOURCE INC.

Exhibits

The exhibits filed herewith as a part of this report on Form 10-K are listed on the Exhibit Index. Each management contract or compensatory plan or arrangement of NiSource, listed on the Exhibit Index, is separately identified by an asterisk.

Pursuant to Item 601(b), paragraph (4)(iii)(A) of Regulation S-K, certain instruments representing long-term debt of NiSource's subsidiaries have not been included as Exhibits because such debt does not exceed 10% of the total assets of NiSource and its subsidiaries on a consolidated basis. NiSource agrees to furnish a copy of any such instrument to the U.S. Securities and Exchange Commission upon request.

Financial Statement Schedules

All of the financial statements and financial statement schedules filed as a part of the Annual Report on Form 10-K are included in Item 8.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

NiSource Inc.
(Registrant)

Date March 9, 2005

By: /s/ GARY L. NEALE
Gary L. Neale
Chairman, Chief Executive Officer, and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ GARY L. NEALE Gary L. Neale	Chairman and Chief Executive Officer, and Director (Principal Executive Officer)	March 9, 2005
/s/ MICHAEL W. O'DONNELL Michael W. O'Donnell	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 9, 2005
/s/ JEFFREY W. GROSSMAN Jeffrey W. Grossman	Vice President and Controller (Principal Accounting Officer)	March 9, 2005
/s/ STEPHEN P. ADIK Stephen P. Adik	Director	March 9, 2005
/s/ STEVEN C. BEERING Steven C. Beering	Director	March 9, 2005
/s/ ARTHUR J. DECIO Arthur J. Decio	Director	March 9, 2005
/s/ DENNIS E. FOSTER Dennis E. Foster	Director	March 9, 2005
/s/ IAN M. ROLLAND Ian M. Rolland	Director	March 9, 2005
/s/ JOHN W. THOMPSON John W. Thompson	Director	March 9, 2005
/s/ RICHARD L. THOMPSON Richard L. Thompson	Director	March 9, 2005
/s/ ROBERT J. WELSH Robert J. Welsh	Director	March 9, 2005
/s/ CAROLYN Y. WOO Carolyn Y. Woo	Director	March 9, 2005
/s/ ROGER A. YOUNG Roger A. Young	Director	March 9, 2005

NISOURCE INC.

EXHIBIT NUMBER	DESCRIPTION OF ITEM
(3.1)	Amended and Restated Certificate of Incorporation of NiSource Inc., as amended through November 1, 2000 (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).
(3.2)	Amended and Restated By-Laws of NiSource Inc. as amended through October 23, 2001 (incorporated by reference to Exhibit 3.2 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).
(4.1)	Indenture dated as of March 1, 1988, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4 to the Northern Indiana Registration Statement (Registration No. 33-44193)).
(4.2)	First Supplemental Indenture dated as of December 1, 1991, between Northern Indiana and Manufacturers Hanover Trust Company, as Trustee (incorporated by reference to Exhibit 4.1 to the Northern Indiana Registration Statement (Registration No. 33-63870)).
(4.3)	Financing Agreement No. 1 dated November 1, 1988, between Northern Indiana and Jasper County, Indiana regarding $37,000,000 Series 1988A Pollution Control Refunding Revenue Bonds. Identical Financing agreements between Northern Indiana and Jasper County, Indiana provide for the issuance of $47,000,000 Series 1988B, $46,000,000 Series 1988C and $24,000,000 Series 1988D Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 8 to the Northern Indiana Current Report on Form 8-K dated March 16, 1989).
(4.4)	Financing Agreement dated August 1, 1994, with Jasper County, Indiana regarding $10,000,000 Series 1994A, $18,000,000 Series 1994B and $41,000,000 Series 1994C Pollution Control Refunding Revenue Bonds (incorporated by reference to Exhibit 4.16 to the Northern Indiana Annual Report on Form 10-K for year ended December 31, 1994).
(4.5)	Rights Agreement, dated November 1, 2000, between NiSource Inc. and ChaseMellon Shareholder Services, L.L.C., as rights agent (incorporated by reference to Exhibit 4.1 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
(4.6)	Indenture Agreement between NIPSCO Industries, Inc., NIPSCO Capital Markets, Inc. and Chase Manhattan Bank as trustee dated February 14, 1997 (incorporated by reference to Exhibit 4.1 to the NIPSCO Industries, Inc. Registration Statement (Registration No. 333-22347)).
(4.7)	First Supplemental Indenture dated February 16, 1999, by and among NIPSCO Capital Markets, Inc., NIPSCO Industries, Inc., and the Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.36 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 1999)
(4.8)	Second Supplemental Indenture, dated as of November 1, 2000 among NiSource Capital Markets, Inc., NiSource Inc., New NiSource Inc., and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.45 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2000).
(4.9)	Indenture, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.3 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).

ITEM 15. EXHIBIT INDEX (CONTINUED)

NiSource Inc.

(4.10)	First Supplemental Indenture, dated November 1, 2000, between NiSource Inc. and The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.4 to the NiSource Inc. Current Report on Form 8-K dated November 1, 2000).
(4.11)	Second Supplemental Indenture, dated as of November 1, 2004, between Nisource Inc. and JPMorgan Chase Bank, as successor to The Chase Manhattan Bank, as trustee (incorporated by reference to Exhibit 4.3 to the NiSource Inc. Registration Statement (Registration No. 333-119555)).
(4.12)	Indenture, dated November 14, 2000, among NiSource Finance Corp., NiSource Inc., as guarantor, and The Chase Manhattan Bank, as Trustee (incorporated by reference to Exhibit 4.1 to the NiSource Inc. Form S-3, dated November 17, 2000 (Registration No. 333-49330)).
(4.13)	Indenture between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-S to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
(4.14)	Third Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-V to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
(4.15)	Fourth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-W to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
(4.16)	Fifth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-X to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
(4.17)	Sixth Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-Y to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
(4.18)	Seventh Supplemental Indenture, between The Columbia Gas System, Inc. and Marine Midland Bank, N.A. Trustee, dated as of November 28, 1995 (incorporated by reference to Exhibit 4-Z to the Columbia Gas System Registration Statement (Registration No. 33-64555)).
(4.19)	Instrument of Resignation, Appointment and Acceptance dated as of March 1, 1999, between Columbia Energy Group and Marine Midland Bank, as Resigning Trustee and The First National Bank of Chicago, as Successor Trustee (incorporated by reference to Exhibit 4-I to the Columbia Energy Group Annual Report on Form 10-K for the period ended December 31, 1998.
(10.1)	Supplemental Life Insurance Plan effective January 1, 1991, as amended, (incorporated by reference to Exhibit 2 to the NIPSCO Industries, Inc. Current Report on Form 8-K dated March 25, 1992). *
(10.2)	NiSource Inc. Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2004 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003). *
(10.3)	First Amendment to the NiSource Inc. Executive Deferred Compensation Plan (As Amended and Restated effective January 1, 2004). * **

ITEM 15. EXHIBIT INDEX (CONTINUED)

NISOURCE INC.

(10.4) Form of Change in Control and Termination Agreements and Schedule of Parties to the Agreements (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

(10.5) Nisource Inc. Nonemployee Director Stock Incentive Plan (As Amended and Restated effective January 1, 2004) (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*

(10.6) NiSource Inc. 1994 Long-Term Incentive Plan, as amended and restated effective January 1, 2004 (incorporated by reference to Exhibit 10.6 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003). *

(10.7) Form of Nonqualified Stock Option Agreement under the NiSource Inc. 1994 Long-Term Incentive Plan, as amended and restated effective January 1, 2004 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Current Report on Form 8-K filed on January 3, 2005).*

(10.8) Letter Agreement dated December 3, 2003 between Stephen P. Adik and NiSource Corporate Services Company (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Registration Statement (Registration No. 333-119555)).

(10.9) Noncompetition Agreement dated February 12, 1999 between Roger A. Young and Bay State Gas Company (incorporated by reference to Exhibit 10.8 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).

(10.10) Employment Agreement dated February 12, 1999 between Mr. Roger A. Young and Bay State Gas Company (incorporated by reference to Exhibit 10.9 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).

(10.11) Amended and restated Indenture of Mortgage and Deed of Trust by Columbia Gas Transmission Corporation to Wilmington Trust Company, dated as of November 28, 1995 (incorporated by reference to Exhibit 10-AF to the Columbia Energy Group Annual Report on Form 10-K for the period ended December 31, 1995).

(10.12) Memorandum of Understanding among the Millennium Pipeline Project partners (Columbia Transmission, West Coast Energy, MCN Investment Corp. and TransCanada Pipelines Limited) dated December 1, 1997 (incorporated by reference to Exhibit 10-CF to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1997).

(10.13) Agreement of Limited Partnership of Millennium Pipeline Company, L.P. dated May 31, 1998 (incorporated by reference to Exhibit 10-CG to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).

(10.14) Contribution Agreement Between Columbia Gas Transmission Corporation and Millennium Pipeline Company, L.P. dated July 31, 1998 (incorporated by reference to Exhibit 10-CH to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).

(10.15) Regulations of Millennium Pipeline Management Company, L.L.C. dated May 31, 1998 (incorporated by reference to Exhibit 10-CI to Columbia Energy Group's Annual Report on Form 10-K for the period ended December 31, 1998).

(10.16) NiSource Inc. Nonemployee Director Retirement Plan, as amended and restated effective January 1, 2002 (incorporated by reference to Exhibit 10.21 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

NISOURCE INC.

(10.17) Nisource Inc. Supplemental Executive Retirement Plan as Amended and Restated effective January 1, 2004 (incorporated by reference to Exhibit 10.5 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004). *

(10.18) First Amendment to the NiSource Inc. Supplemental Executive Retirement Plan (As Amended and Restated effective January 1, 2004). * **

(10.19) Letter Agreement between NiSource Inc. and Michael W. O'Donnell dated July 28, 2004 regarding his benefits under the NiSource Inc. Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2004).*

(10.20) Bay State Gas Company Supplemental Executive Retirement Plan restated January 1, 1992 (incorporated by reference to Exhibit 10.23 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

(10.21) NiSource Inc. Executive Severance Policy, effective January 1, 2004 (incorporated by reference to Exhibit 10.22 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003). *

(10.22) Form of Agreement between NiSource Inc. and certain officers of Columbia Energy Group and schedule of parties to such Agreements (incorporated by reference to Exhibit 10.33 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

(10.23) NiSource Inc. Directors' Charitable Gift Program effective January 1, 2001 (incorporated by reference to Exhibit 10.35 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2001). *

(10.24) Letter Agreement between NiSource Corporate Services Company and S. LaNette Zimmerman, dated July 15, 2002 (incorporated by reference to Exhibit 10.35 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2002). *

(10.25) Financing Agreement dated as of December 1, 2003 between Jasper County, Indiana and Northern Indiana Public Service Company (incorporated by reference to Exhibit 10.30 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).

(10.26) Insurance Agreement, dated as of December 18, 2003, by and between AMBAC Assurance Corporation and Northern Indiana Public Service Company (incorporated by reference to Exhibit 10.31 to the NiSource Inc. Annual Report on Form 10-K for the period ended December 31, 2003).

(10.27) 3-Year Revolving Credit Agreement, dated as of March 18, 2004 among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the Lead Arrangers, and Lenders party thereto, as Lenders; Credit Suisse First Boston, as Syndication Agent, Bank One, NA, The Bank Of Tokyo-Mitsubishi, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents, Barclays Bank Plc, as Administrative Agent and LC Bank, Barclays Capital and Credit Suisse First Boston as Lead Arrangers and Barclays Capital as Sole Book Runner (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004).

(10.28) 364-Day Revolving Credit Agreement dated as of March 18, 2004 among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the Lead Arrangers and Lenders party thereto, as Lenders; Credit Suisse First Boston as Syndication Agent, Bank One, NA, The Bank Of Tokyo-Mitsubishi, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents, Barclays Bank Plc, as Administrative Agent; Barclays Capital and Credit Suisse First Boston as Lead Arrangers and Barclays Capital as Sole Book Runner (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004).

ITEM 15. EXHIBIT INDEX (CONTINUED)

NISOURCE INC.

(10.29) 4-Year Letter of Credit Reimbursement Agreement dated as of February 13, 2004 among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the Lead Arranger and Lenders party thereto, as Lenders; Barclays Bank Plc, as Administrative Agent and LC Bank, Barclays Capital as Lead Arranger and Barclays Capital as Sole Book Runner (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004).

(10.30) Amendment Number 1 to 4-Year Letter Of Credit Reimbursement Agreement (incorporated by reference to Exhibit 10.4 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended March 31, 2004).

(10.31) NiSource Inc. Corporate Incentive Plan (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*

(10.32) Pension Restoration Plan for Nisource Inc. and Affiliates as Amended and Restated effective January 1, 2004 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*

(10.33) Savings Restoration Plan for Nisource Inc. and Affiliates as Amended and Restated effective January 1, 2004 (incorporated by reference to Exhibit 10.3 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*

(10.34) First Amendment to the Savings Restoration Plan for Nisource Inc. and Affiliates as Amended and Restated effective January 1, 2004 (Effective January 1, 2005) (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on January 3, 2005).*

(10.35) Letter Agreement with Samuel W. Miller dated September 1, 2002 (incorporated by reference to Exhibit 10.6 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2004).*

(10.36) Change in Control and Termination Agreement with Samuel W. Miller dated August 17, 2004 (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended September 30, 2004).*

(12) Ratio of Earnings to Fixed Charges. **

(21) List of Subsidiaries. **

(23) Consent of Deloitte & Touche LLP. **

(31.1) Certification of Gary L. Neale, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **

(32.1) Certification of Gary L. Neale, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **

* Management contract or compensatory plan or arrangement of NiSource Inc.

** Exhibit filed herewith.

ITEM 15. EXHIBIT INDEX (CONTINUED)

NISOURCE INC.

References made herein to Columbia Energy Group filings can be found at Commission File Number 001-01098. References made to Northern Indiana filings can be found at Commission File Number 001-04125. References made to NiSource Inc. filings made prior to November 1, 2000 can be found at Commission File Number 001-09779.

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 273,004,359 shares outstanding at October 31, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2006

Table of Contents

DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Atlantic Trading	Columbia Atlantic Trading Corporation
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

AFUDC	Allowance for funds used during construction
APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission assets like many other Midwestern electric utilities to MISO

DEFINED TERMS (continued)

Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation
DTE	Department of Telecommunications and Energy
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NPDES	National Pollutant Discharge Elimination System
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
PCB	Polychlorinated biphenyls
Piedmont	Piedmont Natural Gas Company, Inc.
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
Private Power	Private Power, LLC
PUCO	Public Utilities Commission of Ohio
SAB No. 108	Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements"
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"

DEFINED TERMS (continued)

SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 144	Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SFAS No. 157	Statement of Financial Accounting Standards No. 157, "Fair Value Measurements"
SFAS No. 158	Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (Loss) (unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share amounts)	**2006**	2005	**2006**	2005
Net Revenues				
Gas Distribution	**$ 392.9**	$ 380.8	**$ 2,996.4**	$ 2,868.4
Gas Transportation and Storage	**202.7**	179.1	**743.8**	721.0
Electric	**377.4**	381.9	**985.0**	946.6
Other	**183.5**	222.3	**715.6**	666.2
Gross Revenues	**1,156.5**	1,164.1	**5,440.8**	5,202.2
Cost of Sales (excluding depreciation and amortization)	**525.0**	557.0	**3,187.1**	2,928.9
Total Net Revenues	**631.5**	607.1	**2,253.7**	2,273.3
Operating Expenses				
Operation and maintenance	**309.8**	326.8	**989.2**	980.9
Depreciation and amortization	**136.5**	135.9	**411.4**	406.9
Impairment and (gain) loss on sale of assets	**(0.3)**	-	**4.8**	20.4
Other taxes	**49.1**	51.9	**212.7**	215.1
Total Operating Expenses	**495.1**	514.6	**1,618.1**	1,623.3
Operating Income	**136.4**	92.5	**635.6**	650.0
Other Income (Deductions)				
Interest expense, net	**(96.2)**	(106.5)	**(284.9)**	(312.0)
Dividend requirements on preferred stock of subsidiaries	**-**	(1.0)	**(1.1)**	(3.2)
Other, net	**(0.8)**	3.3	**(6.9)**	6.4
Loss on early redemption of preferred stock	**-**	-	**(0.7)**	-
Total Other Income (Deductions)	**(97.0)**	(104.2)	**(293.6)**	(308.8)
Income (Loss) From Continuing Operations Before Income Taxes	**39.4**	(11.7)	**342.0**	341.2
Income Taxes	**13.5**	(5.8)	**121.7**	130.1
Income (Loss) From Continuing Operations	**25.9**	(5.9)	**220.3**	211.1
Loss from Discontinued Operations - net of taxes	**(0.3)**	(6.2)	**(1.4)**	(20.4)
Gain on Disposition of Discontinued Operations - net of taxes	**0.2**	5.3	**0.4**	47.8
Change in Accounting - net of taxes	**-**	-	**0.4**	-
Net Income (Loss)	**$ 25.8**	$ (6.8)	**$ 219.7**	$ 238.5
Basic Earnings (Loss) Per Share ($)				
Continuing operations	**0.10**	(0.02)	**0.81**	0.78
Discontinued operations	**-**	(0.01)	**-**	0.10
Basic Earnings (Loss) Per Share	**0.10**	(0.03)	**0.81**	0.88
Diluted Earnings (Loss) Per Share ($)				
Continuing operations	**0.10**	(0.02)	**0.81**	0.77
Discontinued operations	**-**	(0.01)	**-**	0.10
Diluted Earnings (Loss) Per Share	**0.10**	(0.03)	**0.81**	0.87
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.69**	0.69
Basic Average Common Shares Outstanding (millions)	**272.5**	271.7	**272.4**	271.1
Diluted Average Common Shares (millions)	**273.3**	273.7	**273.2**	272.9

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited)

(in millions)	September 30, 2006	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$ 16,987.2**	$ 16,684.4
Accumulated depreciation and amortization	**(7,788.4)**	(7,556.8)
Net utility plant	**9,198.8**	9,127.6
Other property, at cost, less accumulated depreciation	**352.8**	426.7
Net Property, Plant and Equipment	**9,551.6**	9,554.3
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**46.8**	34.6
Unconsolidated affiliates	**70.9**	75.0
Other investments	**118.2**	114.2
Total Investments	**235.9**	223.8
Current Assets		
Cash and cash equivalents	**22.8**	69.4
Restricted cash	**203.0**	33.9
Accounts receivable (less reserve of $48.1 and $67.9, respectively)	**478.3**	1,254.6
Gas inventory	**682.8**	526.9
Underrecovered gas and fuel costs	**70.0**	421.8
Materials and supplies, at average cost	**85.3**	72.0
Electric production fuel, at average cost	**53.2**	24.9
Price risk management assets	**200.3**	183.1
Exchange gas receivable	**366.3**	169.8
Regulatory assets	**290.5**	195.0
Prepayments and other	**70.3**	109.3
Total Current Assets	**2,522.8**	3,060.7
Other Assets		
Price risk management assets	**73.1**	192.9
Regulatory assets	**590.1**	586.3
Goodwill	**3,677.3**	3,677.3
Intangible assets	**477.9**	495.8
Deferred charges and other	**188.0**	167.4
Total Other Assets	**5,006.4**	5,119.7
Total Assets	**$ 17,316.7**	$ 17,958.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Condensed Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	September 30, 2006	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 272,899,816 and 272,622,905 shares issued and outstanding, respectively	$ **2.7**	$ 2.7
Additional paid-in-capital	**3,979.7**	3,969.4
Retained earnings	**950.4**	981.6
Accumulated other comprehensive loss	**(106.3)**	(5.6)
Treasury stock	**(21.1)**	(15.1)
Total common stock equity	**4,805.4**	4,933.0
Preferred stock—Series without mandatory redemption provisions	**-**	81.1
Long-term debt, excluding amounts due within one year	**5,173.4**	5,271.2
Total Capitalization	**9,978.8**	10,285.3
Current Liabilities		
Current portion of long-term debt	**461.8**	440.7
Short-term borrowings	**861.0**	898.0
Accounts payable	**461.0**	866.7
Dividends declared on common and preferred stocks	**62.8**	1.1
Customer deposits	**104.9**	101.9
Taxes accrued	**137.2**	217.5
Interest accrued	**111.5**	86.2
Overrecovered gas and fuel costs	**144.4**	25.8
Price risk management liabilities	**242.1**	72.3
Exchange gas payable	**465.1**	425.2
Deferred revenue	**43.6**	51.3
Regulatory liabilities	**42.3**	46.3
Accrued liability for postretirement and postemployment benefits	**59.4**	61.1
Other accruals	**391.3**	549.1
Total Current Liabilities	**3,588.4**	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	**40.0**	22.2
Deferred income taxes	**1,485.1**	1,591.9
Deferred investment tax credits	**63.7**	69.9
Deferred credits	**89.8**	81.1
Deferred revenue	**32.2**	60.4
Accrued liability for postretirement and postemployment benefits	**475.4**	511.0
Liabilities of discontinued operations and liabilities held for sale	**9.9**	-
Regulatory liabilities and other removal costs	**1,250.5**	1,196.2
Asset retirement obligations	**125.3**	119.8
Other noncurrent liabilities	**177.6**	177.5
Total Other Liabilities and Deferred Credits	**3,749.5**	3,830.0
Commitments and Contingencies	**-**	-
Total Capitalization and Liabilities	**$ 17,316.7**	$ 17,958.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Nine Months Ended September 30, *(in millions)*		2006		2005
Operating Activities				
Net income	$	**219.7**	$	238.5
Adjustments to reconcile net income to net cash from continuing operations:				
Loss on early redemption of preferred stock		**0.7**		-
Depreciation and amortization		**411.4**		406.9
Net changes in price risk management assets and liabilities		**50.4**		(85.7)
Deferred income taxes and investment tax credits		**(129.4)**		(56.8)
Deferred revenue		**(36.0)**		(11.6)
Stock compensation expense		**4.4**		6.6
Gain on sale of assets		**(1.1)**		(1.4)
Loss on impairment of assets		**5.9**		21.8
Cumulative effect of change in accounting principle, net of taxes		**(0.4)**		-
Income from unconsolidated affiliates		**(3.3)**		(3.5)
Gain on sale of discontinued operations		**(0.4)**		(47.8)
Loss from discontinued operations		**1.4**		20.4
Amortization of discount/premium on debt		**5.8**		14.6
AFUDC		**(7.4)**		(1.3)
Changes in assets and liabilities:				
Accounts receivable		**785.1**		423.8
Inventories		**(189.7)**		(212.6)
Accounts payable		**(397.9)**		(97.2)
Customer deposits		**3.0**		2.7
Taxes accrued		**(94.8)**		(7.7)
Interest accrued		**25.3**		62.9
(Under) Overrecovered gas and fuel costs		**470.4**		64.7
Exchange gas receivable/payable		**(159.7)**		(22.0)
Other accruals		**(67.9)**		(0.8)
Prepayments and other current assets		**38.8**		16.3
Regulatory assets/liabilities		**(62.0)**		(17.5)
Postretirement and postemployment benefits		**(1.5)**		41.6
Deferred credits		**(12.7)**		(5.7)
Deferred charges and other noncurrent assets		**2.7**		13.2
Other noncurrent liabilities		**(0.2)**		11.9
Net Operating Activities from Continuing Operations		**860.6**		774.3
Net Operating Activities from or (used for) Discontinued Operations		**4.7**		(17.4)
Net Cash Flows from Operating Activities		**865.3**		756.9
Investing Activities				
Capital expenditures		**(398.3)**		(406.9)
Proceeds from disposition of assets		**17.2**		7.4
Restricted cash		**(174.7)**		133.7
Other investing activities		**(4.6)**		(14.6)
Net Cash Flows used for Investing Activities		**(560.4)**		(280.4)
Financing Activities				
Issuance of long-term debt		**-**		1,000.0
Retirement of long-term debt		**(43.8)**		(115.9)
Change in short-term debt		**(37.0)**		(307.6)
Retirement of preferred stock		**(81.1)**		-
Issuance of common stock		**5.6**		39.3
Acquisition of treasury stock		**(6.0)**		(1.7)
Dividends paid - common stock		**(189.2)**		(187.6)
Net Cash Flows (used for) or from Financing Activities		**(351.5)**		426.5
Increase (Decrease) in cash and cash equivalents		**(46.6)**		903.0
Cash and cash equivalents at beginning of year		**69.4**		29.5
Cash and cash equivalents at end of period	$	**22.8**	$	932.5
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest	$	**261.2**	$	240.0
Interest capitalized		**7.4**		1.3
Cash paid for income taxes		**245.1**		97.4

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Statements of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions, net of taxes)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Income (loss)	$ **25.8**	$ (6.8)	$ **219.7**	$ 238.5
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges	**(41.2)**	94.4	**(106.7)**	110.6
Net gain (loss) on available for sale securities	**0.8**	(0.2)	**1.7**	0.3
Minimum pension liability adjustment	**4.4**	(22.7)	**4.4**	(22.7)
Total other comprehensive income (loss)	**(36.0)**	71.5	**(100.6)**	88.2
Total Comprehensive Income (Loss)	$ **(10.2)**	$ 64.7	$ **119.1**	$ 326.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors.

2. Recent Accounting Pronouncements

SFAS No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. SFAS No. 158 requires companies to recognize the funded status of a benefit plan and to provide disclosure requirements for fiscal years ending after December 15, 2006. Additionally, SFAS No. 158 requires employers to measure plan assets and benefit obligations as of the fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. NiSource will adopt the provisions to record the funded status of its pension and other postretirement plans' and to provide the disclosure requirements in the fourth quarter of 2006. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the impact of SFAS No. 158, should it have been in effect at September 30, 2006, would have reduced total assets by approximately $63 million, increased total liabilities by approximately $174 million and decreased total common stock equity by approximately $237 million. NiSource is currently evaluating what affects, if any, the adoption of SFAS No. 158 will have on regulatory assets or liabilities. SFAS No. 158 will not have an impact on the Statements of Consolidated Income at adoption and all impacts are non-cash.

SFAS No. 157 – Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157 to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. NiSource is currently reviewing the provisions of SFAS No. 157 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and should be applied prospectively, with limited exceptions.

SAB No. 108 – Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. In September 2006, the SEC issued SAB No. 108 to provide guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 is effective for periods ending after November 15, 2006. NiSource will adopt SAB No. 108 as required.

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. Upon adoption of SFAS No. 123R in the first quarter of 2006, NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the outstanding share-based awards will continue to be accounted for substantially as they were prior to the adoption of SFAS No. 123R. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $6.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for 2005.

(in millions, except per share data)		Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net Income (Loss)			
As reported		$ (6.8)	$ 238.5
Add:	Stock-based employee compensation expense included in reported net income, net of related tax effects	1.2	4.2
Less:	Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	1.2	10.4
Pro forma		$ (6.8)	$ 232.3
Earnings (loss) per share ($)			
Basic	- as reported	(0.03)	0.88
	- pro forma	(0.03)	0.86
Diluted	- as reported	(0.03)	0.87
	- pro forma	(0.03)	0.85

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 48 – Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This interpretation is effective for fiscal years beginning after December 15, 2006.

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Under the plan, each option has a maximum term of ten years from the date of grant. NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Stock appreciation rights may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof.

At the annual meeting of stockholders held on May 10, 2005, NiSource's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At September 30, 2006, there were 26,170,107 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at September 30, 2006, which were not a part of the time accelerated restricted stock award plan described below.

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At September 30, 2006, NiSource had 814,140 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of September 30, 2006.

For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age 70, death or disability, any shares of common stock not vested as of the date of termination are forfeited.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

As of September 30, 2006, 89,860 restricted shares and 107,101 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant. Stock option transactions for the first nine months of 2006 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	-	
Exercised	(235,508)	
Cancelled	(618,730)	
Outstanding at September 30, 2006	**9,094,145**	**22.60**
Exercisable at September 30, 2006	**9,094,145**	**22.60**

The following table summarizes information on stock options outstanding and exercisable at September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,308,893	19.63	5.8	1,308,893	19.63
20.46 - 23.37	5,681,566	22.10	6.6	5,681,566	22.10
23.38 - 26.29	1,770,686	25.19	3.8	1,770,686	25.19
26.30 - 29.22	333,000	29.22	1.7	333,000	29.22
	9,094,145	22.60	5.8	9,094,145	22.60

There were no stock appreciation rights outstanding at September 30, 2006.

No options were granted during the nine months ended September 30, 2006. The fair value of each option granted during the nine months ended September 30, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the nine months ended September 30, 2005 was $3.34. The following assumptions were used:

	September 30, 2005
Expected Life (yrs.)	**4.2**
Interest Rate	**3.5 - 3.6%**
Volatility	**22.6%**

NiSource recognized stock-based employee compensation expense of $4.4 million and $6.6 million in the first nine months of 2006 and 2005, respectively, as well as related tax benefits of $1.6 million and $2.4 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $6.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years.

4. Income Taxes

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter and nine months ended September 30, 2006 were 34.3% and 35.6%, respectively. The effective tax rates differ from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

permanent book-to-tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

The effective tax rate for the quarter ended September 30, 2006 was 34.3%, which includes a $1.1 million income tax benefit recorded upon filing NiSource's 2005 consolidated federal income tax return. The income tax benefit in the third quarter of last year represented a 49.6% effective tax rate as a result of a loss from continuing operations together with a $1.1 million tax benefit recorded upon filing NiSource's 2004 consolidated federal income tax return. The effective tax rate for the nine months ended September 30, 2006 was 35.6% compared to 38.1% for the comparable period last year. This 2.5% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the tax impact of the non-deductible goodwill impairment charge recorded at Kokomo Gas in the second quarter of 2005. Offsetting these decreases is additional tax expense associated with the reduction in low income housing credits.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2006**	2005	**2006**	2005
Denominator				
Basic average common shares outstanding	**272,548**	271,724	**272,431**	271,080
Dilutive potential common shares				
Nonqualified stock options	**108**	512	**79**	439
Shares contingently issuable under employee stock plans	**548**	884	**548**	884
Shares restricted under employee stock plans	**136**	541	**123**	511
Diluted Average Common Shares	**273,340**	273,661	**273,181**	272,914

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of September 30, 2006, 870 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the third quarter of 2006, 9 employees were terminated, none of which became employees of IBM. Adjustments to the restructuring liability were recorded mainly for changes in estimated expenses related to the outsourcing initiative. Adjustments in the estimated liability are reflected in "Operation and maintenance" expense on the Statements of Consolidated Income.

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. As of September 30, 2006, the employment of 12 employees terminated as a result of the executive initiative, of whom 3 and 12 were terminated during the quarter and nine months ended September 30, 2006, respectively. In part, this reduction has come through anticipated attrition and consolidation of basic positions.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas

Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of September 30, 2006, 1,566 employees were terminated, of whom no employees were terminated during the quarter and nine months ended September 30, 2006. In the third quarter, an adjustment was made to the restructuring reserve for leased office space, reducing the reserve by $5.2 million as a result of the change in utilization of office space. This adjustment is reflected in "Operation and maintenance" expense on the Statements of Consolidated Income. Of the $3.6 million remaining restructuring liability from the Columbia merger and related initiatives, $3.3 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at September 30, 2006
Outsourcing initiative	$ 11.5	$ (6.9)	$ (2.2)	$ 2.4
Executive initiative	2.9	(2.4)	-	0.5
Columbia merger and related initiatives	10.1	(2.9)	(3.6)	3.6
Total	$ 24.5	$ (12.2)	$ (5.8)	$ 6.5

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $46.8 million and $34.6 million at September 30, 2006 and December 31, 2005, respectively. Assets classified as held for sale are no longer depreciated.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the first half of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.1 million as of September 30, 2006 after impairment, as assets of discontinued operations. Mortgage notes and other accrued liabilities related to these investments of $9.9 million are accounted for as liabilities of discontinued operations.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of September 30, 2006 after impairment, as assets held for sale. Additionally, in the third quarter of 2006 NiSource Corporate Services sold a corporate aircraft for its book value of $9.6 million. An impairment loss of $0.9 million was recognized for the corporate aircraft that was accounted for as assets held for sale in the second quarter of 2006.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of September 30, 2006, as assets held for sale.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

$7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power approximately $8.0 million to settle this obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at September 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million as of September 30, 2006, as assets held for sale. On October 16, 2006, Columbia Transmission sold assets for net book value of $4.2 million, which were previously reported as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from NDC Douglas Properties low income housing investments, the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues from Discontinued Operations	**$ 1.4**	$ 2.4	**$ 4.7**	$ 6.4
Loss from discontinued operations	**(0.5)**	(9.7)	**(2.3)**	(31.5)
Income tax benefit	**(0.2)**	(3.5)	**(0.9)**	(11.1)
Net Loss from Discontinued Operations	**$ (0.3)**	$ (6.2)	**$ (1.4)**	$ (20.4)

8. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of September 2006, approximately 731 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of September 30, 2006, Columbia of Ohio has $44.1 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. A hearing in these matters is scheduled to commence on November 29, 2006.

On October 31, 2006, the Massachusetts DTE approved a request by Bay State for a $3.6 million inflation adjustment to be collected annually over a twelve month period beginning November 1, 2006. Bay State is permitted, as part of its DTE-approved Performance Based Rate Plan, to adjust its rates each year to compensate for the impact of inflation.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

Northern Indiana continues to work with its regulatory stakeholders on a filing made earlier this year to simplify its residential rate structure.

Gas Transmission and Storage Operations Related Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. In November, 2005, INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). The matter remains pending before the Court.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The FERC ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline Operating Agreement between Columbia Gulf and Tennessee Gas Pipeline. Columbia Gulf constructed the necessary taps and Tennessee Gas Pipeline then completed its portion of the interconnection facilities. The interconnection was ready to flow gas on October 1, 2006.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with the FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf's rehearing of the declaratory order issued by the FERC is pending.

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order included a rate moratorium that expired on July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $37.9 million and $46.7 million were recognized for electric customers for the first nine months of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, which are recovered through the FAC process. In addition, Northern Indiana incurs administrative fees, which relate to the MISO's management and operations of the transmission system. These fees, according to a 2004 IURC order, were not eligible for recovery or deferral until the end of Northern Indiana's rate moratorium, which expired on July 31, 2006. Day 2 charges included both fuel and non-fuel costs. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million was required for charges related to the period April 1, 2005 through December 8, 2005. Pending this order, Northern Indiana had provided a reserve of $8.7 million through December 2005. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $3.1 million for the first nine months of 2006. Day 2 non-fuel costs amounted to $12.7 million for the first nine months of 2006. Of this amount, $11.9 million was recorded as non-recoverable in net revenues through July 31, 2006 and, beginning August 1, 2006 per Cause No. 42685, $0.8 million has been deferred for consideration in a future rate case. Day 1 and Day 2 administrative fees totaled $4.0 million for the first nine months of 2006 and were $5.1 million for the year 2005. Of the $4.0 million in 2006, $1.0 million was deferred for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana was seeking affirmation from the IURC that the

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intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005, which were made pursuant to the July 1, 2005 interim order, were reasonable.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824. The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. On August 23, 2006, the final order in cause 42824 requesting recovery of intermediate dispatchable power costs incurred August to December 2005 was issued. The final order from the IURC approved the Settlement Agreement between Northern Indiana, the OUCC and the Industrial Group. The IURC order also approved the Settlement Agreement between Northern Indiana and LaPorte County, whereby Northern Indiana is to issue a refund of $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases that were "subject to refund" as a condition in Northern Indiana's final orders in Cause Nos. 38706 FAC-69 and FAC-70. LaPorte County and its attorneys were awarded $0.5 million in fees and expenses. The attorney fees were paid in September 2006 and the amounts due to customers will be returned in the next FAC.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. On September 27, 2006, Northern Indiana filed for the voluntary dismissal of a Purchased Power and Transmission Tracker Mechanism, without prejudice, in accordance with the terms of the settlement agreement approved by the IURC order in cause 42824 (as described above). The final order approving the voluntary dismissal was issued on October 4, 2006.

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery was subject to refund impacted by the final order in cause No. 42824 that was issued on August 23, 2006 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

On September 28, 2006, the IURC issued an order approving FAC-72 rates on an interim basis subject to refund in the event that an excess rate of return is earned and subject to the resolution of the issues in Cause No. 38706-FAC71 subdocket (described above). FAC-72 included a refund for the remaining $0.8 million of MISO-related costs.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. On October 18, 2006, Northern Indian filed for approval of the revised cost estimates to meet the environmental standards. The ECRM revenues amounted to $19.7 million for the nine months ended September 30, 2006, and $71.5 million from inception to date, while EERM revenues were $10.9 million for the nine months ended September 30, 2006, and $19.7 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 was filed in August 2006 for capital expenditures (net of accumulated depreciation) of $226.8 million and was approved by the IURC on September 28, 2006. ECR-9 and EER-4 are scheduled to be filed in February 2007.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of Northwest Indiana's need for that property and the substantial costs associated with restarting the facility.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. While the IURC could not conclude that Northern Indiana failed to provide reasonably adequate service, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Northern Indiana and Jupiter both appealed the IURC's order to the Indiana Court of Appeals, which are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments primarily to manage commodity price risk and interest rate risk exposure in its business as well as for commercial and industrial sales and some trading. NiSource accounts for its derivatives in accordance with SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction.

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NiSource's derivatives on the Condensed Consolidated Balance Sheets at September 30, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 198.7	$ 1.6	$ 200.3
Other assets	72.9	0.2	73.1
Total price risk management assets	$ 271.6	$ 1.8	$ 273.4
Price risk management liabilities			
Current liabilities	$ (166.4)	$ (75.7)	$ (242.1)
Other liabilities	(34.7)	(5.3)	(40.0)
Total price risk management liabilities	$ (201.1)	$ (81.0)	$ (282.1)

NiSource's derivatives on the Condensed Consolidated Balance Sheets at December 31, 2005 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 152.6	$ 30.5	$ 183.1
Other assets	185.5	7.4	192.9
Total price risk management assets	$ 338.1	$ 37.9	$ 376.0
Price risk management liabilities			
Current liabilities	$ (63.4)	$ (8.9)	$ (72.3)
Other liabilities	(22.2)	-	(22.2)
Total price risk management liabilities	$ (85.6)	$ (8.9)	$ (94.5)

The hedging activity for the quarter and nine months ended September 30, 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, net of taxes)	**2006**	2005	**2006**	2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 85.2**	$ 109.9	**$ 150.7**	$ 93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(41.2)**	106.4	**(106.0)**	132.3
Reclassification adjustment for net gain included in net income	**-**	(12.0)	**(0.7)**	(21.7)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 44.0**	$ 204.3	**$ 44.0**	$ 204.3

During the third quarter of 2006 and 2005, zero and a gain of $1.5 million, net of taxes respectively, were recognized in earnings due to the ineffectiveness of derivative instruments being accounted for as hedges. All derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the third quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in other comprehensive income of approximately $26.3 million, net of taxes.

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Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. These derivative programs are accounted for as cash flow hedges.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. This derivative program is accounted for as a cash flow hedge.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. Additionally, Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These derivative programs must be marked to fair value, but because these derivatives are used within the framework of their cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of there derivatives.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These commodity swap derivatives are accounted for as cash flow hedges.

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Commodity price risk programs included in price risk assets and liabilities:

	September 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 0.2	$ (78.0)	$ 35.7	$ -
PPS program derivatives	0.3	(6.9)	1.8	(2.5)
DependaBill program derivatives	0.2	(2.6)	1.6	-
MISO FTR program derivatives	1.1	-	2.2	(0.4)
Power price volatility program derivatives	-	(0.1)	-	-
Regulatory incentive program derivatives	0.5	(2.9)	-	(8.5)
Forward purchase agreements derivatives	130.5	-	266.7	-

Interest Rate Risk Activities. Contemporaneously with the pricing of the 5.25% and 5.45% notes issued September 16, 2005, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized as an increase to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% respectively.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Interest rate risk activities programs included in price risk management assets and liabilities:

	September 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ -	$ (27.1)	$ -	$ (12.2)

Marketing, Trading and Other Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage price risk associated with operating Whiting Clean Energy during 2006.

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Marketing, trading and other programs included in price risk management assets and liabilities:

	September 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing program derivatives	$ 140.6	$ (164.5)	$ 68.0	$ (70.9)

10. Whiting Clean Energy

PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. The Whiting Clean Energy facility and BP have reached a Memorandum of Understanding which, subject to the execution of a definitive agreement, would redefine terms under which Whiting Clean Energy will provide steam to BP. BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. Whiting Clean Energy and BP have also outlined a restructured steam pricing approach for operating the Whiting Clean Energy facility in the interim.

Because of continued losses from Whiting Clean Energy, projected impacts from the Memorandum of Understanding reached between Whiting Clean Energy and BP, and expected utilization of the Whiting Clean Energy facility, an impairment study was performed during the third quarter of 2006 in accordance with SFAS No. 144. Under the provisions of SFAS No. 144, an impairment loss shall be recognized only if the carrying amount of a long lived asset is not recoverable and exceeds its fair value. The test compares the carrying amount of the long lived asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The study indicated that no impairment was necessary.

The study includes many estimates and assumptions for the 35-year estimated useful life of the facility. Changes in these estimates and assumptions, such as electricity and natural gas forward price volatility, impacts from the negotiations with BP in reaching a definitive agreement as discussed above, and utilization of the facility, could result in a situation where total undiscounted cash flows are less than the carrying value of the facility, which would result in a write-down that could be significant.

11. Goodwill Assets

NiSource's goodwill assets at September 30, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at September 30, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarter ended June 30, 2006, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. The results of the June 30, 2006 impairment test indicated that no impairment charge was required. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as an "Impairment and (gain) loss on sale of assets" on the Statements of Consolidated Income. Factors contributing to this charge were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

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12. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. In accordance with SFAS No. 87, NiSource adjusted its minimum pension liability at September 30, 2006, decreasing the pension liability by approximately $15 million. The decrease in the liability is partly due to an increase in the discount rate used to determine the pension benefit obligation. NiSource expects to make contributions of $18.1 million to its pension plans and $45.8 million to its other postretirement benefit plans during 2006. Through September 30, 2006, NiSource has contributed $17.3 million to its pension plans and $34.3 million to its other postretirement benefit plans.

The following tables provide the components of the plans' net periodic benefits cost for the third quarter and nine months ended September 30, 2006 and 2005:

	Pension Benefits		Other Benefits	
Three Months Ended September 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 10.6**	$ 10.5	**$ 2.3**	$ 2.3
Interest cost	**31.2**	32.0	**10.2**	10.4
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(3.9)
Amortization of transitional obligation	**-**	-	**2.0**	2.4
Amortization of prior service cost	**1.5**	2.7	**0.1**	0.2
Recognized actuarial loss	**4.7**	4.2	**1.5**	0.9
Special termination benefits	**-**	2.2	**-**	-
Settlement/Curtailment loss	**-**	5.4	**-**	10.8
Net Periodic Benefits Cost	**$ 4.1**	$ 15.9	**$ 11.5**	$ 23.1

	Pension Benefits		Other Benefits	
Nine Months Ended September 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 31.9**	$ 31.3	**$ 7.0**	$ 6.9
Interest cost	**93.7**	96.0	**30.4**	31.3
Expected return on assets	**(131.7)**	(123.3)	**(13.8)**	(11.9)
Amortization of transitional obligation	**-**	-	**6.0**	7.3
Amortization of prior service cost	**4.5**	7.9	**0.3**	0.6
Recognized actuarial loss	**13.9**	12.8	**4.6**	2.8
Special termination benefits	**-**	2.2	**-**	-
Settlement/Curtailment loss	**0.9**	5.7	**-**	10.8
Net Periodic Benefits Cost	**$ 13.2**	$ 32.6	**$ 34.5**	$ 47.8

In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans. Please refer to Note 2, "Recent Accounting Pronouncements," in the Notes to Consolidated Financial Statements for additional information.

13. Asset Retirement Obligations

NiSource has accounted for retirement obligations on its assets since January 1, 2003 with the adoption of SFAS No. 143. In the fourth quarter 2005, NiSource adopted the provisions of FIN 47, which broadened the scope of SFAS No. 143 to include contingent asset retirement obligations and it also provided additional guidance for the measurement of the asset retirement liabilities. This accounting standard and the related interpretation require entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71 for those amounts it has collected in rates or expects to collect in future rates.

Changes in NiSource's liability for asset retirement obligations for the first nine months of 2006 are presented in the table below:

Nine Months Ended September 30, *(in millions)*		**2006**
Beginning Balance	$	**119.8**
Accretion		**5.5**
Ending Balance	$	**125.3**

NiSource has recognized asset retirement obligations associated with various obligations including costs to remove and dispose of certain construction materials located within many of NiSource's facilities, certain costs to retire pipeline, removal costs for certain underground storage tanks, removal of certain pipelines known to contain PCB contamination, closure costs for certain sites including ash ponds, solid waste management units and a landfill, obligation to return leased rail cars to specified conditions and the removal costs of certain facilities and off-shore platforms, as well as some other nominal asset retirement obligations. NiSource recognizes that there are obligations to incur significant costs to retire wells associated with gas storage operations, however, these assets are land assets with indeterminable lives. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. However, these assets have an indeterminate life and no asset retirement obligation has been recorded.

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at September 30, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 1, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Condensed Consolidated Balance Sheets.

For the three months ended September 30, 2006, NiSource accrued $1.8 million of accretion, of which $0.3 million was expensed and $1.5 million was recorded as a regulatory asset. For the nine months ended September 30, 2006, NiSource accrued $5.5 million of accretion, of which $0.8 million was expensed and $4.7 million was recorded as a regulatory asset. For the three and nine months ended September 30, 2005, NiSource accrued less than $0.1 million and $0.3 million of accretion, respectively, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

14. Redemption of Preferred Stock

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

15. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at September 30, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidiaries debt	$ 4,967.1	$ 253.3	$ 32.5	$ 8.8	$ 464.1	$ 1,282.4	$ 2,926.0
Guarantees supporting commodity transactions of subsidiaries	737.6	177.3	336.3	35.8	38.8	-	149.4
Lines of credit	861.0	861.0	-	-	-	-	-
Letters of credit	87.6	-	27.9	59.7	-	-	-
Other guarantees	191.5	-	28.5	12.0	3.8	5.0	142.2
Total commercial commitments	$ 6,844.8	$ 1,291.6	$ 425.2	$ 116.3	$ 506.7	$ 1,287.4	$ 3,217.6

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Condensed Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $737.6 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. During November 2005, NiSource Finance also entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort that expired September 5, 2006. At September 30, 2006, NiSource had $861 million in short-term borrowings outstanding under the five-year revolving credit facility. Through the five-year revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $87.6 million for the benefit of third parties.

Other Guarantees or Obligations. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreement, Columbia Transmission issued guarantees securing payment for 50% of any amounts issued in connection with Hardy Storage up until such time as the project is placed in service and operated within certain specified parameters. As of September 30, 2006, Hardy Storage borrowed $57.0 million under the financing agreement, for which Columbia Transmission recorded an accrued liability of approximately $1.4 million related to the fair value of its guarantee securing payment for 50% of the $57.0 million borrowed.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power approximately $8.0 million to settle this obligation.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

A reserve of $70.9 million and $68.8 million has been recorded as of September 30, 2006 and December 31, 2005, respectively, to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
At a property in the City of Staunton, Virginia, the current property owner has been issued notice by the EPA that they need to evaluate potential impacts associated with a gasoline station and a former manufactured gas plant that were on the property. The property owner is seeking contribution from Columbia of Virginia. Columbia of Virginia is currently assessing its liability in relation to the property.

Gas Transmission and Storage Operations.
On September 21, 2006, the EPA issued revisions to the NAAQS for particulate matter. The final rule increased the stringency of the current fine particulate (PM2.5) standard, added a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter), and revoked the annual PM10 standards while retaining the 24-hour PM10 standards. The 24-hour primary and secondary standards for fine particulate were tightened from the previous level of 65 micrograms per cubic meter (μg/m3) to 35μg/m3 while the primary and secondary annual standards were kept at 15μg/m3. The annual PM10 standards of 50μg/m3 were revoked and the daily standards of 150μg/m3 were retained. State recommendations for designation of areas not meeting the new fine particle standards are due November 2007 with EPA designations by November 2009, effective in April 2010. SIPs detailing how states will reduce emissions to meet the NAAQS will be due three years later with attainment due by April 2015 with a possible five year extension to April 2020. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from Gas Transmission and Storage Operations. NiSource will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time

On August 6, 2006, Columbia Gulf received final approval of the NOx SIP Call Compliance Plan from the state of Kentucky. This Plan will reduce NOx emissions by 950 tons per ozone season starting May 1, 2007. Currently Columbia Gulf anticipates installation of approximately $6 million to $8 million in NOx controls to achieve these reductions.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Columbia Transmission discovered and notified the state of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently finalizing resolution of this issue.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

Electric Operations.
Air. On September 21, 2006, the EPA issued revisions to the NAAQS for particulate matter as described above under, "Gas Transmission and Storage Operations." The new rules set forth in this standard could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations. Northern Indiana will continue to closely monitor developments in this area.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern states, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured, and preliminarily adopted in June 2006, a draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Final adoption of the rule is expected in November 2006. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On May 31, 2006, the EPA took final action on petitions to reconsider two actions regarding the air pollutant Mercury: 1) Its determination that regulation of electric utility steam generating units under section 112 of the Clean Air Act was neither necessary nor appropriate (the section 112 rule); and 2) The Clean Air Mercury Rule. Following the promulgation of the final section 112 rule, the EPA received two petitions for reconsideration. In response to the two petitions, the EPA agreed to reconsider certain aspects of the final section 112 rule. After considering the petitions and the information that was submitted during the public comment period, the EPA determined that its original rule was correct. Indiana is developing a rule to implement the EPA Clean Air Mercury Rule. An initial draft of IDEM's proposed rule language is not expected until either late in the fourth quarter of 2006 or the first quarter of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On June 29, 2006, the IDEM held a public hearing to satisfy the public notice requirements for its proposed petition to the EPA to redesignate the Indiana counties of Lake and Porter to attainment of the eight-hour ozone NAAQS. The petition included EPA required technical and procedural information, as well as optional technical information, supporting the IDEM's redesignation request, as well as state plans to maintain the NAAQS upon the EPA redesignation, if granted. On October 2, 2006, the IDEM announced 2006 ozone season readings in these counties continued to meet air quality standards, reinforcing the supporting data included in the redesignation petition. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignation to attainment, new source review rules would change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the outcome or timing of the approval of the petition.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

stations located on Lake Michigan. The state of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. The NPDES water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station was issued on June 26, 2006, and became effective on August 1, 2006. Northern Indiana has since appealed the Bailly Generating Station NPDES permit, due to an unacceptable internal outfall monitoring permit condition. Pending review and analysis of this permit, the cost of complying with the permit requirements cannot be estimated at this time.

16. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Condensed Consolidated Balance Sheets.

(in millions)	**September 30, 2006**	December 31, 2005
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	**$ 3.0**	$ 0.3
Tax (expense) on unrealized gains on securities	**(1.4)**	(0.3)
Unrealized gains on cash flow hedges	**61.8**	228.5
Tax (expense) on unrealized gains on cash flow hedges	**(17.8)**	(77.8)
Minimum pension liability adjustment	**(252.7)**	(260.1)
Tax benefit on minimum pension liability adjustment	**100.8**	103.8
Total Accumulated Other Comprehensive Loss, net of taxes	**$ (106.3)**	$ (5.6)

17. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Other Operations segment primarily includes gas and power marketing, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

The following table provides information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2006**	2005	**2006**	2005
REVENUES				
Gas Distribution Operations				
Unaffiliated	**463.8**	443.6	**3,338.2**	3,210.5
Intersegment	**4.2**	4.5	**11.6**	4.2
Total	**468.0**	448.1	**3,349.8**	3,214.7
Gas Transmission and Storage Operations				
Unaffiliated	**145.7**	130.7	**451.1**	426.8
Intersegment	**52.3**	57.0	**177.7**	186.4
Total	**198.0**	187.7	**628.8**	613.2
Electric Operations				
Unaffiliated	**378.2**	372.8	**987.2**	936.4
Intersegment	**0.5**	0.4	**1.3**	1.7
Total	**378.7**	373.2	**988.5**	938.1
Other Operations				
Unaffiliated	**168.6**	207.9	**664.1**	618.5
Intersegment	**7.7**	19.0	**30.2**	35.3
Total	**176.3**	226.9	**694.3**	653.8
Adjustments and eliminations	**(64.5)**	(71.8)	**(220.6)**	(217.6)
Consolidated Revenues	**$ 1,156.5**	$ 1,164.1	**$ 5,440.8**	$ 5,202.2
Operating Income (Loss)				
Gas Distribution Operations	**(31.6)**	(69.6)	**168.4**	211.0
Gas Transmission and Storage Operations	**68.9**	62.2	**258.2**	248.5
Electric Operations	**108.3**	110.4	**239.7**	236.8
Other Operations	**(0.3)**	(0.7)	**(15.1)**	(14.4)
Corporate	**(8.9)**	(9.8)	**(15.6)**	(31.9)
Consolidated Operating Income	**$ 136.4**	$ 92.5	**$ 635.6**	$ 650.0

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource's plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counterparty credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the nine months ended September 30, 2006, income from continuing operations was $220.3 million, or $0.81 per share. This compares to income from continuing operations of $211.1 million, or $0.78 per share, for the year-ago period. The increase was primarily due to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. The first nine months of 2005 included $70.9 million of restructuring, transition, and pension costs associated with the IBM agreement and $21.8 million of asset impairment charges. The first nine months of 2006 included $11.8 million of restructuring and transition costs associated with the IBM agreement and $5.9 million of asset impairment charges. Also contributing to the increase in income from continuing operations is lower interest expense of $27.1 million and increased net revenues of $27.6 million from sales of shorter-term transportation and storage services within Gas Transmission and Storage Operations. NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005.

Partially offsetting the above increases in income from continuing operations were lower net revenues due to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 13% warmer than normal and a year ago. Weather reduced net revenues in NiSource's Gas Distribution Operations business segment by approximately $60 million during the first nine months of 2006 versus last year. Gas Distribution Operations net revenues were also reduced by approximately $18 million due to residential usage declines. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations.

NISOURCE INC.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $40 million of shorter-term business for 2006, $31.7 million of which was recorded during the first nine months ended September 30, 2006.

Regulatory Trackers. Comparability of line item operating results are impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. An increase in operating expenses of $35.7 million was offset by a corresponding increase to net revenues reflecting recovery of certain costs.

Customer Conservation. NiSource remains focused on the effects of customer conservation and is taking steps to address this issue. NiSource is developing and pursuing a number of regulatory initiatives throughout its distribution markets to mitigate the impact of conservation and customer attrition either through broader rate proceedings or specific mechanisms such as rate design, decoupling or other initiatives developed to moderate the impact of conservation. For example, on May, 16, 2006, Northern Indiana filed a petition with the IURC to simplify its residential rate structure and has made substantial progress in settlement discussions with its regulatory stakeholders.

Coal Gasification Project. On October 26, 2007, Northern Indiana and the other two large gas distribution companies in Indiana signed a nonbinding letter of intent supporting potential development of a coal gasification project in the southern part of Indiana. Should this project go forward, Northern Indiana would use some of the gas from this facility as part of its overall gas supply portfolio and would also use some of the gas for the production of power. This project is still in the preliminary phase and a number of significant conditions must be satisfied before Northern Indiana would be expected to sign a binding contract for the output from this facility. Two of the more significant conditions are IURC approval of Northern Indiana's recovery of its costs under the contract and passage of legislation that would assure the continued recovery of those costs for the term of the contract.

Bay State Rate Case. On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State's request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage. In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage.

Millennium Pipeline. Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. Millennium Pipeline, as well as companion upstream and downstream projects, are proceeding with the regulatory approval process. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin Gas Transmission Co., Iroquois Gas Transmission System, L. P., and Islander East Pipeline Company, L.L.C. collectively referred to as the "Companion Pipelines." Millennium has also advised several counties in New York that without certain requested tax relief the project, as currently proposed, will not be built. Millennium did receive a Final Environmental Impact Statement from the FERC on October 13, 2006. A final FERC certificate for Millennium is expected by year end. Provided the necessary regulatory approvals for Millennium and the "Companion Pipelines" and requested tax relief is received in a timely manner, Millennium plans to begin construction in Spring 2007 with a projected in-service date of November 2008. Millennium is anchored by long-term agreements with Consolidated Edison Inc. and KeySpan Corporation. Columbia and Central Hudson Gas & Electric Corporation also hold long-term agreements on Millennium. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake.

Other Growth Projects

Eastern Market Expansion. Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

Financial Management of the Balance Sheet

Interest Expense Savings. NiSource refinanced $2.4 billion of long-term debt at lower rates during 2005. As a result, interest expense, net was $284.9 million for the nine months ended September 30, 2006, a decrease of $27.1 million compared to the first nine months of 2005. This improvement was partially offset by lower interest income and higher costs related to the sale of accounts receivable which both contributed to the $13.3 million change in Other, net.

Expense and Process Management

IBM Agreement. During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. NiSource expects the 10-year agreement with IBM to deliver upwards of $530 million in gross savings in operating and capital costs. This cost savings is dependent upon many factors, and unanticipated changes in operations may cause actual cost savings to be substantially less than expected. As a part of this transformation, many new information technology systems and process changes have an accelerated time-line for completion. In August, 2006, NiSource and IBM decided to delay further implementation of certain information technology systems beyond January 1, 2007 due to difficulties encountered with the first wave of new system implementations. This delay may decrease the level of projected operating cost savings while continuing to ensure stable operations. A high-level team of NiSource and IBM resources have been assigned to reassess some of the systems and processes involved to ensure a successful implementation.

Operating Expenses. Operating expenses for the first nine months of 2006 were $1,618.1 million, a decrease of $5.2 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers and corresponding increases in net revenues, operating expenses decreased by $40.9 million. This decrease was due primarily to lower restructuring, pension and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations segment primarily due to higher employee and administrative costs, property insurance premiums, costs to settle litigation and pipeline integrity expenses.

Insurance Costs. NiSource renewed both of the onshore property and casualty insurance programs on July 1, 2006. As a result of the demand for limited insurance capacity for offshore exposures, particularly the Gulf of Mexico, the offshore property program was renewed on June 1, 2006. NiSource sustained an increase of approximately $8 million in property insurance costs directly attributable to the increase in insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Casualty premiums remained relatively flat compared to the previous year. Such increases and restrictions in coverage for Gulf of Mexico windstorm exposures were driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

Strategic Initiatives

NiSource's Whiting Clean Energy facility and BP have reached a Memorandum of Understanding which, subject to the execution of a definitive agreement, would redefine terms under which Whiting Clean Energy will provide steam to BP. BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. Whiting Clean Energy and BP have also outlined a restructured steam pricing approach for operating the Whiting Clean Energy facility in the interim.

NiSource is moving forward on its financial and strategic study initiative. The Board is in the advanced stages of reviewing a variety of options developed during the analytical phase of the strategic review process.

2006 Outlook

NiSource disclosed in its quarterly report ending March 31, 2006 that it expected income from continuing operations for 2006 to be between $1.33 to $1.43 basic EPS. This expectation considered the unfavorable weather impact of 9 cents per share that occurred during the first quarter 2006. In its quarterly report ending June 30, 2006, NiSource stated that attaining this guidance would be unlikely, primarily as a result of increased customer attrition and reduced customer usage of natural gas. NiSource's initial earnings guidance included an assumption that usage declines would return to historic levels of 0.5% to 1%, as compared to the revised view that the decline could approximate 5%. Customer attrition has also increased significantly from historic levels of about 0.5% to approximately 1.2%. The projected impact of these issues was a reduction in net revenues of nearly $40 million, or 10 cents per share, compared with the levels underlying NiSource's initial earnings guidance for the year. In addition, lower net interest savings were projected to increase interest expense and decrease other income by $12 million, or 3 cents per share, compared with the initial 2006 earnings guidance. NiSource has elected to not provide a reforecast of earnings for 2006 at this time.

Results of Operations
Quarter Ended September 30, 2006

Net Income

NiSource reported net income of $25.8 million, or $0.10 per share, for the three months ended September 30, 2006, compared to a net loss of $6.8 million, or $0.03 loss per share, for the three months ended September 30, 2005. Operating income was $136.4 million, an increase of $43.9 million from the same period in 2005. All per share amounts are basic EPS. Basic average shares of common stock outstanding at September 30, 2006 were 272.5 million compared to 271.7 million at September 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. An increase in operating expenses of $7.0 million was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the three months ended September 30, 2006, were $631.5 million, a $24.4 million increase from the same period last year. Excluding the impact of $7.0 million of trackers discussed above, net revenues increased by $17.4 million. Cooler weather in the third quarter of 2006 adversely affected Electric Operations by approximately $10 million and improved revenues within Gas Distribution Operations by approximately $3 million. The increase in net revenues was also attributable to increased net revenues from Electric Operations, excluding the impact of weather, of $14.4 million, mainly from lower unrecoverable MISO costs included in costs of sales of $4.0 million, increased electric usage by industrial customers of approximately $4 million and other factors, and Gas Transmission and Storage Operations realizing a $10.2 million increase in sales from shorter-term transportation and storage services.

Expenses

Operating expenses for the third quarter 2006 were $495.1 million, a decrease of $19.5 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $26.5 million. This decrease was primarily due to impacts in the third quarter of 2005, which included transition costs and a pension and other postretirement benefit charge totaling $49.0 million associated with the IBM outsourcing initiative, partially reduced by the reversal of accrued incentive compensation of $10.2 million. During the third quarter of 2006, operation and maintenance expense increases included generation and maintenance costs of $5.2 million in Electric Operations, higher property insurance premiums of $3.4 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico, and certain costs incurred to settle litigation during the quarter.

Other Income (Deductions)

Interest expense, net was $96.2 million for the quarter, a decrease of $10.3 million compared to the third quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $0.8 million for the current quarter compared to income of $3.3 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes

Income tax expense for the third quarter of 2006 was $13.5 million, compared to an income tax benefit of $5.8 million due to losses incurred in the third quarter of 2005. The effective tax rate for the quarter ended September 30, 2006 was 34.3%, which includes a $1.1 million income tax benefit recorded upon filing NiSource's 2005 consolidated federal income tax return. The income tax benefit in the third quarter of last year represented a 49.6% effective tax rate as a result of a loss from continuing operations together with a $1.1 million tax benefit recorded upon filing NiSource's 2004 consolidated federal income tax return.

Results of Operations
Nine Months Ended September 30, 2006

Net Income

NiSource reported net income of $219.7 million, or $0.81 per share, for the nine months ended September 30, 2006, compared to $238.5 million, or $0.88 per share, for the first nine months of 2005. Operating income was $635.6 million, a decrease of $14.4 million from the same period in 2005. NiSource's net income in the first nine months of 2005 reflects the $27.4 million gain on discontinued operations, which is the result of changes to reserves for contingencies related to the previous sale of discontinued assets partially offset by an impairment charge for certain discontinued assets. Basic average shares of common stock outstanding at September 30, 2006 were 272.4 million compared to 271.1 million at September 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. An increase in operating expenses of $35.7 million was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the nine months ended September 30, 2006, were $2,253.7 million, a $19.6 million decrease from the same period last year. Excluding the impact of $35.7 million of trackers discussed above, net revenues decreased by $55.2 million, primarily due to the adverse impact of weather on Gas Distribution Operations by approximately $60 million and decreased usage of residential gas customers amounting to approximately $18 million. These decreases in net revenues were partially offset by increased sales of shorter-term transportation and storage services in Gas Transmission and Storage Operations amounting to $27.6 million. Electric Operations positive impacts to net revenues included a reduction in customer credits of $8.7 million and a reduction in unrecoverable MISO costs included in costs of sales of $7.7 million, which included the impact of a favorable regulatory ruling on the recoverability of certain MISO charges. The comparable period last year benefited by $8.9 million related to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract within Gas Transmission and Storage Operations.

Expenses

Operating expenses for the first nine months of 2006 were $1,618.1 million, a decrease of $5.2 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased $40.9 million. The decrease was primarily due to impacts in the first nine months of 2005 which included restructuring charges, transition costs, pension and other postretirement benefit charges, and other costs associated with the IBM outsourcing initiative totaling $70.9 million, a $10.9 million charge for obsolete software systems and a $10.9 million impairment charge related to goodwill at Kokomo Gas. Operating expense increases in the first nine months of 2006 included transition and other restructuring charges associated with the IBM agreement of $11.8 million, outside services and consulting of $12.3 million, generation and maintenance costs of $8.4 million in Electric Operations, higher property insurance premiums of $6.0 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico, asset impairment charges of $5.9 million and certain costs incurred to settle litigation during the quarter.

Other Income (Deductions)

Interest expense, net was $284.9 million for the first nine months of 2006 compared to $312.0 million for the first nine months of last year. This decrease of $27.1 million was mainly due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $6.9 million for the first nine months of 2006 compared to income of $6.4 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes

Income tax expense for the first nine months of 2006 was $121.7 million, a decrease of $8.4 million compared to the 2005 period, due primarily to a lower effective tax rate. The effective tax rate for the nine months ended September 30, 2006 was 35.6% compared to 38.1% for the comparable period last year. This 2.5% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the tax impact of the non-deductible goodwill impairment charge recorded at Kokomo in the second quarter of 2005. Offsetting these decreases is additional tax expense associated with the reduction in low income housing credits.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. While the previous credit agreements were projected to adequately meet these needs, on July 7, 2006, NiSource Finance amended its $1.25 billion credit facility increasing its aggregate commitment level to $1.5 billion to help maintain a reasonable cushion of short-term liquidity. NiSource Finance anticipates entering into a new $300 million short-term credit agreement with Dresdner Kleinwort during the fourth quarter of 2006 to provide additional liquidity through early 2007.

Operating Activities

Net cash from operating activities for the nine months ended September 30, 2006 was $865.3 million, an increase of $108.4 million from the nine months ended September 30, 2005. This increase was primarily due to a significant reduction in outstanding accounts receivable and the collection of under-recovered gas cost partially offset by the impact in 2006 of reduced accounts payable balances. High gas cost in December 2005 resulted in unusually large balances in accounts receivable, accounts payable and under-recovered gas cost. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 decreased net cash from operating activities period over period.

Investing Activities

Capital expenditures of $398.3 million in the first nine months of 2006 were $8.6 million lower than the comparable 2005 period. The spending for the first nine months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the Gas Transmission and Storage Operations segment and expenditures to replace key components within the Electric Operations segment in addition to new business projects. The program is expected to be funded primarily via cash from operations. Restricted cash balances increased $169.1 million in the first nine months of 2006 due primarily to a change in margin requirements for NiSource's various derivative positions. Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management programs which utilize derivative instruments.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of September 30, 2006, NiSource's remaining shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Long-term Debt. During May 2006, NiSource redeemed $25.0 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15.0 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

On September 16, 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds were used in part to redeem $900 million of NiSource Finance notes due November 15, 2005. Contemporaneously with the pricing of the 5.25% and 5.45% notes, NiSource Finance terminated $900 million of forward starting swaps resulting in a $35.5 million payment to NiSource's swap counterparties. The swap termination payments will be amortized over the life of the new debt issues, resulting in an effective interest rate of 5.67% and 5.88% respectively.

During July 2005, Northern Indiana redeemed $34.0 million of its medium-term notes with an average interest rate of 6.62%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10.0 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

Credit Facilities. During July 2006, NiSource Finance amended its $1.25 billion five-year revolving credit facility increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. The amended facility will help maintain a reasonable cushion of short-term liquidity in anticipation of continuing volatile natural gas prices. During November 2005, NiSource Finance entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort that expired September 5, 2006. NiSource Finance anticipates entering into a new $300 million short-term credit agreement with Dresdner Kleinwort during the fourth quarter of 2006 to provide additional liquidity through early 2007.

NiSource Finance had outstanding credit facility borrowings of $861.0 million at September 30, 2006, at a weighted average interest rate of 5.70%, and borrowings of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of September 30, 2006 and December 31, 2005, NiSource Finance had $87.6 million and $101.6 million of stand-by letters of credit outstanding, respectively. At September 30, 2006, $59.6 million of the $87.6 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.0 million of stand-by letters of credit outstanding at September 30, 2006, 24.6 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of September 30, 2006, $614.4 million of credit was available under the credit facility.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement, which had a scheduled expiration date of May 12, 2006, was extended for another year to May 11, 2007. The agreement was further amended on July 1, 2006 increasing the program limit from $300 million to $350 million and extending the expiration date to June 29, 2007. As of September 30, 2006, $72.5 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement under the term of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of September 30, 2006, NRC had sold $191.1 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $6.1 million and $17.7 million for the quarter and nine months ended September 30, 2006, respectively.

Credit Risk

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. Written guidelines approved by NiSource's Risk Management Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of all commercial and trading operations. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power and natural gas trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity and natural gas. TPC, on behalf of Whiting Clean Energy, has entered into power and gas derivative contracts in 2006 to manage price risk associated with operating Whiting Clean Energy. These derivatives relating to the expected operation of Whiting Clean Energy are accounted for as trading derivatives.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the third quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.2 million, $0.3 million and $0.1 million during the third quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Power and gas derivative contracts entered into to manage price risk associated with Whiting Clean Energy are limited to quantities surrounding the physical generation capacity of Whiting Clean Energy and the gas requirements to operate the facility.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $737.6 million of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Condensed Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Condensed Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 15-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of September 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $6.1 million, which will be amortized over the weighted-average remaining requisite service period of 2.6 years.

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 13, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

SFAS No. 158 – Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. In September 2006, the FASB issued SFAS No. 158 to improve existing reporting for defined benefit postretirement plans by requiring employers to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. SFAS No. 158 requires companies to recognize the funded status of a benefit plan and to provide disclosure requirements for fiscal years ending after December 15, 2006. Additionally, SFAS No. 158 requires employers to measure plan assets and benefit obligations as of the fiscal year-end statement of financial position for fiscal years ending after December 15, 2008. NiSource will adopt the provisions to record the funded status of its pension and other postretirement plans' and to provide the disclosure requirements in the fourth quarter of 2006. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at September 30, 2006, the impact of SFAS No. 158, should it have been in effect at September 30, 2006, would have reduced Total Assets by approximately $63 million, increased Total Liabilities by approximately $174 million and decreased total common stock equity by approximately $237 million. NiSource is currently evaluating what affects, if any, the adoption of SFAS No. 158 will have on regulatory assets or liabilities. SFAS No. 158 will not have an impact on the Statements of Consolidated Income at adoption and all impacts are non-cash.

SFAS No. 157 – Fair Value Measurements. In September 2006, the FASB issued SFAS No. 157 to define fair value, establish a framework for measuring fair value and to expand disclosures about fair value measurements. NiSource is currently reviewing the provisions of SFAS No. 157 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and should be applied prospectively, with limited exceptions.

SAB No. 108 – Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. In September 2006, the SEC issued SAB No. 108 to provide guidance on how prior year misstatements should be considered when quantifying misstatements in current year financial statements. SAB No. 108 is effective for periods ending after November 15, 2006. NiSource will adopt SAB No. 108 as required.

FIN 48 – Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This interpretation is effective for fiscal years beginning after December 15, 2006.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Sales Revenues	$ **468.0**	$ 448.1	$ **3,349.8**	$ 3,214.7
Less: Cost of gas sold	**276.9**	267.5	**2,353.3**	2,166.9
Net Revenues	**191.1**	180.6	**996.5**	1,047.8
Operating Expenses				
Operation and maintenance	**142.4**	169.7	**534.2**	537.7
Depreciation and amortization	**57.7**	55.7	**173.3**	167.8
Impairment and gain on sale of assets	**(0.3)**	-	**(0.3)**	10.5
Other taxes	**22.9**	24.8	**120.9**	120.8
Total Operating Expenses	**222.7**	250.2	**828.1**	836.8
Operating Income (Loss)	$ **(31.6)**	$ (69.6)	$ **168.4**	$ 211.0
Revenues ($ in Millions)				
Residential	**211.2**	227.8	**2,067.0**	2,026.6
Commercial	**86.3**	91.5	**773.2**	744.5
Industrial	**53.7**	59.1	**232.4**	233.6
Off System	**77.6**	13.8	**315.7**	134.1
Other	**39.2**	55.9	**(38.5)**	75.9
Total	**468.0**	448.1	**3,349.8**	3,214.7
Sales and Transportation (MMDth)				
Residential	**15.6**	16.1	**162.5**	196.2
Commercial	**20.0**	17.6	**114.3**	124.3
Industrial	**91.1**	84.8	**272.5**	281.9
Off System	**11.3**	1.3	**41.2**	17.6
Other	**0.1**	0.1	**0.6**	0.6
Total	**138.1**	119.9	**591.1**	620.6
Heating Degree Days	**69**	21	**2,752**	3,180
Normal Heating Degree Days	**58**	58	**3,165**	3,168
% Colder (Warmer) than Normal	**19%**	(64%)	**(13%)**	0%
Customers				
Residential			**2,983,908**	2,988,934
Commercial			**276,058**	285,449
Industrial			**7,849**	8,424
Other			**73**	61
Total			**3,267,888**	3,282,868

NiSource's natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

NISOURCE INC.
Gas Distribution Operations (continued)

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.5 million and $2.8 million for the third quarter and first nine months of 2006, respectively, and the restructuring liability remaining at September 30, 2006 was $0.8 million. In the third quarter, an adjustment was made to the restructuring reserve for leased office space, reducing the reserve by $5.2 million. This adjustment was made in connection with a reallocation of office space and assessment of office facilities. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of September 2006, approximately 731 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of September 30, 2006, Columbia of Ohio has $44.1 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. A hearing in these matters is scheduled to commence on November 29, 2006.

On October 31, 2006, the Massachusetts DTE approved a request by Bay State for a $3.6 million inflation adjustment to be collected annually over a twelve month period beginning November 1, 2006. Bay State is permitted, as part of its DTE-approved Performance Based Rate Plan, to adjust its rates each year to compensate for the impact of inflation.

NISOURCE INC.
Gas Distribution Operations (continued)

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

Northern Indiana continues to work with its regulatory stakeholders on a filing made earlier this year to simplify its residential rate structure.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of September 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation's territories for the third quarter of 2006 was significantly cooler than the comparable quarter in 2005, and 19% cooler than normal overall.

For the first nine months of 2006, weather was 13% warmer than the comparable 2005 period and 13% warmer than normal.

Throughput
Total volumes sold and transported of 138.1 MMDth for the third quarter of 2006, increased 18.2 MMDth from the same period last year. This increase in volume was due to increased off-system sales and cooler weather in the current period partially offset by decreased residential sales due in part to reduced residential customer usage compared to the same period last year.

For the nine month period ended September 30, 2006, total volumes sold and transported were 591.1 MMDth, a decrease of 29.5 MMDth from the same period in 2005. This decrease reflected lower sales to residential, commercial, and industrial customers, which was attributable mainly to the milder weather, and decreased residential customer usage, partially offset by increased off-system sales in the first nine months of 2006 compared to the first nine months of 2005.

Net Revenues
Net revenues for the three months ended September 30, 2006 were $191.1 million, an increase of $10.5 million from the same period in 2005, due to an increase from regulatory trackers of $5.2 million, which are primarily offset in operating expenses, the impact of cooler weather amounting to approximately $3 million for the quarter and increased revenues from gas cost incentive mechanisms of $2.4 million. These increases in net revenues were partially offset by an estimated decline in usage from residential customers of approximately $2 million and increased costs associated with certain retail products offered to gas distribution customers in some regions.

For the nine month period ended September 30, 2006, net revenues were $996.5 million, a $51.3 million decrease from the same period in 2005. This decrease in net revenues was due primarily to the impact of warmer weather amounting to approximately $60 million and a decline in residential usage of approximately $18 million. These

NISOURCE INC.
Gas Distribution Operations (continued)

decreases in net revenues were partially offset by a $32.1 million increase in revenues from regulatory trackers, which are primarily offset in operating expense.

Operating Income
For the third quarter of 2006, Gas Distribution Operations reported an operating loss of $31.6 million compared to an operating loss of $69.6 million for the same period in 2005. The decrease in operating loss was attributable to increased net revenues described above and lower operation and maintenance expenses. Operation and maintenance expenses were impacted by costs incurred in the third quarter of 2005 for transition, a pension and other post-retirement benefits charge and new system development costs totaling $29.9 million associated with the IBM agreement. Increased employee and administrative costs were offset by a reversal in the third quarter of a restructuring reserve for leased office space of $5.2 million. Increased depreciation expense was partially offset by a decrease in other taxes.

Operating income for the first nine months of 2006 totaled $168.4 million, a $42.6 million decrease compared to the same period in 2005, largely attributable to reduced net revenues described above. The comparable period last year was impacted by transition costs, a restructuring charge, a pension and other post-retirement benefits charge and new system development costs totaling $41.3 million associated with the IBM agreement and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted this year by higher depreciation expense of $5.5 million and higher employee and administrative costs, partially offset by a reversal in the third quarter of a restructuring reserve for leased office space of $5.2 million.

NISOURCE INC.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Operating Revenues				
Transportation revenues	$ **154.6**	$ 141.5	$ **491.6**	$ 470.1
Storage revenues	**44.2**	44.4	**132.4**	133.6
Other revenues	**(0.8)**	1.8	**4.8**	9.5
Total Operating Revenues	**198.0**	187.7	**628.8**	613.2
Less: Cost of gas sold	**4.3**	6.4	**13.6**	18.3
Net Revenues	**193.7**	181.3	**615.2**	594.9
Operating Expenses				
Operation and maintenance	**83.6**	77.8	**229.7**	219.0
Depreciation and amortization	**28.4**	28.6	**85.7**	85.3
Loss on sale of assets	**-**	-	**0.5**	-
Other taxes	**12.8**	12.7	**41.1**	42.1
Total Operating Expenses	**124.8**	119.1	**357.0**	346.4
Operating Income	$ **68.9**	$ 62.2	$ **258.2**	$ 248.5

Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.5**	144.1	**669.0**	708.2
Columbia Gulf				
Mainline	**108.1**	120.4	**397.7**	402.1
Short-haul	**36.4**	27.1	**83.8**	68.7
Columbia Pipeline Deep Water	**1.6**	2.7	**6.7**	9.4
Crossroads Gas Pipeline	**8.4**	9.5	**28.4**	31.5
Granite State Pipeline	**3.0**	3.2	**19.1**	22.8
Intrasegment eliminations	**(90.7)**	(110.4)	**(369.4)**	(390.6)
Total	**237.3**	196.6	**835.3**	852.1

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline, Granite State Gas and Central Kentucky Transmission. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in 19 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring
Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.9 million and $2.0 million for the third quarter and first nine months of 2006, respectively, and the restructuring liability remaining at September 30, 2006 was $3.0 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

approximately $7 - $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule. In November, 2005, INGAA sought review of the matter before the U. S. Court of Appeals for the D.C. Circuit (INGAA V. FERC, No. 05-1426). The matter remains pending before the Court.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The FERC ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline Operating Agreement between Columbia Gulf and Tennessee Gas Pipeline. Columbia Gulf constructed the necessary taps and Tennessee Gas Pipeline then completed its portion of the interconnection facilities. The interconnection was ready to flow gas on October 1, 2006.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with the FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf's rehearing of the declaratory order issued by the FERC is pending.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of September 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Tax Matters
On July 28, 2006, the Ohio Board of Tax Appeals issued a favorable decision in the matter of Columbia Gas Transmission Corporation vs. Thomas M. Zaino, Tax Commissioner of Ohio. The Board ruled that Columbia Transmission's Ohio operations fall within the statutory definition of both a "natural gas company" and a "pipeline company" and that Columbia Transmission's property is to be assessed at the significantly lower "natural gas company" assessment ratio beginning with the 2001 tax year. The Ohio Tax Commissioner appealed the decision to the Ohio Supreme Court on July 31, 2006. The final outcome of the case and its impact on the financial statements are uncertain at this time.

Proposed Millennium Pipeline Project
Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is currently being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission Co. at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, 2006, the United States Federal District Court denied Millennium's appeal. On May 3, 2006 Millennium filed with FERC requesting it vacate portions of the Millennium certificate that relate to the Phase 2 facilities and any conditions relating to Phase 2. This reflects Millennium's decision not to appeal the United States Federal District Court ruling. Phase 2 options are still being studied. The content of the final FERC certificate for Phase I of Millennium, expected by year-end, could impact these options.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, which includes an allocation of prior project costs between the phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels as discussed below. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." Millennium has also advised several counties in New York that without certain requested tax relief the project, as currently proposed, will not be built. Millennium did receive a Final Environmental Impact Statement from the FERC on October 13, 2006. A final FERC certificate for Millennium is expected by year end. Provided the necessary regulatory approvals for Millennium and the "Companion Pipelines" and requested tax relief are received in a timely manner, Millennium plans to begin construction in Spring 2007 with a projected in-service date of November 2008.

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corporation) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), and KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. On October 26, 2006, Hardy Storage filed an application seeking to amend the November 1, 2005 order to revise the initial rates and estimated costs for the project pursuant to executed settlement agreements with Hardy Storage's customers.

On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage. Under the financing agreement, Columbia Transmission issued guarantees securing payment for amounts issued in connection with Hardy Storage up until such time as the project is placed in service and satisfies certain performance criteria. Additional information on this guarantee is provided in Note 15-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007.

Other Growth Projects
Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements, continues with pre-filing activities.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Sales of Shorter-Term Transportation and Storage Services
Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $40 million of shorter-term business for 2006, $31.7 million of which was recorded during the nine months ended September 30, 2006.

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 237.3 MMDth for the third quarter 2006, compared to 196.6 MMDth for the same period in 2005. The increase of 40.7 MMDth is due to increased sales of shorter-term transportation and storage services described above.

Throughput for the nine months ended September 30, 2006 was 835.3 MMDth, a decrease of 16.8 MMDth from the same period in 2005, due to warmer weather in the first nine months of 2006 than for the comparable period in 2005 partially offset by increased sales of shorter-term transportation and storage services.

Net Revenues
Net revenues were $193.7 million for the third quarter 2006, an increase of $12.4 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services of $10.2 million. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services.

Net revenues were $615.2 million for the first nine months of 2006 compared to $594.9 million for the first nine months of 2005. The increase in net revenues was mainly due to increased subscriptions for demand services of $5.7 million and sales of shorter-term transportation and storage services amounting to $27.6 million. The comparable period last year benefited from a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, which amounted to $8.9 million.

Operating Income
Operating income was $68.9 million for the third quarter 2006 compared to $62.2 million in the third quarter 2005. Increases in net revenues described above were partially offset by increased operating expenses of $5.7 million. Operation and maintenance expenses increased as a result of higher employee and administrative costs of $4.2 million, increased property insurance costs of $2.9 million and certain costs incurred to settle litigation during the quarter. These operation and maintenance expense increases were partially offset by the impact in the comparable 2005 period of transition costs and a pension and other postretirement benefit charge totaling $8.5 million associated with the IBM agreement. The increased property insurance costs were mainly attributable to insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. The increases in insurance premiums were driven by the poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

For the first nine months of 2006, operating income of $258.2 million increased $9.7 million compared to the first nine months of 2005 primarily due to increased net revenues described above. Operation and maintenance expenses increased as a result of higher employee and administrative costs of $8.7 million, increased property insurance premiums of $3.9 million mainly for offshore and onshore facilities located in or near the Gulf of Mexico, pipeline integrity related costs of $2.6 million, and certain costs incurred to settle litigation during the quarter. These operation and maintenance expense increases were partially offset by the impact in the comparable 2005 period of transition costs, a restructuring charge and a pension and other postretirement benefit charge totaling $11.2 million associated with the IBM agreement.

NISOURCE INC.
Electric Operations

(in millions)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Net Revenues				
Sales revenues	$ **378.7**	$ 373.2	$ **988.5**	$ 938.1
Less: Cost of sales	**143.5**	142.4	**372.1**	331.0
Net Revenues	**235.2**	230.8	**616.4**	607.1
Operating Expenses				
Operation and maintenance	**66.5**	62.3	**193.4**	192.4
Depreciation and amortization	**47.3**	46.9	**140.3**	138.6
Gain on sale of assets	**-**	-	**-**	(0.4)
Other taxes	**13.1**	11.2	**43.0**	39.7
Total Operating Expenses	**126.9**	120.4	**376.7**	370.3
Operating Income	$ **108.3**	$ 110.4	$ **239.7**	$ 236.8
Revenues ($ in millions)				
Residential	**116.1**	118.3	**276.1**	269.0
Commercial	**103.0**	92.8	**276.0**	251.7
Industrial	**132.2**	116.9	**387.6**	333.9
Wholesale	**17.5**	14.6	**32.6**	28.4
Other	**9.9**	30.6	**16.2**	55.1
Total	**378.7**	373.2	**988.5**	938.1
Sales (Gigawatt Hours)				
Residential	**1,058.0**	1,197.9	**2,541.1**	2,732.9
Commercial	**1,077.5**	1,082.4	**2,921.0**	2,964.7
Industrial	**2,359.8**	2,240.1	**7,180.7**	6,753.6
Wholesale	**260.4**	336.5	**608.4**	693.6
Other	**38.5**	34.3	**78.9**	82.8
Total	**4,794.2**	4,891.2	**13,330.1**	13,227.6
Cooling Degree Days	**524**	655	**714**	935
Normal Cooling Degree Days	**576**	576	**803**	803
% Warmer (Colder) than Normal	**(9%)**	14%	**(11%)**	16%
Electric Customers				
Residential			**396,072**	393,382
Commercial			**51,791**	50,922
Industrial			**2,520**	2,512
Wholesale			**7**	12
Other			**760**	767
Total			**451,150**	447,595

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 451 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

NISOURCE INC.
Electric Operations (continued)

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

The U.S. steel industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States. NiSource continued to see strength in industrial sales volumes, up 6.3% over 2005 levels, due largely to the steel market and related industries.

Northern Indiana has identified a need for additional resources to meet its electric customers' demand in the coming years. To assess options to meet this need, a Request for Proposal for purchases of power (including renewable energy) and demand reducing options was issued. The bids are to provide power in the short term as well separate bids to provide power in the long term. These bids are being evaluated and compared to other options including building a power plant, acquiring a portion of an existing plant, entering into a natural gas purchase contract to provide low cost gas for power production and restarting or repowering of the Mitchell Station. No commitment to pursue any specific option or group of options has been made. Management anticipates that the evaluation of options will continue at least until early 2007.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order included a rate moratorium that expired on July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $37.9 million and $46.7 million were recognized for electric customers for the first nine months of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, which are recovered through the FAC process. In addition, Northern Indiana incurs administrative fees, which relate to the MISO's management and operations of the transmission system. These fees, according to a 2004 IURC order, were not eligible for recovery or deferral until the end of Northern Indiana's rate moratorium, which expired on July 31, 2006. Day 2 charges included both fuel and non-fuel costs. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million was required for charges related to the period April 1, 2005 through December 8, 2005. Pending this order, Northern Indiana had provided a reserve of $8.7 million through December 2005. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $3.1 million for the first nine months of 2006. Day 2 non-fuel costs amounted to $12.7 million for the first nine months of 2006. Of this amount, $11.9 million was recorded as non-recoverable in net revenues through July 31, 2006 and, beginning August 1, 2006 per Cause No. 42685, $0.8 million has been deferred for consideration in a future rate case. Day 1 and Day 2 administrative fees totaled $4.0 million for the first nine months of 2006 and were $5.1 million for the year 2005. Of the $4.0 million in 2006, $1.0 million was deferred for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make

NISOURCE INC.
Electric Operations (continued)

adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana was seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005, which were made pursuant to the July 1, 2005 interim order, were reasonable.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824. The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. On August 23, 2006, the final order in cause 42824 requesting recovery of intermediate dispatchable power costs incurred August to December 2005 was issued. The final order from the IURC approved the Settlement Agreement between Northern Indiana, the OUCC and the Industrial Group. The IURC order also approved the Settlement Agreement between Northern Indiana and LaPorte County, whereby Northern Indiana is to issue a refund of $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases that were "subject to refund" as a condition in Northern Indiana's final orders in Cause Nos. 38706 FAC-69 and FAC-70. LaPorte County and its attorneys were awarded $0.5 million in fees and expenses. The attorney fees were paid in September 2006 and the amounts due to customers will be returned in the next FAC.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. On September 27, 2006, Northern Indiana filed for the voluntary dismissal of a Purchased Power and Transmission Tracker Mechanism, without prejudice, in accordance with the terms of the settlement agreement approved by the IURC order in cause 42824 (as described above). The final order approving the voluntary dismissal was issued on October 4, 2006.

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery was subject to refund impacted by the final order in cause No. 42824 that was issued on August 23, 2006 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

On September 28, 2006, the IURC issued an order approving FAC-72 rates on an interim basis subject to refund in the event that an excess rate of return is earned and subject to the resolution of the issues in Cause No. 38706-

NISOURCE INC.
Electric Operations (continued)

FAC71 subdocket (described above). FAC-72 included a refund for the remaining $0.8 million of MISO-related costs.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. On October 18, 2006, Northern Indian filed for approval of the revised cost estimates to meet the environmental standards. Northern Indiana anticipates a total capital investment amounting to approximately $313 million. The ECRM revenues amounted to $19.7 million for the nine months ended September 30, 2006, and $71.5 million from inception to date, while EERM revenues were $10.9 million for the nine months ended September 30, 2006, and $19.7 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 was filed in August 2006 for capital expenditures (net of accumulated depreciation) of $226.8 million and was approved by the IURC on September 28, 2006. ECR-9 and EER-4 are scheduled to be filed in February 2007.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of Northwest Indiana's need for that property and the substantial costs associated with restarting the facility.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. While the IURC could not conclude that Northern Indiana failed to provide reasonably adequate service, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Northern Indiana and Jupiter both appealed the IURC's order to the Indiana Court of Appeals, which are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of September 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 15-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

NISOURCE INC.
Electric Operations (continued)

Sales
Electric Operations sales quantities for the third quarter of 2006 were 4,794.2 gwh, a decrease of 97.0 gwh compared to the 2005 period, mainly due to decreased residential sales due to milder weather. This decrease was partially offset by increased industrial usage, particularly in the steel sector.

Electric sales for the first nine months of 2006 was 13,330.1 gwh, an increase of 102.5 gwh compared to the 2005 period, as a result of increased industrial sales described above. Residential and commercial sales quantities decreased due to cooler weather.

Net Revenues
In the third quarter of 2006, electric net revenues of $235.2 million increased by $4.4 million from the comparable 2005 period. This improvement was primarily a result of $4.0 million of lower unrecoverable MISO costs included in cost of sales, increased industrial usage of approximately $4 million, a reduction in customer credits of $2.4 million, due to the timing of the credits, and increased numbers of residential and commercial customers amounting to approximately $2 million. The lower unrecoverable MISO costs resulted mainly from the IURC's second quarter ruling on the recoverability of certain MISO costs as well as the deferral of certain costs for future recovery which began on August 1, 2006. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $10 million.

In the first nine months of 2006, electric net revenues were $616.4 million, an increase of $9.3 million from the comparable 2005 period primarily due to a reduction in customer credits of $8.7 million, due to the timing of the credits, $7.7 million of lower unrecoverable MISO costs included in cost of sales, increased environmental tracker revenues of $4.6 million (offset in expense), and an increase in residential and commercial customers amounting to approximately $5 million. The lower unrecoverable MISO costs resulted mainly from the IURC's second quarter ruling on the recoverability of certain MISO costs as well as the deferral of certain costs for future recovery which began on August 1, 2006. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $20 million.

Operating Income
Operating income for the third quarter of 2006 was $108.3 million, a decrease of $2.1 million from the same period in 2005. The decrease in operating income was due to increased operating expenses of $6.5 million partially offset by the increase in net revenue mentioned above. Operating expenses increased due to higher electric generation and maintenance expenses of $5.2 million and increased other taxes compared to the same period in 2005. Operation and maintenance expense increases were also partially offset by the impact in the comparable 2005 period of transition costs and a pension and other postretirement benefit charge totaling $5.0 million associated with the IBM agreement.

Operating income for the first nine months of 2006 was $239.7 million, an increase of $2.9 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operating expenses increased due to higher electric generation and maintenance expense of $8.4 million and increased other taxes compared to the same period in 2005, partially offset by lower employee and administrative expenses of approximately $3.3 million. Operation and maintenance expense was also impacted by transition costs, a restructuring charge and a pension and other postretirement benefit charge totaling $6.8 million associated with the IBM agreement made in the comparable 2005 period.

NISOURCE INC.
Other Operations

(in millions)	Three Months Ended September 30, **2006**	2005	Nine Months Ended September 30, **2006**	2005
Net Revenues				
Products and services revenue	**$ 176.3**	$ 226.9	**$ 694.3**	$ 653.8
Less: Cost of products purchased	**162.8**	210.8	**664.5**	625.8
Net Revenues	**13.5**	16.1	**29.8**	28.0
Operating Expenses				
Operation and maintenance	**12.5**	12.9	**34.6**	29.5
Depreciation and amortization	**1.8**	2.7	**7.5**	8.1
Impairment and gain on sale of assets	**0.1**	-	**-**	(0.6)
Other taxes	**(0.6)**	1.2	**2.8**	5.4
Total Operating Expenses	**13.8**	16.8	**44.9**	42.4
Operating Loss	**$ (0.3)**	$ (0.7)	**$ (15.1)**	$ (14.4)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

PEI Holdings, Inc.

Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is continuing to pursue recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first nine months of 2006, the PEI holding companies' consolidated after-tax loss was $23.5 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery.

NiSource's Whiting Clean Energy facility and BP have reached a Memorandum of Understanding which, subject to the execution of a definitive agreement, would redefine terms under which Whiting Clean Energy will provide steam to BP. BP intends to develop alternative solutions to meet the refinery's steam needs by the end of 2009. Whiting Clean Energy and BP have also outlined a restructured steam pricing approach for operating the Whiting Clean Energy facility in the interim.

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy. The FERC accepted a tariff covering the sale of such intermediate dispatchable power.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with

NiSource Inc.
Other Operations (continued)

interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Because of continued losses from Whiting Clean Energy, projected impacts from the Memorandum of Understanding reached between Whiting Clean Energy and BP, and expected utilization of the Whiting Clean Energy facility, an impairment study was performed during the third quarter of 2006 in accordance with SFAS No. 144. Under the provisions of SFAS No. 144, an impairment loss shall be recognized only if the carrying amount of a long lived asset is not recoverable and exceeds its fair value. The test compares the carrying amount of the long lived asset to the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. The study indicated that no impairment was necessary.

The study includes many estimates and assumptions for the 35-year estimated useful life of the facility. Changes in these estimates and assumptions, such as electricity and natural gas forward price volatility, impacts from the negotiations with BP in reaching a definitive agreement as discussed above, and utilization of the facility, could result in a situation where total undiscounted cash flows are less than the carrying value of the facility, which would result in a write-down that could be significant.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at September 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve-months, are reflected as assets held for sale.

NDC Douglas Properties
NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.1 million as of September 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $9.9 million are accounted for as liabilities held for sale.

Net Revenues
Net revenues of $13.5 million for the third quarter of 2006 decreased by $2.6 million from the third quarter of 2005, as a result of lower revenues from the Whiting Clean Energy facility of $4.5 partially offset by increased commercial and industrial gas marketing revenues.

For the first nine months of 2006, net revenues were $29.8 million, a $1.8 million increase compared to the same period in 2005. The increase was mainly due to increased commercial and industrial gas marketing revenues of $3.7 million partially offset by increased losses from the Whiting Clean Energy facility.

NISOURCE INC.
Other Operations (continued)

Operating Loss
Other Operations reported an operating loss of $0.3 million for the third quarter of 2006, versus an operating loss of $0.7 million for the comparable 2005 period. The decrease in the operating loss primarily resulted from lower property taxes and lower depreciation expense partially offset by lower net revenues described above.

For the first nine months of 2006, the operating loss was $15.1 million compared to an operating loss of $14.4 million for the comparable 2005 period. Operation and maintenance expense increased $5.1 million due to scheduled maintenance for Whiting Clean Energy of $4.5 million, an impairment charge of $1.2 million taken for a certain NDC Douglas property that will be disposed of during 2006 and a $0.3 million loss that was realized on the sale of the Sand Creek Golf Club property. These increases in operation and maintenance expenses were partially offset by the increase in net revenues from commercial and industrial gas marketing described above and lower accrued property taxes.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were effective.

Changes in Internal Controls
On July 1, 2006, NiSource began a multi-year process of transforming the information systems. As its initial step in this process, NiSource began using new systems in the finance and accounting, supply chain and human resource functions that support the Gas Transmission and Storage Operations, Corporate and Other Operations segments. NiSource adjusted the internal controls that apply to these functional areas to align them with the new systems and revised business processes.

Other than the internal control changes referenced above, there have been no other changes in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to affect, NiSource's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. Virginia Natural Gas, Inc. v. Columbia Gas Transmission Corporation, Federal Energy Regulatory Commission

On January 13, 2004, VNG filed with the FERC a "Complaint Seeking Compliance with the Natural Gas Act and with Regulations and Certificate Orders of the Federal Energy Regulatory Commission and Seeking Remedies" in Docket No. RP04-139. VNG alleged various violations during the winter of 2002-2003 by Columbia Transmission of its firm service obligations to VNG. VNG sought monetary damages and remedies (exceeding $37 million), and also sought certain prospective remedies. On July 29, 2004, the FERC issued an order in which it refused to grant VNG any monetary damages and said such claims are best determined by a court of law. The FERC also agreed with Columbia Transmission that Columbia Transmission had not abandoned its obligation to provide service and that it had not inappropriately continued interruptible service to the detriment of firm service. However, the FERC did find that Columbia Transmission had failed to exercise sufficient due diligence in its modifications to or its operation of vaporization equipment at its Chesapeake LNG facility and that Columbia Transmission had failed to deliver gas to VNG at 250 pounds per square inch gauge (psig) as called for by the agreement between VNG and Columbia Transmission. The FERC declined VNG's request to award damages in this case and, as noted above, stated that any claim for damages could best be determined by a court of law. Both Columbia Transmission and VNG have appealed the FERC's decision to the United States Court of Appeals for the D.C. Circuit. On May 12, 2006, the United States Court of Appeals for the D.C. Circuit issued an order on Columbia Transmission's and VNG's petitions for review of FERC's decision. The Court upheld FERC's holdings that the events at Columbia's Chesapeake LNG facility in February and March of 2003 did not constitute a force majeure event, and upheld the FERC's decision that Columbia had not unlawfully abandoned service to VNG. The Court also remanded the case to FERC directing FERC to articulate the basis for its authority to award damages (if any). The parties to this proceeding settled this matter in October 2006.

2. Vivian K. Kershaw et al. v. Columbia Natural Resources, Inc., et al., Chautauqua County Court, New York

Plaintiffs filed a complaint in 2000 against CNR a former subsidiary, Columbia Transmission, Columbia and CER. The complaint alleges that plaintiffs own an interest in oil and gas leases in New York and that the defendants have underpaid royalties on those leases by, among other things, failing to base royalties on the price at which natural gas is sold to the end-user and by improperly deducting post-production costs. Plaintiffs seek the alleged royalty underpayment and punitive damages. The complaint also seeks class action status on behalf of all royalty owners in oil and gas leases owned by the defendants. Discovery is currently stayed while the parties seek to determine if the matter can be settled.

3. United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana

The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. On October 20, 2006, the Federal District Court issued its Order on the Special Master's report and recommendation. The Order grants the Columbia defendants' motion to dismiss for lack of subject matter jurisdiction. The Plaintiff could still appeal this Order to the Court of Appeals.

4. Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against CNR alleging that CNR underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that CNR fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. All claims by the government of the United States are excluded from the class. CNR appealed the decision certifying the class and the West Virginia Supreme Court of Appeals denied the appeal. Although NiSource sold CNR in 2003, NiSource remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial was originally scheduled for the first quarter of 2006, but was continued indefinitely, pending review by the West Virginia Supreme Court on the deductibility of post production expenses. On June 15, 2006, the West Virginia Supreme Court ruled against the defendants on this issue. The trial court has scheduled the trial of this case for the first quarter of 2007.

ITEM 1A. RISK FACTORS

The majority of NiSource's net revenues and net assets are subject to economic regulation and are exposed to the impact of regulatory rate reviews and proceedings.

Virtually all of NiSource's net revenues and net assets are subject to economic regulation at either the federal or state level. As such, the net revenues generated by those regulated companies are subject to regulatory review by the applicable federal or state authority. Two NiSource companies are currently obligated to participate in rate reviews, which determine the energy rates charged to customers, and directly impacts revenues. As part of a settlement reached in other regulatory proceedings, Northern Indiana has agreed to file an electric base rate case with the IURC on or before July 1, 2008. The outcome for the rate case could have a material effect on NiSource's financial results. Also, Columbia of Virginia is currently subject to an investigation by the VSCC into the justness and reasonableness of Columbia of Virginia's rates. The investigation is currently pending.

NiSource's recent outsourcing initiative and service agreement with IBM may not achieve the level of savings that was originally anticipated. Additionally, many associated changes in systems and personnel are being made, increasing operational and control risk during transition, which may have an impact on the business and its financial condition.

NiSource expects the 10-year agreement with IBM to deliver upwards of $530 million in gross savings in operating and capital costs. This cost savings is dependent upon many factors, and unanticipated changes in operations may cause actual cost savings to be substantially less than expected. Many functions are being transitioned to IBM and many new personnel are assuming responsibilities across these functions, increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition.

As a part of this transformation, many new information technology systems and process changes have an accelerated time-line for completion increasing the risk of operational delays, potential errors and control failures which may have an impact on NiSource and its financial condition. In August, 2006, NiSource and IBM decided to delay further implementation of certain information technology systems beyond January 1, 2007 due to difficulties encountered with the first wave of new system implementations. This delay may decrease the level of projected operating cost savings while continuing to ensure stable operations. A high-level team of NiSource and IBM resources have been assigned to reassess some of the systems and processes involved to ensure a successful implementation.

Other than the risk factor disclosed above, there were no other material changes from the risk factors disclosed in NiSource's 2005 Form 10-K filed on March 10, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

(10.1) Amended and Restated Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse as Syndication Agent, JPMorgan Chase Bank, N.A., The Bank Of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent and LC Bank dated July 7, 2006 (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Quarterly Report on Form 10-Q for the period ended June 30, 2006).

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

* Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,799,710 shares outstanding at July 31, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2006

Table of Contents

DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
CNR	Columbia Natural Resources, Inc.
Columbia	Columbia Energy Group
Columbia Atlantic Trading	Columbia Atlantic Trading Corporation
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NDC Douglas Properties	NDC Douglas Properties, Inc.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Development Company	NiSource Development Company, Inc.
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
Board	Board of Directors
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission assets like many other Midwestern electric utilities to MISO
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets

<u>**DEFINED TERMS (continued)**</u>

DOT	United States Department of Transportation
ECR	Environmental Cost Recovery
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EER	Environmental Expense Recovery
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FIN 48	FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," an interpretation of SFAS No. 109
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PCB	Polychlorinated biphenyls
PIP	Percentage of Income Payment Plan
PPS	Price Protection Service
PRB	Powder River Basin
Private Power	Private Power, LLC
PUCO	Public Utilities Commission of Ohio
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 88	Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"

DEFINED TERMS (continued)

SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 132R	Statement of Financial Accounting Standards No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits - An Amendment of FASB Statements No. 87, 88, and 10"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VNG	Virginia Natural Gas, Inc.
VSCC	Commonwealth of Virginia State Corporate Commission

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

(in millions, except per share amounts)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Gas Distribution	**$ 605.3**	$ 659.3	**$ 2,603.5**	$ 2,487.6
Gas Transportation and Storage	**220.5**	213.0	**541.1**	541.9
Electric	**301.9**	282.1	**607.6**	564.7
Other	**184.2**	201.2	**532.1**	443.9
Gross Revenues	**1,311.9**	1,355.6	**4,284.3**	4,038.1
Cost of Sales	**670.4**	701.7	**2,662.1**	2,371.9
Total Net Revenues	**641.5**	653.9	**1,622.2**	1,666.2
Operating Expenses				
Operation and maintenance	**307.0**	316.9	**679.4**	654.1
Depreciation and amortization	**138.1**	136.1	**274.9**	271.0
Impairment and loss on sale of assets	**4.2**	21.0	**5.1**	20.4
Other taxes	**60.6**	60.1	**163.6**	163.2
Total Operating Expenses	**509.9**	534.1	**1,123.0**	1,108.7
Operating Income	**131.6**	119.8	**499.2**	557.5
Other Income (Deductions)				
Interest expense, net	**(93.3)**	(101.5)	**(188.7)**	(205.5)
Dividend requirements on preferred stock of subsidiaries	**-**	(1.1)	**(1.1)**	(2.2)
Other, net	**(2.7)**	3.6	**(6.1)**	3.1
Loss on early redemption of preferred stock	**(0.7)**	-	**(0.7)**	-
Total Other Income (Deductions)	**(96.7)**	(99.0)	**(196.6)**	(204.6)
Income From Continuing Operations Before Income Taxes	**34.9**	20.8	**302.6**	352.9
Income Taxes	**13.4**	12.5	**108.2**	135.9
Income From Continuing Operations	**21.5**	8.3	**194.4**	217.0
Loss from Discontinued Operations - net of taxes	**(0.7)**	(12.0)	**(1.1)**	(14.2)
Gain on Disposition of Discontinued Operations - net of taxes	**0.2**	42.7	**0.2**	42.5
Change in Accounting - net of taxes	**-**	-	**0.4**	-
Net Income	**$ 21.0**	$ 39.0	**$ 193.9**	$ 245.3
Basic Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**-**	0.12	**-**	0.11
Basic Earnings Per Share	**0.08**	0.15	**0.71**	0.91
Diluted Earnings Per Share ($)				
Continuing operations	**0.08**	0.03	**0.71**	0.80
Discontinued operations	**-**	0.11	**-**	0.10
Diluted Earnings Per Share	**0.08**	0.14	**0.71**	0.90
Dividends Declared Per Common Share ($)	**0.23**	0.23	**0.46**	0.46
Basic Average Common Shares Outstanding (millions)	**272.4**	271.2	**272.4**	270.8
Diluted Average Common Shares (millions)	**273.2**	273.1	**273.1**	272.6

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets (unaudited)

(in millions)		June 30, 2006		December 31, 2005
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	**16,857.9**	$	16,684.4
Accumulated depreciation and amortization		**(7,710.6)**		(7,556.8)
Net utility plant		**9,147.3**		9,127.6
Other property, at cost, less accumulated depreciation		**354.7**		426.7
Net Property, Plant and Equipment		**9,502.0**		9,554.3
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		**57.3**		34.6
Unconsolidated affiliates		**80.7**		75.0
Other investments		**100.1**		114.2
Total Investments		**238.1**		223.8
Current Assets				
Cash and cash equivalents		**57.9**		69.4
Restricted cash		**71.7**		33.9
Accounts receivable (less reserve of $69.4 and $67.9, respectively)		**472.1**		1,254.6
Gas inventory		**244.1**		526.9
Underrecovered gas and fuel costs		**81.2**		421.8
Materials and supplies, at average cost		**84.9**		72.0
Electric production fuel, at average cost		**48.3**		24.9
Price risk management assets		**144.5**		183.1
Exchange gas receivable		**780.6**		169.8
Regulatory assets		**233.2**		195.0
Prepayments and other		**70.5**		109.3
Total Current Assets		**2,289.0**		3,060.7
Other Assets				
Price risk management assets		**107.0**		192.9
Regulatory assets		**594.2**		586.3
Goodwill		**3,677.3**		3,677.3
Intangible assets		**489.4**		495.8
Deferred charges and other		**191.7**		167.4
Total Other Assets		**5,059.6**		5,119.7
Total Assets	**$**	**17,088.7**	$	17,958.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)		**June 30, 2006**		December 31, 2005
CAPITALIZATION AND LIABILITIES				
Capitalization				
Common stock equity				
Common stock - $0.01 par value, 400,000,000 shares authorized; 272,711,758 and 272,622,905 shares issued and outstanding, respectively	$	**2.7**	$	2.7
Additional paid-in-capital, net of deferred stock compensation		**3,972.8**		3,969.4
Retained earnings		**987.4**		981.6
Accumulated other comprehensive loss and other common stock equity		**(91.2)**		(20.7)
Total common stock equity		**4,871.7**		4,933.0
Preferred stocks—Series without mandatory redemption provisions		**-**		81.1
Long-term debt, excluding amounts due within one year		**5,163.5**		5,271.2
Total Capitalization		**10,035.2**		10,285.3
Current Liabilities				
Current portion of long-term debt		**441.8**		440.7
Short-term borrowings		**420.0**		898.0
Accounts payable		**329.8**		866.7
Dividends declared on common and preferred stocks		**62.8**		1.1
Customer deposits		**104.5**		101.9
Taxes accrued		**238.8**		217.5
Interest accrued		**90.1**		86.2
Overrecovered gas and fuel costs		**143.2**		25.8
Price risk management liabilities		**98.3**		72.3
Exchange gas payable		**854.3**		425.2
Deferred revenue		**37.9**		51.3
Regulatory liabilities		**35.6**		46.3
Accrued liability for postretirement and postemployment benefits		**61.0**		61.1
Other accruals		**319.3**		549.1
Total Current Liabilities		**3,237.4**		3,843.2
Other Liabilities and Deferred Credits				
Price risk management liabilities		**64.6**		22.2
Deferred income taxes		**1,497.6**		1,591.9
Deferred investment tax credits		**65.8**		69.9
Deferred credits		**91.3**		81.1
Deferred revenue		**41.4**		60.4
Accrued liability for postretirement and postemployment benefits		**505.0**		511.0
Liabilities of discontinued operations and liabilities held for sale		**10.0**		-
Regulatory liabilities and other removal costs		**1,237.2**		1,196.2
Asset retirement obligations		**123.5**		119.8
Other noncurrent liabilities		**179.7**		177.5
Total Other Liabilities and Deferred Credits		**3,816.1**		3,830.0
Commitments and Contingencies		**-**		-
Total Capitalization and Liabilities	**$**	**17,088.7**	$	17,958.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, *(in millions)*		2006		2005
Operating Activities				
Net income	$	**193.9**	$	245.3
Adjustments to reconcile net income to net cash from continuing operations:				
Loss on early redemption of preferred stock		**0.7**		-
Depreciation and amortization		**274.9**		271.0
Net changes in price risk management assets and liabilities		**16.7**		(9.0)
Deferred income taxes and investment tax credits		**(108.3)**		(81.6)
Deferred revenue		**(32.5)**		(12.4)
Stock compensation expense		**3.1**		4.7
Gain on sale of assets		**(0.8)**		(1.4)
Loss on impairment of assets		**5.9**		21.8
Cumulative effect of change in accounting principle, net of taxes		**(0.4)**		-
Income from unconsolidated affiliates		**(2.4)**		(2.8)
Gain on sale of discontinued operations		**(0.2)**		(42.5)
Loss from discontinued operations		**1.1**		14.2
Amortization of discount/premium on debt		**3.9**		9.7
Other adjustments		**(4.2)**		(0.4)
Changes in assets and liabilities:				
Accounts receivable		**793.8**		405.2
Inventories		**259.6**		241.7
Accounts payable		**(547.2)**		(250.0)
Customer deposits		**2.5**		0.5
Taxes accrued		**12.9**		38.5
Interest accrued		**3.9**		(0.9)
(Under) Overrecovered gas and fuel costs		**458.1**		247.0
Exchange gas receivable/payable		**(172.8)**		(61.8)
Other accruals		**(155.7)**		(71.4)
Prepayments and other current assets		**37.5**		5.1
Regulatory assets/liabilities		**(25.5)**		(27.6)
Postretirement and postemployment benefits		**1.1**		15.8
Deferred credits		**(7.7)**		(8.3)
Deferred charges and other noncurrent assets		**(8.4)**		(3.1)
Other noncurrent liabilities		**16.5**		6.6
Net Operating Activities from Continuing Operations		**1,020.0**		953.9
Net Operating Activities from or (used for) Discontinued Operations		**0.7**		(16.2)
Net Cash Flows from Operating Activities		**1,020.7**		937.7
Investing Activities				
Capital expenditures		**(267.6)**		(243.1)
Proceeds from disposition of assets		**7.6**		7.4
Restricted cash		**(43.5)**		24.6
Other investing activities		**3.1**		(14.9)
Net Cash Flows used for Investing Activities		**(300.4)**		(226.0)
Financing Activities				
Retirement of long-term debt		**(42.5)**		(81.0)
Change in short-term debt		**(478.0)**		(307.6)
Retirement of preferred shares		**(81.1)**		-
Issuance of common stock		**2.1**		32.1
Acquisition of treasury stock		**(5.9)**		(1.6)
Dividends paid - common shares		**(126.4)**		(124.9)
Net Cash Flows used for Financing Activities		**(731.8)**		(483.0)
Increase (Decrease) in cash and cash equivalents		**(11.5)**		228.7
Cash and cash equivalents at beginning of year		**69.4**		29.5
Cash and cash equivalents at end of period	$	**57.9**	$	258.2
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest	$	**185.1**	$	200.8
Interest capitalized		**4.2**		0.4
Cash paid for income taxes		**166.0**		92.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Statements of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions, net of taxes)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Income	**$ 21.0**	$ 39.0	**$ 193.9**	$ 245.3
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges	**(14.5)**	(38.2)	**(65.5)**	16.2
Net gain (loss) on available for sale securities	**1.2**	(1.0)	**0.9**	0.5
Total other comprehensive income (loss)	**(13.3)**	(39.2)	**(64.6)**	16.7
Total Comprehensive Income (Loss)	**$ 7.7**	$ (0.2)	**$ 129.3**	$ 262.0

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation.

2. Recent Accounting Pronouncements

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. Upon adoption of SFAS No. 123R in the first quarter of 2006, NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the outstanding share-based awards will continue to be accounted for substantially as they were prior to the adoption of SFAS No. 123R. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation for 2005.

(in millions, except per share data)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Net Income		
As reported	$ 39.0	$ 245.3
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1.9	2.9
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	1.9	9.1
Pro forma	$ 39.0	$ 239.1
Earnings per share ($)		
Basic - as reported	0.15	0.91
- pro forma	0.15	0.88
Diluted - as reported	0.14	0.90
- pro forma	0.14	0.88

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 48 – Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This Interpretation is effective for fiscal years beginning after December 15, 2006.

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Under the plan, each option has a maximum term of ten years from the date of grant. NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Stock appreciation rights may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof. In addition, NiSource currently has non-qualified option grants outstanding and vested which were granted under a 1988 long-term incentive plan.

At the annual meeting of stockholders held on May 10, 2005, NiSource's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At June 30, 2006, there were 26,105,574 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at June 30, 2006, which were not a part of the time accelerated restricted stock award plan described below.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At June 30, 2006, NiSource had 824,495 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of June 30, 2006, therefore these grants will not have an accelerated vesting period.

For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age 70, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of June 30, 2006, 89,860 restricted shares and 104,303 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price equal to the average of the high and low market price on the day of the grant. Stock option transactions for the first half of 2006 were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	-	N/A
Exercised	(84,908)	19.84
Cancelled	(587,180)	23.60
Outstanding at June 30, 2006	**9,276,295**	**22.55**
Exercisable at June 30, 2006	**9,276,295**	**22.55**

The following table summarizes information on stock options outstanding and exercisable at June 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,441,793	19.57	5.6	1,441,793	19.57
20.46 - 23.38	5,709,566	22.09	6.9	5,709,566	22.09
23.39 - 26.30	1,788,186	25.19	4.0	1,788,186	25.19
26.31 - 29.22	336,750	29.22	1.9	336,750	29.22
	9,276,295	22.55	6.0	9,276,295	22.55

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There were no stock appreciation rights outstanding at June 30, 2006.

No options were granted during the six months ended June 30, 2006. The fair value of each option granted during the six months ended June 30, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the six months ended June 30, 2005 was $3.34. The following assumptions were used:

	June 30, 2005
Expected Life (yrs.)	4.2
Interest Rate	3.5 - 3.6%
Volatility	22.6%

NiSource recognized compensation cost of $3.1 million and $4.7 million in the first six months of 2006 and 2005, respectively, as well as related tax benefits of $1.1 million and $1.8 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years.

4. Income Taxes

NiSource's interim effective tax rates reflect the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items. The effective tax rates for the quarter and six months ended June 30, 2006 were 38.4% and 35.8%, respectively. The effective tax rates differ from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book/tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2006**	2005	**2006**	2005
Denominator				
Basic average common shares outstanding	**272,399**	271,172	**272,371**	270,752
Dilutive potential common shares				
Nonqualified stock options	**81**	429	**63**	402
Shares contingently issuable under employee stock plans	**560**	884	**560**	884
Shares restricted under employee stock plans	**126**	622	**114**	590
Diluted Average Common Shares	**273,166**	273,107	**273,108**	272,628

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of June 30, 2006, 861 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the second quarter of 2006, 41 employees were terminated, none of which became

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employees of IBM. Adjustments to the restructuring liability were recorded mainly for changes in estimated expenses related to the outsourcing initiative. Adjustments in the estimated liability are reflected in "Operation and maintenance" expense.

In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. As of June 30, 2006, the employment of 9 employees terminated as a result of the executive initiative, of whom 4 and 9 were terminated during the quarter and six months ended June 30, 2006, respectively. In part, this reduction has come through anticipated attrition and consolidation of basic positions.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of June 30, 2006, 1,566 employees were terminated, of whom no employees were terminated during the quarter and six months ended June 30, 2006. Of the $8.3 million remaining restructuring liability from the Columbia merger and related initiatives, $8.1 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at June 30, 2006
Outsourcing initiative	$ 11.5	$ (6.5)	$ (2.1)	$ 2.9
Executive initiative	2.9	(1.7)	-	1.2
Columbia merger and related initiatives	10.1	(1.8)	-	8.3
Total	$ 24.5	$ (10.0)	$ (2.1)	$ 12.4

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $57.3 million and $34.6 million at June 30, 2006 and December 31, 2005, respectively.

NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.2 million as of June 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $10.0 million are accounted for as liabilities held for sale.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of June 30, 2006 after impairment, as assets held for sale. Additionally, in the second quarter of 2006 NiSource Corporate Services made a decision to sell a corporate aircraft with an approximate fair value of $9.6 million, which is accounted for as assets held for sale. An impairment loss of $0.9 million was recognized in the second quarter of 2006 based on the estimated market value of the aircraft.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of June 30, 2006, as assets held for sale.

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As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel Gary Works exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation. In the second quarter of 2006, NiSource paid Private Power a sum of approximately $8.0 million to settle this obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at June 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from NDC Douglas Properties low income housing investments, the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

(in millions)	Three Months Ended June 30, **2006**	Three Months Ended June 30, 2005	Six Months Ended June 30, **2006**	Six Months Ended June 30, 2005
Revenues from Discontinued Operations	**$ 1.8**	$ 2.1	**$ 3.1**	$ 3.8
Loss from discontinued operations	**(1.1)**	(18.1)	**(1.8)**	(21.8)
Income tax benefit	**(0.4)**	(6.1)	**(0.7)**	(7.6)
Net Loss from Discontinued Operations	**$ (0.7)**	$ (12.0)	**$ (1.1)**	$ (14.2)

8. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of June 2006, approximately 678 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of June 30, 2006, Columbia of Ohio has $41.0 million of uncollected accounts receivable pending future recovery.

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On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules until May 1, 2006 and issued a further Order on April 21, 2006 extending the time to file certain of the schedules until May 8, 2006. The required schedules were filed on May 1, 2006 and May 8, 2006. The VSCC issued an Order for Notice and Hearing on May 19, 2006. Columbia of Virginia filed testimony in support of its filings on May 19, 2006, June 1, 2006 and June 16, 2006. A hearing in these matters is scheduled to commence on November 29, 2006.

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved Northern Indiana's GCA 7 on July 26, 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

On May 16, 2006, Northern Indiana filed a petition to simplify its residential rate structure, stabilize revenue streams and provide the company incentives to encourage energy efficiency measures. A hearing on the cause is set for the fourth quarter of 2006 with full resolution anticipated in the first quarter 2007.

Gas Transmission and Storage Operations Related Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The Commission ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline operating agreement between Columbia Gulf and Tennessee Gas Pipeline.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf considers whether to seek rehearing of the declaratory order issued by the FERC in this matter.

Electric Operations Related Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately \$55.1 million each year, for a cumulative total of \$225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the \$55.1 million target. Credits amounting to \$22.9 million and \$29.2 million were recognized for electric customers for the first half of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. Pending a clarifying order on these charges, a reserve was established for the charges, net of credits. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of \$9.4 million will be required for charges related to the period April 1, 2005 through December 8, 2005. Northern Indiana had provided for a reserve of \$8.7 million through December 2005. The actual amount of the refund was slightly more than the amount of the reserve, due to adjustments and MISO resettlements. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately \$1.7 million for the first six months of

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2006. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $10.5 million for the first half of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $2.5 million for the first half of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of Northwest Indiana's need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 (described below).

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. IURC approval is pending.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included \$8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

FAC-72, scheduled for filing in the third quarter of 2006, will include a refund for the remaining \$0.8 million of MISO-related costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of \$306 million. The ECRM revenues amounted to \$12.9 million for the six months ended June 30, 2006, and \$64.6 million from inception to date, while EERM revenues were \$6.2 million for the six months ended June 30, 2006, and \$14.9 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of \$230.6 million and depreciation and operating expenses of \$18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 is scheduled to be filed in August 2006.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter \$2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the \$2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of \$2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges

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service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments primarily to manage commodity price risk and interest rate risk exposure in its business as well as for commercial and industrial sales and some trading. NiSource accounts for its derivatives under SFAS No. 133. Under SFAS No. 133, if certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, or (b) a hedge of the exposure to variable cash flows of a forecasted transaction.

NiSource's derivatives on the Consolidated Balance Sheets at June 30, 2006 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 137.6	$ 6.9	$ 144.5
Other assets	107.0	-	107.0
Total price risk management assets	$ 244.6	$ 6.9	$ 251.5
Price risk management liabilities			
Current liabilities	$ (76.9)	$ (21.4)	$ (98.3)
Other liabilities	(64.2)	(0.4)	(64.6)
Total price risk management liabilities	$ (141.1)	$ (21.8)	$ (162.9)

NiSource's derivatives on the Consolidated Balance Sheets at December 31, 2005 were:

(in millions)	Hedge	Non-Hedge	Total
Price risk management assets			
Current assets	$ 152.6	$ 30.5	$ 183.1
Other assets	185.5	7.4	192.9
Total price risk management assets	$ 338.1	$ 37.9	$ 376.0
Price risk management liabilities			
Current liabilities	$ (63.4)	$ (8.9)	$ (72.3)
Other liabilities	(22.2)	-	(22.2)
Total price risk management liabilities	$ (85.6)	$ (8.9)	$ (94.5)

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The hedging activity for the quarter and six months ended June 30, 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

(in millions, net of taxes)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 99.7**	$ 148.1	**$ 150.7**	$ 93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(13.1)**	(26.7)	**(64.8)**	25.8
Reclassification adjustment for net gain included in net income	**(1.4)**	(11.5)	**(0.7)**	(9.6)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 85.2**	$ 109.9	**$ 85.2**	$ 109.9

During the second quarter of 2006 and 2005, zero and $0.1 million, net of taxes respectively, were recognized in earnings due to the change in time value of certain derivative instruments. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the second quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income statement recognition of amounts currently classified in other comprehensive income of approximately $41.3 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. These derivative programs are accounted for as cash flow hedges.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. This derivative program is accounted for as a cash flow hedge.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. Additionally, Northern Indiana also uses derivative contracts to minimize risk associated with power price volatility. These derivative programs must be marked to fair value, but because these

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derivatives are used within the framework of their cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of there derivatives.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These commodity swap derivatives are accounted for as cash flow hedges.

Commodity price risk programs included in price risk assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas price volatility program derivatives	$ 4.6	$ (14.6)	$ 35.7	$ -
PPS program derivatives	0.6	(2.7)	1.8	(2.5)
DependaBill program derivatives	-	(0.6)	1.6	-
MISO FTR program derivatives	-	(0.1)	2.2	(0.4)
Power price volatility program derivatives	-	(1.3)	-	-
Regulatory incentive program derivatives	0.5	(4.3)	-	(8.5)
Forward purchase agreements derivatives	176.8	-	266.7	-

Interest Rate Risk Activities. Contemporaneously with the pricing of the 5.25% and 5.45% notes issued September 16, 2005, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized as an increase to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% respectively.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

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On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Interest rate risk activities programs included in price risk management assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Interest rate swap derivatives	$ -	$ (57.4)	$ -	$ (12.2)

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. In the second quarter of 2006, TPC, on behalf of Whiting Clean Energy, has also entered into power and gas derivative contracts to manage price risk associated with operating Whiting Clean Energy. These power and gas trading derivatives relating to the expected operation of Whiting Clean Energy are not being accounted for as hedges.

Marketing and trading programs included in price risk management assets and liabilities:

	June 30, 2006		December 31, 2005	
(in millions)	Assets	Liabilities	Assets	Liabilities
Gas marketing program derivatives	$ 67.2	$ (80.4)	$ 68.0	$ (70.9)
Gas trading program derivatives	0.8	(0.8)	-	-
Power trading program derivatives	1.0	(0.7)	-	-

10. Goodwill Assets

NiSource's goodwill assets at June 30, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at June 30, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

In the quarter ended June 30, 2006, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. The results of the June 30, 2006 impairment test indicated that no impairment charge was required. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as an "Impairment and loss (gain) on sale of assets" on the

Statements of Consolidated Income. Factors contributing to this charge were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

11. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $7.1 million to its pension plans and $54.2 million to its other postretirement benefit plans in 2006.

The following tables provide the components of the plans' net periodic benefits cost for the second quarter and six months ended June 30, 2006 and 2005:

	Pension Benefits		Other Benefits	
Three Months Ended June 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 10.6**	$ 10.4	**$ 2.4**	$ 2.3
Interest cost	**31.3**	32.0	**10.1**	10.5
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(4.0)
Amortization of transitional obligation	**-**	-	**2.0**	2.5
Amortization of prior service cost	**1.5**	2.6	**0.1**	0.2
Recognized actuarial loss	**4.6**	4.3	**1.5**	1.0
Net Periodic Benefits Cost	**$ 4.1**	$ 8.2	**$ 11.5**	$ 12.5

	Pension Benefits		Other Benefits	
Six Months Ended June 30, *(in millions)*	**2006**	2005	**2006**	2005
Net periodic cost				
Service cost	**$ 21.3**	$ 20.8	**$ 4.7**	$ 4.6
Interest cost	**62.5**	64.0	**20.2**	20.9
Expected return on assets	**(87.8)**	(82.2)	**(9.2)**	(8.0)
Amortization of transitional obligation	**-**	-	**4.0**	4.9
Amortization of prior service cost	**3.0**	5.2	**0.2**	0.4
Recognized actuarial loss	**9.2**	8.6	**3.1**	1.9
Settlement loss	**-**	0.4	**-**	-
Net Periodic Benefits Cost	**$ 8.2**	$ 16.8	**$ 23.0**	$ 24.7

12. Asset Retirement Obligations

NiSource has accounted for retirement obligations on its assets since January 1, 2003 with the adoption of SFAS No. 143. In the fourth quarter 2005, NiSource adopted the provisions of FIN 47, which broadened the scope of SFAS No. 143 to include contingent asset retirement obligations and it also provided additional guidance for the measurement of the asset retirement liabilities. This accounting standard and the related interpretation requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71 for those amounts it has collected in rates or expects to collect in future rates.

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Changes in NiSource's liability for asset retirement obligations for the first half of 2006 are presented in the table below:

Six Months Ended June 30, *(in millions)*		2006
Beginning Balance	$	119.8
Accretion		3.7
Ending Balance	$	123.5

NiSource has recognized asset retirement obligations associated with various obligations including costs to remove and dispose of certain construction materials located within many of NiSource's facilities, certain costs to retire pipeline, removal costs for certain underground storage tanks, removal of certain pipelines known to contain PCB contamination, closure costs for certain sites including ash ponds, solid waste management units and a landfill, obligation to return leased rail cars to specified conditions and the removal costs of certain facilities and off-shore platforms, as well as some other nominal asset retirement obligations. NiSource recognizes that there are obligations to incur significant costs to retire wells associated with gas storage operations, however, these assets are land assets with indeterminable lives. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. However, these assets have an indeterminate life and no asset retirement obligation has been recorded.

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at June 30, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 31, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended June 30, 2006, NiSource accrued $1.9 million of accretion, of which $0.2 million was expensed and $1.7 million was recorded as a regulatory asset. For the six months ended June 30, 2006, NiSource accrued $3.7 million of accretion, of which $0.5 million was expensed and $3.2 million was recorded as a regulatory asset. For the three and six months ended June 30, 2005, NiSource accrued $0.1 million and $0.2 million of accretion, respectively, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

13. Redemption of Preferred Stock

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

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Notes to Consolidated Financial Statements (continued) (unaudited)

14. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at June 30, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidaries debt	$ 4,967.1	$ 253.3	$ 32.5	$ 8.8	$ 464.1	$ 1,002.2	$ 3,206.2
Guarantees supporting commodity transactions of subsidiaries	751.4	234.4	258.8	37.5	41.1	-	179.6
Lines of credit	420.0	420.0	-	-	-	-	-
Letters of credit	91.7	7.8	19.5	64.4	-	-	-
Other guarantees	154.9	-	1.0	7.6	3.9	-	142.4
Total commercial commitments	$ 6,385.1	$ 915.5	$ 311.8	$ 118.3	$ 509.1	$ 1,002.2	$ 3,528.2

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $751.4 million of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a five-year revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. On July 7, 2006, NiSource Finance amended the $1.25 billion five-year revolving credit facility, increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. During November 2005, NiSource Finance also entered into a $300 million nine-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC that expires September 5, 2006. At June 30, 2006, NiSource had $120.0 million outstanding under the five-year revolving credit facility, and $300.0 million outstanding under the nine-month credit facility. Through the five-year revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $91.7 million for the benefit of third parties.

Other Guarantees or Obligations. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of the Hardy Storage project, which is accounted for by NiSource as an equity investment. Under the financing agreement, Columbia Transmission issued a guarantee securing payment for 50% of any amounts issued in connection with Hardy Storage up until such time as the project is placed in service and operated within certain specified parameters, which is expected to be in the second quarter of 2008. As of June 30, 2006, Hardy Storage borrowed $38.0 million under the financing agreement, for which Columbia Transmission recorded an accrued liability of approximately $1.0 million related to the fair value of its guarantee securing payment for 50% the $38.0 million borrowed. Hardy Storage borrowed an additional $11.3 million and $5.3 million in July 2006 and August 2006, respectively, for which Columbia Transmission recorded an additional liability of approximately $0.4 million for its respective guarantee related to these amounts.

After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries.

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NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

As of June 30, 2006, a reserve of approximately $67 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
At a property in the City of Staunton Virginia the current property owner has been issued notice by the EPA that they need to evaluate potential impacts associated with a gasoline station and a former manufactured gas plant. The property owner is seeking contribution from Columbia of Virginia. Columbia of Virginia is currently assessing its liability in relation to the property.

Gas Transmission and Storage Operations.
On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from pipeline Transmission and Storage Operations.

On July 5, 2006, Columbia Gulf submitted the NOx SIP Call Compliance Plan to the State of Kentucky pending approval. This Plan would reduce NOx emissions by 950 tons per ozone season starting May 1, 2007. Currently Columbia Gulf anticipates installation of approximately $6 million to $8 million in NOx controls to achieve these reductions. The effects of other recent EPA actions on Transmission and Storage Operations cannot be determined at this time.

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Columbia Transmission discovered and notified the State of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently finalizing resolution of this issue.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

Electric Operations.
Air. On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. Northern Indiana will continue to closely monitor developments in this area that could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured, and preliminarily adopted in June 2006, a draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On May 31, 2006, the EPA took final action on petitions to reconsider two actions regarding the air pollutant Mercury: 1) Its determination that regulation of electric utility steam generating units under section 112 of the Clean Air Act was neither necessary nor appropriate (the section 112 rule); and 2) The Clean Air Mercury Rule. Following the promulgation of the final section 112 rule, EPA received two petitions for reconsideration. In response to the two petitions, the EPA agreed to reconsider certain aspects of the final section 112 rule. After considering the petitions and the information that was submitted during the public comment period, the EPA determined that its original rule was correct. Indiana is developing a rule to implement the EPA Clean Air Mercury Rule. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On June 29, 2006, the IDEM held a public hearing to satisfy the public notice requirements for its proposed petition to the EPA to redesignate the Indiana counties of Lake and Porter to attainment of the 8-hour ozone NAAQS. The petition included EPA required technical and procedural information, as well as optional technical information, supporting the IDEM's redesignation request, as well as state plans to maintain the NAAQS upon the EPA redesignation, if granted. Upon promulgation of the EPA and subsequent IDEM regulations to implement the redesignation to attainment, new source review rules would change from nonattainment new source review rules to prevention of significant deterioration while measures responsible for existing emission reductions would continue. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the outcome or timing of the approval of the petition.

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Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. The water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station was issued on June 26, 2006, and will become effective on August 1, 2006. Pending review and analysis of this permit, the cost of complying with the permit requirements cannot be estimated at this time.

15. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	June 30, 2006	December 31, 2005
Other comprehensive income (loss), before taxes:		
Unrealized gains on securities	$ **2.0**	$ 0.3
Tax (expense) on unrealized gains on securities	**(1.0)**	(0.3)
Unrealized gains on cash flow hedges	**126.8**	228.5
Tax (expense) on unrealized gains on cash flow hedges	**(41.6)**	(77.8)
Minimum pension liability adjustment	**(260.1)**	(260.1)
Tax benefit on minimum pension liability adjustment	**103.8**	103.8
Total Accumulated Other Comprehensive Loss, net of taxes	$ **(70.1)**	$ (5.6)

16. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Other Operations segment primarily includes gas and power marketing, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following table provides information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

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(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
REVENUES				
Gas Distribution Operations				
Unaffiliated	**694.1**	748.8	**2,874.4**	2,766.9
Intersegment	**3.0**	0.5	**7.4**	(0.3)
Total	**697.1**	749.3	**2,881.8**	2,766.6
Gas Transmission and Storage Operations				
Unaffiliated	**146.9**	137.9	**305.4**	296.1
Intersegment	**52.3**	57.9	**125.4**	129.4
Total	**199.2**	195.8	**430.8**	425.5
Electric Operations				
Unaffiliated	**302.5**	281.8	**609.0**	563.6
Intersegment	**0.4**	0.4	**0.8**	1.3
Total	**302.9**	282.2	**609.8**	564.9
Other Operations				
Unaffiliated	**168.1**	186.8	**495.5**	410.6
Intersegment	**4.9**	4.8	**18.9**	9.8
Total	**173.0**	191.6	**514.4**	420.4
Adjustments and eliminations	**(60.3)**	(63.3)	**(152.5)**	(139.3)
Consolidated Revenues	**$ 1,311.9**	$ 1,355.6	**$ 4,284.3**	$ 4,038.1
Operating Income (Loss)				
Gas Distribution Operations	**(6.0)**	5.7	**200.0**	280.6
Gas Transmission and Storage Operations	**79.0**	76.8	**189.3**	186.3
Electric Operations	**63.3**	61.0	**131.4**	126.4
Other Operations	**(4.7)**	(8.5)	**(14.8)**	(13.7)
Corporate	**-**	(15.2)	**(6.7)**	(22.1)
Consolidated Operating Income	**$ 131.6**	$ 119.8	**$ 499.2**	$ 557.5

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NiSource Inc.

Note regarding forward-looking statements
The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource's plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counterparty credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the six months ended June 30, 2006, income from continuing operations was $194.4 million, or $0.71 per share. This compares to income from continuing operations of $217.0 million, or $0.80 per share, for the year-ago period. The difference was primarily due to lower net revenues due to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 14% warmer than normal and 15% warmer than a year ago. Weather reduced net revenues in NiSource's Gas Distribution Operations business segment by approximately $63 million during the first half of 2006. Gas Distribution Operations net revenues were also reduced by approximately $16 million due to residential usage declines. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations. Offsetting these revenue declines within Gas Distribution Operations were net revenue increases within Gas Transmission and Storage Operations and Electric Operations.

Excluding increases in expenses that are recovered through regulatory trackers, which are offset in net revenues (see discussion below), operating expenses decreased by approximately $18 million. This decrease was due primarily to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations Segment primarily due to higher pipeline integrity and employee administrative expenses and higher depreciation charges.

NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005. Interest expense was reduced by $16.8 million for the six months ended June 30, 2006, compared with the year-ago period.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $30 million of shorter-term business for 2006, $19.2 million of which was recorded during the first six months ended June 30, 2006. Columbia Gulf's mainline throughput increased by 3.0% over 2005 due to the increased utilization of these services.

Regulatory Trackers. Comparability of Gas Distribution Operations line item operating results are impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $29.8 million of the increase in operating expenses for the Gas Distribution Operations segment consisted of expenses that were subject to a tracker and offset by a corresponding increase to net revenues reflecting recovery of certain costs.

NiSource remains focused on the effects of customer conservation and is taking steps to address this issue, particularly through regulatory initiatives. NiSource anticipates making filings in various jurisdictions this year and next year, either through broader rate proceedings or specific mechanisms such as rate design, decoupling or other initiatives developed to moderate the impact of conservation.

Bay State Rate Case. On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State's request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage. Construction of the Hardy Storage project in West Virginia has begun and on June 29, 2006, the project financing closed at which time the first tranche of $38 million of interim notes were issued at 5.95%. Subsequently, Hardy Storage borrowed an additional $11.3 million and $5.3 million under an associated revolving facility during July 2006 and August 2006, respectively.

Millennium Pipeline. Millennium Pipeline, as well as companion upstream and downstream projects, are proceeding with the regulatory approval process even as the project's projected in-service date recently was extended to November 1, 2008, or earlier if feasible. Pending regulatory approvals, the project's partners expect to begin construction activities during 2007. Millennium is anchored by long-term agreements with Consolidated Edison and KeySpan. Columbia and Central Hudson also hold long-term agreements on Millennium. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake.

Eastern Market Expansion. Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

NISOURCE INC.

Financial Management of the Balance Sheet

Interest Expense Savings. Interest expense, net was $188.7 million for the six months ended June 30, 2006, a decrease of $16.8 million compared to the first six months of 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. This improvement was partially offset by lower interest income and higher costs related to the sale of accounts receivable which both contributed to the $9.2 million change in other income (deductions).

Expense Management

Operating Expenses. Operating expenses for the first six months of 2006 were $1,123.0 million, an increase of $14.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers and corresponding increases in net revenues, operating expenses decreased by approximately $18 million. This decrease was due primarily to lower restructuring and transition costs associated with the IBM agreement and lower asset impairment charges recorded this year. Partially offsetting these decreases were operating expense increases in the Gas Transmission and Storage Operations Segment primarily due to higher pipeline integrity and employee administrative expenses and higher depreciation charges.

NiSource renewed both of the onshore property and casualty insurance programs on July 1, 2006. As a result of the demand for limited insurance capacity for offshore exposures, particularly the Gulf of Mexico, the offshore property program was renewed on June 1, 2006. NiSource sustained an increase of approximately $8 million in property insurance costs directly attributable to the increase in insurance premiums for offshore and onshore facilities located in or near the Gulf of Mexico. Casualty premiums remained relatively flat compared to the previous year. Such increases and restrictions in coverage for Gulf of Mexico windstorm exposures were driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained from hurricanes such as Ivan, Katrina and Rita.

2006 Outlook

NiSource had disclosed in its quarterly report ending March 31, 2006 an expectation of income from continuing operations for 2006 to be between $1.33 to $1.43 basic EPS. This expectation considered the unfavorable weather impact of 9 cents per share that occurred during the first quarter 2006. NiSource now believes that attaining this guidance will be unlikely, primarily as a result of increased customer attrition and reduced customer usage of natural gas. NiSource's initial earnings guidance included an assumption that usage declines would return to historic levels of 0.5% to 1%, as compared to its current view that the decline could approximate 5%. Customer attrition has also increased significantly from historic levels of about 0.5% to approximately 1.2%. The projected impact of these issues is a reduction in net revenues of nearly $40 million, or 10 cents per share, compared with the levels underlying NiSource's initial earnings guidance for the year. In addition, lower net interest savings are projected to increase interest expense and decrease other income by $12 million, or 3 cents per share, compared with the initial 2006 earnings guidance. NiSource has elected to not provide a reforecast of earnings for 2006 at this time.

Results of Operations
Quarter Ended June 30, 2006

Net Income

NiSource reported net income of $21.0 million, or $0.08 per share, for the three months ended June 30, 2006, compared to net income of $39.0 million, or $0.15 per share, for the three months ended June 30, 2005. Operating income was $131.6 million, an increase of $11.8 million from the same period in 2005. All per share amounts are basic EPS. Basic average shares of common stock outstanding at June 30, 2006 were 272.4 million compared to 271.2 million at June 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $7 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the three months ended June 30, 2006, were $641.5 million, a $12.4 million decrease from the same period last year. Excluding the impact of $7 million of trackers discussed above, net revenues decreased by approximately $19 million. The decrease in net revenues was primarily due to weather adversely affecting Gas Distribution Operations by approximately $17 million and Electric Operations by approximately $8 million. Gas Transmission and Storage Operations realized a net revenue increase of $5.9 million from the same period in 2005 due primarily to $14.7 million in increased sales of shorter-term transportation and storage services, which were partially offset by an $8.9 million benefit in the comparable quarter last year realized for a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract.

Expenses
Operating expenses for the second quarter 2006 were $509.9 million, a decrease of $24.2 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $31 million. This decrease was primarily due to impacts in the second quarter of 2005 which included $20.9 million of restructuring and transition charges associated with the IBM outsourcing initiative, a $10.9 million goodwill impairment loss related to Kokomo Gas and a $10.9 million charge for obsolete software systems. During the second quarter of 2006, NiSource recorded $3.3 million of asset impairment charges and $2.9 million of transition costs related to the IBM outsourcing initiative. In addition, operating expenses increased within the Gas Transmission and Storage Operations Segment by $3.7 million due primarily to higher pipeline integrity expenses and by $3.4 million in the Electric Operations Segment due to primarily higher generation and maintenance expenses.

Other Income (Deductions)
Interest expense, net was $93.3 million for the quarter, a decrease of $8.2 million compared to the second quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $2.7 million for the current quarter compared to income of $3.6 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes
Income tax expense for the second quarter of 2006 was $13.4 million, an increase of $0.9 million compared to the second quarter of 2005 due primarily to higher pretax income partially offset by a significantly lower effective tax rate. The effective tax rate for the quarter ended June 30, 2006 was 38.4% compared to 60.1% for the comparable period last year, which was impacted by the non-deductible goodwill impairment charge recorded in the second quarter of 2005 and additional tax recorded as a result of changes in Ohio income tax laws enacted on June 30, 2005. Excluding the impact of the goodwill impairment charge, the effective tax rate for the second quarter of 2005 was 39.4%.

Results of Operations
Six Months Ended June 30, 2006

Net Income
NiSource reported net income of $193.9 million, or $0.71 per share, for the six months ended June 30, 2006, compared to $245.3 million, or $0.91 per share, for the first six months of 2005. Operating income was $499.2 million, a decrease of $58.3 million from the same period in 2005. NiSource's net income reflects the $28.3 million gain on discontinued operations recorded in the first half of 2005, which is the result of changes to reserves for contingencies related to the previous sale of discontinued assets partially offset by an impairment charge for certain discontinued assets. Basic average shares of common stock outstanding for the six months ended June 30, 2006 were 272.4 million compared to 270.8 million at June 30, 2005.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. Therefore, increases in these tracked operating expenses are offset by increases in net revenues and have essentially no impact on total operating income results. Approximately $32 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the six months ended June 30, 2006, were $1,622.2 million, a $44.0 million decrease from the same period last year. Excluding the impact of $32 million of trackers discussed above, net revenues decreased by approximately $76 million, primarily due to weather adversely affecting Gas Distribution Operations by approximately $63 million and Electric Operations by approximately $10 million. Increased subscriptions for demand services and sales of shorter-term transportation and storage services in Gas Transmission and Storage Operations amounting to approximately $17 million was offset by a decline within Gas Distribution Operations caused by reductions in residential usage of approximately $16 million. Electric Operations positive impacts to net revenues included a reduction in customer credits of $6.3 million, increased environmental cost recovery trackers of $3.8 million, and $3.7 million of lower MISO costs, which included the impact of a favorable regulatory ruling on the recoverability of certain MISO charges. The comparable quarter last year benefited by $8.9 million related to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract.

Expenses

Operating expenses for the first six months of 2006 were $1,123.0 million, an increase of $14.3 million from the 2005 period. Excluding increases in expenses that are recovered through regulatory trackers and corresponding increases in net revenues (see discussion above), operating expenses decreased approximately $18 million. The decrease was primarily due to impacts in the second quarter of 2005 which included $20.9 million of restructuring and transition charges associated with the IBM outsourcing initiative, a $10.9 million charge for obsolete software systems and a $10.9 million impairment charge related to goodwill at Kokomo Gas. Operating expense increases in the first half of 2006 included transition and other restructuring charges associated with the IBM agreement of $9.4 million and asset impairment charges of $5.8 million. In addition, operating expenses increased within the Gas Transmission and Storage Operations Segment by $4.9 million due primarily to higher pipeline integrity expenses.

Other Income (Deductions)

Interest expense, net was $188.7 million for the first six months of 2006 compared to $205.5 million for the first six months of last year. This decrease of $16.8 million was mainly due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $6.1 million for the first half of 2006 compared to income of $3.1 million for the comparable 2005 period due to lower interest income and increased costs associated with the sale of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses associated with the sale of accounts receivable.

Income Taxes

Income tax expense for the first six months of 2006 was $108.2 million, a decrease of $27.7 million compared to the 2005 period, due primarily to lower pre-tax income and a lower effective tax rate. The effective tax rate for the six months ended June 30, 2006 was 35.8% compared to 38.5% for the comparable period last year. This 2.7% decrease reflects reductions in deferred state income tax liabilities recorded in the first quarter of 2006 and the impact of the non-deductible goodwill impairment charge and increased taxes related to Ohio income tax law changes recorded in the second quarter of 2005, offset by additional tax expense associated with the reduction in low income housing credits.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through

March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. The recent increase in the price of natural gas has resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable. While the previous credit agreements were projected to adequately meet these needs, on July 7, 2006, NiSource Finance amended its $1.25 billion credit facility increasing its aggregate commitment level to $1.5 billion to help maintain a reasonable cushion of short-term liquidity.

Operating Activities

Net cash from operating activities for the six months ended June 30, 2006 was $1,020.7 million, an increase of $83.0 million from the six months ended June 30, 2005. This increase was primarily due to a significant reduction in outstanding accounts receivable and the collection of under-recovered gas cost partially offset by the impact in 2006 of reduced accounts payable balances. High gas cost in December 2005 resulted in unusually large balances in accounts receivable, accounts payable and under-recovered gas cost. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 also decreased net cash from operating activities period over period.

Investing Activities

Capital expenditures of $267.6 million in the first six months of 2006 were $24.5 million higher than the comparable 2005 period. The spending for the first six months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of June 30, 2006, NiSource's shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Long-term Debt. During May 2006, NiSource redeemed $25.0 million of Capital Markets medium-term notes, with an average interest rate of 7.50%.

During April 2006, NiSource redeemed $15.0 million of Capital Markets medium-term notes, with an average interest rate of 7.75%.

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10.0 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

Credit Facilities. During July 2006, NiSource Finance amended its $1.25 billion five-year revolving credit facility increasing the aggregate commitment level to $1.5 billion and extending the termination date to July 2011. The amended facility will help maintain a reasonable cushion of short-term liquidity in anticipation of continuing volatile natural gas prices. During November 2005, NiSource Finance entered into a new $300 million nine-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC that expires September 5, 2006.

NiSource Finance had outstanding credit facility advances of $420.0 million at June 30, 2006, at a weighted average interest rate of 5.44%, and advances of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of June 30, 2006 and December 31, 2005, NiSource Finance had $91.7 million and $101.6 million of stand-by letters of credit outstanding, respectively. At June 30, 2006, $63.6 million of the $91.7 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.1 million of stand-by letters of credit outstanding at June 30, 2006, $24.7 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of June 30, 2006, $1,105.3 million of credit was available under both credit facilities.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, under the terms of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The agreement, which had a scheduled expiration date of May 12, 2006, was extended for another year to May 11, 2007. The agreement was further amended on July 1, 2006 increasing the program limit from $300 million to $350 million and extending the expiration date to June 29, 2007. As of June 30, 2006, $175 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement under the term of which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of June 30, 2006, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $5.5 million and $11.6 million for the quarter and six months ended June 30, 2006, respectively.

Credit Risk

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. NiSource's extension of credit is governed by a Corporate Credit Risk Policy. Written guidelines approved by NiSource's Risk Management Committee document the management approval levels for credit limits, evaluation of creditworthiness, and credit risk mitigation procedures. Exposures to credit risks are monitored by the Corporate Credit Risk function which is independent of all commercial and trading operations. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power and natural gas trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity and natural gas. TPC, on behalf of Whiting Clean Energy, has entered into power and gas derivative contracts in the second quarter of 2006 to manage price risk associated with operating Whiting Clean Energy. These power and gas trading derivatives relating to the expected operation of Whiting Clean Energy are not being accounted for as hedges, and where these contracts require settlement by physical delivery they are often net settled in accordance with industry standards. TPC's other power trading activities were all settled as of December 31, 2005.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the second quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.2 million, $0.3 million and $0.1 million during the second quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.8 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Power and gas derivative contracts entered into to manage price risk associated with Whiting Clean Energy are limited to quantities surrounding the physical generation capacity of Whiting Clean Energy and the gas requirements to operate the facility.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $751.4 million of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $82.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $20.4 million, which will be amortized over the weighted-average remaining requisite service period of 2.7 years.

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FIN 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 12, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

Recently Issued Accounting Pronouncements

FIN 48 – Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48 to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, this interpretation requires that a tax position meet a "more-likely-than-not recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements and requires that benefit to be measured at the largest amount of benefit that is 50% likely of being realized upon ultimate settlement. When determining whether a tax position meets this 50% threshold, it is to be based on whether it is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of FIN 48 to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. This Interpretation is effective for fiscal years beginning after December 15, 2006.

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. On March 31, 2006, the FASB issued an Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of SFAS No. 87, 88, 106, and 132R. This proposed Statement seeks to improve existing reporting for defined benefit postretirement plans by requiring employer business entities to recognize in the statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, among other changes. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at December 31, 2005, the impact of the proposed Statement, should it have been in effect at December 31, 2005, would have reduced Total Other Assets by approximately $69 million, increased Total Other Liabilities and Deferred Credits by approximately $171 million and decreased total common stock equity by approximately $240 million. The proposed rules will not have an impact on the Statement of Consolidated Income at adoption and all impacts are non-cash. Upon adoption of the proposed rules, NiSource would be required to change its measurement date for its pension and postretirement benefit plans from September, 30 to December, 31. The FASB is currently deliberating on the proposed rules based on comment letters received and other factors. The release of a final interpretation is scheduled for September of 2006, with an effective date for fiscal years ending after December 15, 2006.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Sales Revenues	**$ 697.1**	$ 749.3	**$ 2,881.8**	$ 2,766.6
Less: Cost of gas sold	**452.2**	480.2	**2,076.4**	1,899.4
Net Revenues	**244.9**	269.1	**805.4**	867.2
Operating Expenses				
Operation and maintenance	**163.3**	169.3	**391.8**	368.0
Depreciation and amortization	**58.3**	56.3	**115.6**	112.1
Impairment and gain on sale of assets	**-**	10.5	**-**	10.5
Other taxes	**29.3**	27.3	**98.0**	96.0
Total Operating Expenses	**250.9**	263.4	**605.4**	586.6
Operating Income (Loss)	**$ (6.0)**	$ 5.7	**$ 200.0**	$ 280.6
Revenues ($ in Millions)				
Residential	**373.4**	455.0	**1,855.8**	1,798.8
Commercial	**134.3**	162.3	**686.9**	653.0
Industrial	**63.3**	64.5	**178.7**	174.5
Off System	**142.8**	69.2	**238.1**	120.3
Other	**(16.7)**	(1.7)	**(77.7)**	20.0
Total	**697.1**	749.3	**2,881.8**	2,766.6
Sales and Transportation (MMDth)				
Residential	**30.3**	38.1	**146.9**	180.1
Commercial	**25.3**	28.0	**94.3**	106.7
Industrial	**83.3**	86.7	**181.4**	197.1
Off System	**19.1**	9.2	**29.9**	16.3
Other	**0.2**	0.1	**0.5**	0.5
Total	**158.2**	162.1	**453.0**	500.7
Heating Degree Days	**410**	486	**2,683**	3,159
Normal Heating Degree Days	**482**	483	**3,107**	3,110
% Colder (Warmer) than Normal	**(15%)**	1%	**(14%)**	2%
Customers				
Residential			**3,019,568**	3,007,696
Commercial			**285,138**	287,547
Industrial			**8,262**	8,413
Other			**72**	61
Total			**3,313,040**	3,303,717

NiSource's natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

NISOURCE INC.
Gas Distribution Operations (continued)

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $1.5 million and $2.4 million for the second quarter and first six months of 2006, respectively, and the restructuring liability remaining at June 30, 2006 was $6.5 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of June 2006, approximately 678 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that provides for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On May 31, 2006, the PUCO approved Columbia of Ohio's application to increase its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $37.0 million. As of June 30, 2006, Columbia of Ohio has $41.0 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the 45-day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006. By Entry on Rehearing dated May 3, 2006, the PUCO denied consumer groups' second applications for rehearing.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules until May 1, 2006 and issued a further Order on April 21, 2006 extending the time to file certain of the schedules until May 8, 2006. The required schedules were filed on May 1, 2006 and May 8, 2006. The VSCC issued an Order for Notice and Hearing on May 19, 2006. Columbia of Virginia filed testimony in support of its filings on May 19, 2006, June 1, 2006 and June 16, 2006. A hearing in these matters is scheduled to commence on November 29, 2006.

NISOURCE INC.
Gas Distribution Operations (continued)

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved Northern Indiana's GCA 7 on July 26, 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

On May 16, 2006, Northern Indiana filed a petition to simplify its residential rate structure, stabilize revenue streams and provide the company incentives to encourage energy efficiency measures. A hearing on the cause is set for the fourth quarter of 2006 with full resolution anticipated in the first quarter 2007.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation's territories for the second quarter of 2006 was 16% warmer than the comparable quarter in 2005, and 15% warmer than normal overall.

For the first six months of 2006, weather was 15% warmer than the comparable 2005 period and 14% warmer than normal.

Throughput
Total volumes sold and transported of 158.2 MMDth for the second quarter of 2006, decreased 3.9 MMDth from the same period last year. This decrease in volume was experienced across residential, commercial, and industrial markets and was attributable mainly to the milder weather and decreased residential customer usage compared to the same period last year. Decreases in commercial and industrial customers also contributed to this decrease in gas volume.

For the six month period ended June 30, 2006, total volumes sold and transported were 453.0 MMDth, a decrease of 47.7 MMDth from the same period in 2005. This decrease was primarily reflecting decreased residential, commercial, and industrial sales, which was attributable mainly to the milder weather, and decreased residential customer usage, partially offset by increased off-system sales and transportation sales in the first half of 2006 compared to the first half of 2005.

NISOURCE INC.
Gas Distribution Operations (continued)

Net Revenues
Net revenues for the three months ended June 30, 2006 were $244.9 million, a decrease of $24.2 million from the same period in 2005 due primarily to the impact of warmer weather amounting to approximately $17 million for the quarter, the impact of a $5.9 million gas cost adjustment recognized in the comparable period last year and approximately $5 million due to residential usage declines. These decreases in net revenues were partially offset by increased off-system sales. The increase in off-system revenues resulted from short-term market opportunities, which are shared with customers under various regulatory mechanisms. Regulatory trackers, which are offset in operating expense, increased $5.0 million compared to the second quarter of 2005.

For the six month period ended June 30, 2006, net revenues were $805.4 million, a $61.8 million decrease from the same period in 2005. This decrease in net revenues was due primarily to the impact of warmer weather amounting to approximately $63 million and a decline in residential usage of approximately $16 million, a $3.6 million decline in transportation revenue due to reduced throughput, and the unfavorable impact of $2.5 million of gas cost adjustments in the comparable periods. These decreases in net revenues were partially offset by a $29.8 million increase in revenues from regulatory trackers, which are offset in operating expense.

Operating Income
For the second quarter of 2006, Gas Distribution Operations reported an operating loss of $6.0 million compared to operating income of $5.7 million for the same period in 2005. The decrease in operating income was mainly attributable to reduced net revenues described above. The comparable quarter last year was impacted by an $11.2 million restructuring charge and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted by increases in accrued sales taxes in the second quarter of 2006 due to the reversal of a $5.8 million sales tax reserve in the comparable quarter last year and increased depreciation.

Operating income for the first six months of 2005 totaled $200.0 million, an $80.6 million decrease compared to the same period in 2005, largely attributable to reduced net revenues described above and transition costs associated with the IBM agreement amounting to $8.6 million. The comparable period last year was impacted by an $11.2 million restructuring charge and a $10.9 million goodwill impairment loss related to Kokomo Gas. Operating expenses were impacted by accrued sales taxes in the second quarter of 2006 due to the reversal of a $5.8 million sales tax reserve in the comparable quarter last year and increased depreciation.

NISOURCE INC.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Operating Revenues				
Transportation revenues	$ **152.8**	$ 150.2	$ **337.0**	$ 328.6
Storage revenues	**43.8**	44.0	**88.2**	89.2
Other revenues	**2.6**	1.6	**5.6**	7.7
Total Operating Revenues	**199.2**	195.8	**430.8**	425.5
Less: Cost of gas sold	**3.9**	6.4	**9.3**	11.9
Net Revenues	**195.3**	189.4	**421.5**	413.6
Operating Expenses				
Operation and maintenance	**73.8**	69.8	**146.1**	141.2
Depreciation and amortization	**28.6**	28.6	**57.3**	56.7
Loss on sale of assets	**0.5**	-	**0.5**	-
Other taxes	**13.4**	14.2	**28.3**	29.4
Total Operating Expenses	**116.3**	112.6	**232.2**	227.3
Operating Income	$ **79.0**	$ 76.8	$ **189.3**	$ 186.3

Throughput (MMDth)				
Columbia Transmission				
Market Area	**170.0**	168.5	**498.5**	564.1
Columbia Gulf				
Mainline	**128.0**	143.0	**289.6**	281.7
Short-haul	**30.8**	23.4	**47.4**	41.6
Columbia Pipeline Deep Water	**2.2**	3.2	**5.1**	6.7
Crossroads Gas Pipeline	**9.0**	10.0	**20.0**	22.0
Granite State Pipeline	**4.5**	5.7	**16.1**	19.6
Intrasegment eliminations	**(122.4)**	(141.6)	**(278.7)**	(280.2)
Total	**222.1**	212.2	**598.0**	655.5

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline, Granite State Gas and Central Kentucky Transmission. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in 19 northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring

Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.6 million and $1.1 million for the second quarter and first six months of 2006, respectively, and the restructuring liability remaining at June 30, 2006 was $2.3 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters

On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase approximately \$7 - \$12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule.

On July 20, 2006, the FERC issued a declaratory order in response to a petition filed by Tennessee Gas Pipeline. The petition related to a Tennessee Gas Pipeline request to establish an interconnection with the Columbia Gulf operated portion of the Blue Water Pipeline system. Columbia Gulf has a long-standing practice of providing interconnections with other interstate pipelines only as long as there is an interconnection agreement in place that governs the rules of the interconnection. Among other things, these agreements help protect the integrity of Columbia Gulf's system and the reliability of service to its customers. The Commission ruled that Tennessee Gas Pipeline's interconnection request should be governed by the existing Blue Water Pipeline operating agreement between Columbia Gulf and Tennessee Gas Pipeline.

In the declaratory order, the FERC also referred the matter to the Office of Enforcement to determine if there should be any action taken against Columbia Gulf for failing to comply with prior orders that directed Columbia Gulf to allow Tennessee Gas Pipeline to make an interconnection. Columbia Gulf has acted in good faith throughout the proceeding and is disappointed with FERC's referral of this matter to the Office of Enforcement. However, Columbia Gulf is cooperating with the Office of Enforcement while Columbia Gulf considers whether to seek rehearing of the declaratory order issued by the FERC in this matter.

Environmental Matters

Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Tax Matters

On July 28, 2006, the Ohio Board of Tax Appeals issued a favorable decision in the matter of Columbia Gas Transmission Corporation vs. Thomas M. Zaino, Tax Commissioner of Ohio. The Board ruled that Columbia Transmission's Ohio operations fall within the statutory definition of both a "natural gas company" and a "pipeline company" and that Columbia Transmission's property is to be assessed at the significantly lower "natural gas company" assessment ratio beginning with the 2001 tax year. The Ohio Tax Commissioner appealed the decision to the Ohio Supreme Court on July 31, 2006. The final outcome of the case and its impact on the financial statements are uncertain at this time.

Proposed Millennium Pipeline Project

Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is currently being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, 2006, the United States Federal District Court denied Millennium's appeal. On May 3, 2006 Millennium filed with FERC requesting it vacate portions of the Millennium certificate that relate to the Phase 2 facilities and any conditions relating to Phase 2. This reflects Millennium's decision not to appeal the United States Federal District Court ruling. Phase 2 options are still being studied.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. On May 3, 2006, Millennium made a second amended certificate filing to the FERC. This filing reflected the new partnership agreements and reconfigured ownership levels as discussed below. It also reflected the change in contributed assets from Columbia to Millennium and other project updates. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." Due to the timing of receipt of the necessary regulatory approvals for Millennium and the Companion Pipelines, the targeted in-service date for Phase 1 has been extended to November of 2008. Provided the necessary approvals are received in a timely manner, Millennium plans to begin construction in Spring 2007.

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corp.) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project

In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States. Hardy Storage was then formed by Columbia Transmission and Piedmont to develop a natural gas storage field from a depleted natural gas production field in West Virginia. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in the second quarter of 2007, and is expected to be able to deliver 176 MMDth per day of firm storage service on behalf of the subscribing customers. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. On June 29, 2006, Columbia Transmission, Piedmont, and Hardy Storage entered into an agreement to finance the construction of Hardy Storage. Under the financing agreement, Columbia Transmission issued guarantees securing payment for amounts issued in connection with Hardy Storage up until such time as the project is placed in service and satisfies certain performance criteria. Additional information on this guarantee is provided in Note 14-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements. Construction began in the first quarter of 2006 and Hardy Storage is expected to be placed in service in the second quarter of 2007.

Other Growth Projects

Eastern Market Expansion, a combined storage and transportation project designed to meet core market growth in the mid-Atlantic region that already has several binding customer agreements continues with pre-filing activities.

Sales of Shorter-Term Transportation and Storage Services

Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $30 million of shorter-term business for 2006, $19.2 million of which was recorded during the six moths ended June 30, 2006. Columbia Gulf's mainline throughput increased by 3.0% over 2005 due to the increased utilization of these services.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 222.1 MMDth for the second quarter 2006, compared to 212.2 MMDth for the same period in 2005. The increase of 9.9 MMDth is due to increased sales of shorter-term transportation and storage services described above partially offset by warmer weather and lower offshore natural gas production.

Throughput for the six months ended June 30, 2006 was 598.0 MMDth, a decrease of 57.5 MMDth from the same period in 2005, due to warmer weather in the first six months of 2006 than for the comparable period in 2005, and a continued overall decline of offshore natural gas production, and other non-weather factors.

Net Revenues
Net revenues were $195.3 million for the second quarter 2006, an increase of $5.9 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services of approximately $15 million. Seasonal price fluctuations in the national energy market continued to create opportunities for customers to utilize existing short-term tariff services. The comparable period last year benefited from a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, which amounted to $8.9 million.

Net revenues were $421.5 million for the first six months of 2006 compared to $413.6 million for the first six months of 2005. The increase in net revenues was mainly due to increased subscriptions for demand services and sales of shorter-term transportation and storage services amounting to approximately $17 million. The comparable period last year benefited from a third-party buyout of a bankruptcy claim discussed above.

Operating Income
Operating income was $79.0 million for the second quarter 2006 compared to $76.8 million in the second quarter 2005. Increases in net revenues described above were partially offset by increased operating expenses of $3.7 million. Operation and maintenance expenses increased as a result of increased pipeline integrity expenses of $2.2 million and higher employee and administrative costs of $1.2 million.

For the first six months of 2006, operating income of $189.3 million increased $3.0 million compared to the first six months of 2005 primarily due to increased net revenues described above. Operating expenses increased by $4.9 million as a result of higher employee and administrative costs of $2.9 million and increased pipeline integrity related costs of $2.2 million.

NISOURCE INC.
Electric Operations

(in millions)	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Sales revenues	**$ 302.9**	$ 282.2	**$ 609.8**	$ 564.9
Less: Cost of sales	**111.3**	92.6	**228.6**	188.6
Net Revenues	**191.6**	189.6	**381.2**	376.3
Operating Expenses				
Operation and maintenance	**66.4**	69.0	**126.9**	130.1
Depreciation and amortization	**46.9**	46.2	**93.0**	91.7
Gain on sale of assets	**-**	(0.4)	**-**	(0.4)
Other taxes	**15.0**	13.8	**29.9**	28.5
Total Operating Expenses	**128.3**	128.6	**249.8**	249.9
Operating Income	**$ 63.3**	$ 61.0	**$ 131.4**	$ 126.4
Revenues ($ in millions)				
Residential	**79.1**	77.3	**160.0**	150.7
Commercial	**90.6**	85.7	**173.0**	158.9
Industrial	**129.9**	104.6	**255.4**	217.0
Wholesale	**9.6**	6.3	**15.1**	13.8
Other	**(6.3)**	8.3	**6.3**	24.5
Total	**302.9**	282.2	**609.8**	564.9
Sales (Gigawatt Hours)				
Residential	**722.0**	768.0	**1,483.1**	1,535.0
Commercial	**949.5**	988.1	**1,843.5**	1,882.3
Industrial	**2,383.5**	2,185.2	**4,820.9**	4,513.5
Wholesale	**195.9**	195.9	**348.0**	357.1
Other	**11.8**	15.9	**40.4**	48.5
Total	**4,262.7**	4,153.1	**8,535.9**	8,336.4
Cooling Degree Days	**190**	280	**190**	280
Normal Cooling Degree Days	**227**	227	**227**	227
% Warmer (Colder) than Normal	**(16%)**	23%	**(16%)**	23%
Electric Customers				
Residential			**395,005**	392,788
Commercial			**51,522**	50,697
Industrial			**2,505**	2,519
Wholesale			**11**	15
Other			**762**	769
Total			**449,805**	446,788

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 450 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

NISOURCE INC.
Electric Operations (continued)

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

The U.S. Steel Industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States. Steel demand and pricing for the second half of 2006 are anticipated to remain steady. Steel inventory levels have remained relatively constant and are anticipated to remain so for the rest of 2006. Electric sales to the steel industry in the first half of 2006 were up 8.9% as compared to 2005.

In 2005, Northern Indiana coal deliveries from the PRB area were limited to 80 – 85% of contracted amounts as a result of maintenance problems on track owned jointly by the Union Pacific Railroad Company and Burlington Northern Santa Fe Railway Company. Northern Indiana met the expected electricity demand through the end of 2005 by changing the fuel blend, which reduced its need for PRB coal. Northern Indiana has been blending this fuel for a number of years. In the second quarter of 2006, track maintenance resumed, but Northern Indiana did not experience an impact on coal deliveries.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The credits will continue beyond the minimum period at the same annual level and per the same methodology, until the IURC enters a basic rate order that approves revised Northern Indiana's electric rates subsequent to the minimum period. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $22.9 million and $29.2 million were recognized for electric customers for the first half of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. Pending a clarifying order on these charges, a reserve was established for the charges, net of credits. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. As a result, a refund of $9.4 million will be required for charges related to the period April 1, 2005 through December 8, 2005. Northern Indiana had provided for a reserve of $8.7 million through December 2005. The actual amount of the refund was slightly more than the amount of the reserve, due to adjustments and MISO

NISOURCE INC.
Electric Operations (continued)

resettlements. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed. As a result of the ruling, amounts permitted to be recovered through the FAC totaled approximately $1.7 million for the first six months of 2006. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $10.5 million for the first half of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $2.5 million for the first half of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding.

On April 25, 2006, the FERC issued an order on the MISO's Transmission and Energy Markets Tariff, stating that MISO had violated the tariff by not assessing revenue sufficiency guarantee charges on virtual bids and offers. The FERC ordered MISO to perform a resettlement of these charges back to April 1, 2005. Although the amount of resettlements applicable to Northern Indiana cannot be quantified at this time, it is not expected to be material.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana, with input from a broad based stakeholder group, is evaluating the appropriate course of action for the Mitchell Station facility in light of Northwest Indiana's need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 (described below).

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

NISOURCE INC.
Electric Operations (continued)

On May 23, 2006, Northern Indiana, Whiting Clean Energy, TPC and Intervenor Board of Commissioners of LaPorte County, Indiana filed a proposed settlement agreement in cause 42824 (described above) requesting IURC approval. The settlement requires Northern Indiana to refund $2.0 million (less attorneys fees) associated with the intermediate dispatchable power purchases. Northern Indiana recorded a reserve for this amount in the second quarter of 2006. IURC approval is pending.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 (described above). The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-71 on June 26, 2006. This filing included $8.6 million of the required refund of MISO related costs for the period April 1, 2005 through December 8, 2005, consistent with the IURC's May 4, 2006 order (see above). On July 21, 2006, the IURC issued an order approving the FAC-71 rates and creating a sub-docket to review the treatment of purchased power and related costs within the FAC proceeding.

FAC-72, scheduled for filing in the third quarter of 2006, will include a refund for the remaining $0.8 million of MISO-related costs.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $12.9 million for the six months ended June 30, 2006, and $64.6 million from inception to date, while EERM revenues were $6.2 million for the six months ended June 30, 2006, and $14.9 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing. ECR-8 is scheduled to be filed in August 2006.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. On May 19, 2006, Jupiter also filed a complaint in state court against Northern Indiana seeking recovery of damages based on the same alleged service problems. Northern Indiana has moved to stay this state court action pending resolution of the IURC proceedings.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of June 30, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 14-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales
Electric Operations sales quantities for the second quarter of 2006 were 4,262.7 gwh, an increase of 109.6 gwh compared to the 2005 period, as a result of increased industrial usage, particularly in the steel sector. This increased usage was partially offset by slight declines due to milder weather.

Electric sales for the first six months of 2006 was 8,535.9 gwh, an increase of 199.5 gwh compared to the 2005 period, as a result of increased industrial sales described above. Residential and commercial sales quantities decreased due to cooler weather.

Net Revenues
In the second quarter of 2006, electric net revenues of $191.6 million increased by $2.0 million from the comparable 2005 period. This improvement was primarily a result of a $5.8 million of lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, a reduction in customer credits of $2.7 million, due to the timing of the credits, increased environmental tracker revenues of $1.3 million (partially offset in expense) and increased numbers of residential and commercial customers. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $8 million.

In the first six months of 2006, electric net revenues were $381.2 million, an increase of $4.9 million from the comparable 2005 period primarily due to a reduction in customer credits of $6.3 million, due to the timing of the credits, increased environmental tracker revenues of $3.8 million (partially offset in expense), $3.7 million of lower MISO costs, including the impact of a favorable regulatory ruling on the recoverability of certain MISO charges, and an increase due to greater residential and commercial customers. These increases in net revenues were partially offset by the impact of unfavorable weather of approximately $10 million.

Operating Income
Operating income for the second quarter of 2006 was $63.3 million, an increase of $2.3 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operating expenses remained relatively flat with a slight increase in other taxes compared to the same period in 2005 offset by lower employee and administrative expenses.

Operating income for the first six months of 2006 was $131.4 million, an increase of $5.0 million from the same period in 2005. The increase in operating income was due to the changes in net revenue mentioned above. Operation and maintenance expense decreased $3.2 million as lower employee and administrative expense of $6.4 million was partially offset by higher electric generation and maintenance expense of $3.1 million.

NISOURCE INC.
Other Operations

Three Months Ended March 31, *(in millions)*	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Six Months Ended June 30, 2006	Six Months Ended June 30, 2005
Net Revenues				
Products and services revenue	**$ 173.0**	$ 191.6	**$ 514.4**	$ 420.4
Less: Cost of products purchased	**162.8**	185.3	**498.9**	409.4
Net Revenues	**10.2**	6.3	**15.5**	11.0
Operating Expenses				
Operation and maintenance	**9.2**	9.7	**21.2**	15.7
Depreciation and amortization	**2.8**	2.7	**5.7**	5.4
Impairment and gain on sale of assets	**1.5**	-	**(0.1)**	(0.6)
Other taxes	**1.4**	2.4	**3.5**	4.2
Total Operating Expenses	**14.9**	14.8	**30.3**	24.7
Operating Loss	**$ (4.7)**	$ (8.5)	**$ (14.8)**	$ (13.7)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The Sand Creek Golf Club assets were included in assets of discontinued operations at March 31, 2006. In June 2006, the assets of the Sand Creek Golf Club valued at $11.9 million and additional properties, were sold to a private real estate development group. An after-tax loss of $0.2 million was recorded in June 2006. As a result of the June transaction with the private developer, at June 30, 2006, $4.3 million of assets, representing an estimate of future property to be sold during the next twelve-months, are reflected as assets held for sale.

NDC Douglas Properties
NDC Douglas Properties, a subsidiary of NiSource Development Company, is in the process of exiting some of its low income housing investments. One of these investments was disposed of in the first quarter of 2006 and four other investments will be sold or disposed of during 2006 and 2007. An impairment loss of $2.3 million was recorded in the second quarter of 2006, due to the current book value exceeding the estimated fair value of these investments. NiSource has accounted for the investments to be sold, valued at $10.2 million as of June 30, 2006 after impairment, as assets held for sale. Mortgage notes and other accrued liabilities related to these investments of $10.0 million are accounted for as liabilities held for sale.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is continuing to pursue recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first six months of 2006, the PEI holding companies' consolidated after-tax loss was approximately $17.1 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting

NiSource Inc.
Other Operations (continued)

Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time for the next three years.

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy. The FERC accepted a tariff covering the sale of such intermediate dispatchable power.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable.

Net Revenues
Net revenues of $10.2 million for the second quarter of 2006 increased by $3.9 million from the second quarter of 2005, as a result of higher revenues from the Whiting Clean Energy facility of $3.2 and increased commercial and industrial gas marketing revenues.

For the first six months of 2006, net revenues were $15.5 million, a $4.5 million increase compared to the same period in 2005. The increase was mainly due to higher revenues from the Whiting Clean Energy facility of $3.8 million and increased commercial and industrial gas marketing revenues.

Operating Loss
Other Operations reported an operating loss of $4.7 million for the second quarter of 2006, versus an operating loss of $8.5 million for the comparable 2005 period. The decrease in the operating loss primarily resulted from decreased losses at the Whiting Clean Energy facility, increased commercial and industrial gas marketing revenues and lower accrued property taxes. An impairment charge of $1.2 million was taken for a certain NDC Douglas property that will be disposed of during 2006 and a $0.3 million loss was realized on the sale of the Sand Creek Golf Club property.

For the first six months of 2006, the operating loss was $14.8 million compared to an operating loss of $13.7 million for the comparable 2005 period. Decreased operating losses at the Whiting Clean Energy facility and increased commercial and industrial gas marketing revenues described above were offset by increased scheduled maintenance for Whiting Clean Energy of $4.5 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were adequate and effective.

Changes in Internal Controls

There was no change in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. Virginia Natural Gas, Inc. v. Columbia Gas Transmission Corporation, Federal Energy Regulatory Commission

On January 13, 2004, VNG filed with the FERC a "Complaint Seeking Compliance with the Natural Gas Act and with Regulations and Certificate Orders of the Federal Energy Regulatory Commission and Seeking Remedies" in Docket No. RP04-139. VNG alleged various violations during the winter of 2002-2003 by Columbia Transmission of its firm service obligations to VNG. VNG sought monetary damages and remedies (exceeding $37 million), and also sought certain prospective remedies. On July 29, 2004, the FERC issued an order in which it refused to grant VNG any monetary damages and said such claims are best determined by a court of law. The FERC also agreed with Columbia Transmission that Columbia Transmission had not abandoned its obligation to provide service and that it had not inappropriately continued interruptible service to the detriment of firm service. However, the FERC did find that Columbia Transmission had failed to exercise sufficient due diligence in its modifications to or its operation of vaporization equipment at its Chesapeake LNG facility and that Columbia Transmission had failed to deliver gas to VNG at 250 pounds per square inch gauge (psig) as called for by the agreement between VNG and Columbia Transmission. The FERC declined VNG's request to award damages in this case and, as noted above, stated that any claim for damages could best be determined by a court of law. Both Columbia Transmission and VNG have appealed the FERC's decision to the United States Court of Appeals for the D.C. Circuit. On May 12, 2006, the United States Court of Appeals for the D.C. Circuit issued an order on Columbia Transmission's and VNG's petitions for review of FERC's decision. The Court upheld FERC's holdings that the events at Columbia's Chesapeake LNG facility in February and March of 2003 did not constitute a force majeure event, and upheld the FERC's decision that Columbia had not unlawfully abandoned service to VNG. The Court also remanded the case to FERC directing FERC to articulate the basis for its authority to award damages (if any).

2. Vivian K. Kershaw et al. v. Columbia Natural Resources, Inc., et al., Chautauqua County Court, New York

Plaintiffs filed a complaint in 2000 against CNR a former subsidiary, Columbia Transmission, Columbia and CER. The complaint alleges that plaintiffs own an interest in oil and gas leases in New York and that the defendants have underpaid royalties on those leases by, among other things, failing to base royalties on the price at which natural gas is sold to the end-user and by improperly deducting post-production costs. Plaintiffs seek the alleged royalty underpayment and punitive damages. The complaint also seeks class action status on behalf of all royalty owners in oil and gas leases owned by the defendants. Discovery is currently stayed while the parties seek to determine if the matter can be settled.

3. United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana

The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. The decision of the Special Master has been briefed and argued by the parties and presented to the Federal District Court Judge for a final ruling, which is expected in the third quarter of 2006.

4. Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against CNR alleging that CNR underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that CNR fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from CNR (and its predecessors or successors) on lands lying within the boundary of the state of West Virginia. All claims by the government of the United States are excluded from the class. CNR appealed the decision certifying the class and the West Virginia Supreme Court of Appeals denied the appeal. Although NiSource sold CNR in 2003, NiSource remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial was originally scheduled for the first quarter of 2006, but was continued indefinitely, pending review by the West Virginia Supreme Court on the deductibility of post production expenses. On June 15, 2006, the West Virginia Supreme Court ruled against the defendants on this issue but the trial court has not established a new trial date.

5. EPA Settlement.

On June 29, 2006, Columbia Transmission entered into a Consent Agreement with Region III EPA related to the management of coal tar based pipe wrap. The Consent Agreement requires that Columbia Transmission, and its contractor, pay a civil penalty totaling $180,000.

ITEM 1A. RISK FACTORS

No material changes from the risk factors disclosed in NiSource's 2005 Form 10-K filed on March 10, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 10, 2006, NiSource held its annual meeting of stockholders. On March 14, 2006, there were 272,646,698 shares of common stock outstanding and entitled to vote in person or by proxy at the meeting.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (continued)

NISOURCE INC.

The number of votes received by and the number of votes withheld from each nominee for Director are set forth in that report below:

	Number of votes FOR	Number of votes WITHHELD
Gary L. Neale	215,537,076	9,978,967
Robert J. Welsh	204,303,246	21,212,797
Roger A. Young	206,071,689	19,444,354

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the ratification of Deloitte & Touche LLP as the Corporation's independent public accountants for the year 2006, are set forth in the report below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
208,640,572	15,039,573	1,835,898

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the proposal to amend the Corporation's Certificate of Incorporation to declassify the board of directors and to provide for annual election of all directors is set forth below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
219,589,357	3,359,800	2,566,886

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the stockholder proposal relating to the election of directors by a majority vote, are set forth below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
123,455,695	60,900,758	3,242,890

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

(3.1) Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the NiSource Inc. Current Report on Form 8-K filed on May 16, 2006).

(3.2) Amended and Restated By-laws (incorporated by reference to Exhibit 3.2 to the NiSource Inc. Current Report on Form 8-K filed on May 16, 2006).

(10.1) Letter Agreement dated August 10, 2005 between Mr. Robert D. Campbell and NiSource Corporate Services. *

(10.2) Amended and Restated Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, the lender parties thereto as Lenders, Credit Suisse as Syndication Agent, JPMorgan Chase Bank, N.A., The Bank Of Tokyo-Mitsubishi UFJ, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents and Barclays Bank PLC, as Administrative Agent and LC Bank dated July 7, 2006. *

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

* Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: August 3, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,665,100 shares outstanding at April 28, 2006.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2006

Table of Contents

DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
Columbia	Columbia Energy Group
Columbia Atlantic Trading	Columbia Atlantic Trading Corporation
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millenn[illegible]m	Millennium Pipeline Company, L.P.
NiSourc[illegible]	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Transco[illegible]	Columbia Transmission Communications Corporation
Whiting [illegible] Energy	Whiting Clean Energy, Inc.
Whiting [illegible]asing	Whiting Leasing LLC

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
APB [illegible] 28	Accounting Principles Board Opinion No. 28, "Interim Financial Reporting"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
Day 1	Began October 1, 2003 and refers to Northern Indiana turning over operational control of the interchange facilities and its own transmission asse[illegible] [illegible]ke many other Midwestern electric utilities to MISO
Day 2	Began April 1, 2005 and refers to the operational control of the energy markets by MISO, including the dispatching of wholesale electricity and transmission service, managing transmission constraints, and managing the day-ahead, real-time and financial transmission rights markets
DOT	United States Department of Transportation
ECRM	Environmental Cost Recovery Mechanism

DEFINED TERMS (continued)

EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 18	FASB Interpretation No. 18, "Accounting for Income Taxes In Interim Periods (An Interpretation of APB Opinion No. 28)"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OPSB	Ohio Power Siting Board
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PPS	Price Protection Service
PRB	Powder River Basin
PUCO	Public Utilities Commission of Ohio
RAM	Retainage Adjustment Mechanism
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 88	Statement of Financial Accounting Standards No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits"
SFAS No. 106	Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions"
SFAS No. 109	Statement of Financial Accounting Standards No. 109, "Accounting for Uncertain Tax Positions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"

DEFINED TERMS (continued)

SFAS No. 132R	Statement of Financial Accounting Standards No. 132R, "Employers' Disclosures about Pensions and Other Postretirement Benefits - An Amendment of FASB Statements Nos. 87, 88, and 10"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SFAS No. 154	Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections"
SIP	State Implementation Plan
SO2	Sulfur dioxide
VaR	Value-at-risk and instrument sensitivity to market factors
VSCC	Commonwealth of Virginia State Corporate Commission

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

Three Months Ended March 31, *(in millions, except per share amounts)*	2006	2005
Net Revenues		
Gas Distribution	$ 1,998.2	$ 1,828.3
Gas Transportation and Storage	320.6	328.9
Electric	305.7	282.6
Other	348.3	243.5
Gross Revenues	2,972.8	2,683.3
Cost of Sales	1,991.7	1,670.3
Total Net Revenues	981.1	1,013.0
Operating Expenses		
Operation and maintenance	372.9	337.6
Depreciation and amortization	136.9	135.1
Impairment and gain on sale of assets	(0.2)	(0.5)
Other taxes	103.0	103.1
Total Operating Expenses	612.6	575.3
Operating Income	368.5	437.7
Other Income (Deductions)		
Interest expense, net	(95.8)	(104.0)
Dividend requirements on preferred stock of subsidiaries	(1.0)	(1.1)
Other, net	(3.4)	(0.5)
Total Other Income (Deductions)	(100.2)	(105.6)
Income From Continuing Operations Before Income Taxes	268.3	332.1
Income Taxes	96.5	123.4
Income From Continuing Operations	171.8	208.7
Loss from Discontinued Operations - net of taxes	(0.3)	(2.2)
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	1.0	(0.2)
Change in Accounting - net of taxes	0.4	-
Net Income	$ 172.9	$ 206.3
Basic Earnings (Loss) Per Share ($)		
Continuing operations	0.63	0.77
Discontinued operations	-	(0.01)
Basic Earnings Per Share	0.63	0.76
Diluted Earnings (Loss) Per Share ($)		
Continuing operations	0.63	0.77
Discontinued operations	-	(0.01)
Diluted Earnings Per Share	0.63	0.76
Dividends Declared Per Common Share ($)	0.23	0.23
Basic Average Common Shares Outstanding (millions)	272.3	270.3
Diluted Average Common Shares (millions)	273.1	272.1

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Consolidated Balance Sheets (unaudited)

(in millions)		March 31, 2006		December 31, 2005
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	**16,745.9**	$	16,684.4
Accumulated depreciation and amortization		**(7,637.2)**		(7,556.8)
Net utility plant		**9,108.7**		9,127.6
Other property, at cost, less accumulated depreciation		**388.5**		426.7
Net Property, Plant and Equipment		**9,497.2**		9,554.3
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		**49.7**		34.6
Unconsolidated affiliates		**72.5**		75.0
Other investments		**101.4**		114.2
Total Investments		**223.6**		223.8
Current Assets				
Cash and cash equivalents		**83.4**		69.[illegible]
Restricted cash		**57.9**		33.9
Accounts receivable (less reserve of $75[illegible] and $67.9, respectively)		**1,161.8**		1,254.6
Gas inventory		**165.0**		526.9
Underrecovered gas and fuel costs		**190.8**		421.8
Materials and supplies, at average cost		**73.7**		72.0
Electric production fuel, at average cost		**44.8**		24.9
Price risk management assets		**136.6**		183.1
Exchange gas receivable		**516.7**		169.8
Regulatory assets		**213.1**		195.0
Prepayments and other		**99.3**		109.3
Total Current Assets		**2,743.1**		3,060.7
Other Assets				
Price risk management assets		**137.7**		192.9
Regulatory assets		**611.6**		586.3
Goodwill		**3,677.3**		3,677.3
Intangible assets		**492.7**		495.8
Deferred charges and other		**178.4**		167.4
Total Other Assets		**5,097.7**		5,119.7
Total Assets	$	**17,561.6**	$	17,958.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Consolidated Balance Sheets (unaudited) (continued)

(in millions, except share amounts)	March 31, 2006	December 31, 2005
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value, 400,000,000 shares authorized; 272,636,673 and 272,622,905 shares issued and outstanding, respectively	$ 2.7	$ 2.7
Additional paid-in-capital, net of deferred stock compensation	3,970.6	3,969.4
Retained earnings	1,029.1	981.6
Accumulated other comprehensive loss and other common stock equity	(77.9)	(20.7)
Total common stock equity	4,924.5	4,933.0
Preferred stocks—Series without mandatory redemption provisions	81.1	81.1
Long-term debt, excluding amounts due within one year	5,229.6	5,271.2
Total Capitalization	10,235.2	10,285.3
Current Liabilities		
Current portion of long-term debt	442.7	440.7
Short-term borrowings	379.2	898.0
Accounts payable	538.7	866.7
Dividends declared on common and preferred stocks	63.8	1.1
Customer deposits	104.6	101.9
Taxes accrued	381.0	217.5
Interest accrued	105.3	86.2
Overrecovered gas and fuel costs	114.6	25.8
Price risk management liabilities	85.7	72.3
Exchange gas payable	660.1	425.2
Deferred revenue	35.1	51.3
Regulatory liabilities	37.3	46.3
Accrued liability for postretirement and postemployment benefits	61.1	61.1
Other accruals	499.5	549.1
Total Current Liabilities	3,508.7	3,843.2
Other Liabilities and Deferred Credits		
Price risk management liabilities	46.9	22.2
Deferred income taxes	1,542.7	1,591.9
Deferred investment tax credits	67.9	69.9
Deferred credits	83.4	81.1
Deferred revenue	50.7	60.4
Accrued liability for postretirement and postemployment benefits	501.2	511.0
Regulatory liabilities	1,224.9	1,196.2
Asset retirement obligations	121.6	119.8
Other noncurrent liabilities	178.4	177.5
Total Other Liabilities and Deferred Credits	3,817.7	3,830.0
Commitments and Contingencies	-	-
Total Capitalization and Liabilities	$ 17,561.6	$ 17,958.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Three Months Ended March 31, *(in millions)*	2006	2005
Operating Activities		
Net income	$ 172.9	$ 206.3
Adjustments to reconcile net income to net cash from continuing operations:		
Depreciation and amortization	136.9	135.1
Net changes in price risk management assets and liabilities	10.2	(31.2)
Deferred income taxes and investment tax credits	(40.5)	(29.8)
Deferred revenue	(26.0)	(8.6)
Stock compensation expense	1.3	1.5
Gain on sale of assets	(2.7)	(0.5)
Loss on impairment of assets	2.5	-
Cumulative effect of change in accounting principle, net of taxes	(0.4)	-
Income from unconsolidated affiliates	(1.0)	(2.0)
Loss (gain) on sale of discontinued operations	(1.0)	0.2
Loss from discontinued operations	0.3	2.2
Amortization of discount/premium on debt	2.0	4.8
Other adjustments	(1.6)	0.2
Changes in assets and liabilities:		
Accounts receivable	110.2	0.1
Inventories	442.1	615.5
Accounts payable	(340.6)	(141.4)
Customer deposits	2.7	3.1
Taxes accrued	151.6	218.0
Interest accrued	19.1	61.7
(Under) Overrecovered gas and fuel costs	319.7	139.4
Exchan[illegible]s receivable/payable	(126.0)	(80.7)
Other [illegible]	(80.1)	(102.9)
Prepa[illegible]nd other current assets	9.9	11.4
Regu[illegible]ts/liabilities	(19.1)	(4.1)
Postre[illegible] and postemployment benefits	(6.0)	8.9
Defer[illegible]	2.3	(10.7)
Defer[illegible]rges and other noncurrent assets	(5.2)	1.4
Other noncurrent liabilities	(7.3)	(2.6)
Net Operating Activities from Continuing Operations	726.2	995.3
Net Operating Activities from Discontinued Operations	0.1	0.1
Net Cash Flows from Operating Activities	726.3	995.4
Investing Activities		
Capital expenditures	(121.6)	(104.1)
Proceeds from disposition of assets	3.9	5.8
Restricted cash	(21.8)	26.2
Other investing activities	14.0	(11.9)
Net Cash Fl[illegible] used for Investing Activities	(125.5)	(84.0)
Financin[illegible]ies		
Issu[illegible]ng-term debt	0.1	-
Reti[illegible] long-term debt	(0.5)	(0.3)
Cha[illegible]hort-term debt	(518.8)	(307.6)
Issua[illegible] common stock	1.0	18.7
Acquisition of treasury stock	(5.9)	(1.4)
Dividends paid - common shares	(62.7)	(62.3)
Net Cash Flows used for Financing Activities	(586.8)	(352.9)
Increase in cash and cash equivalents	14.0	558.5
Cash and cash equivalents at beginning of year	69.4	29.5
Cash and cash equivalents at end of period	$ 83.4	$ 588.0
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	76.3	$ 36.4
Interest capitalized	1.6	(0.2)
Cash paid (refunded) for income taxes	4.2	(25.3)

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Statements of Consolidated Comprehensive Income (unaudited)

Three Months Ended March 31, *(in millions, net of taxes)*		**2006**		2005
Net Income	**$**	**172.9**	$	206.3
Other comprehensive income (loss)				
Net unrealized gains (losses) on cash flow hedges		**(51.0)**		54.4
Net gain (loss) on available for sale securities		**(0.3)**		1.5
Total other comprehensive income (loss)		**(51.3)**		55.9
Total Comprehensive Income	**$**	**121.6**	$	262.2

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with generally accepted accounting principles in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2005 financial statements to conform to the 2006 presentation. In the Statements of Consolidated Cash Flows for the three months ended March 31, 2005, the classification of the activity in restricted cash balances has been reclassified to an investing activity. NiSource previously presented such changes as an operating activity. For the three months ended March 31, 2005, this resulted in a $26.2 million increase to investing cash flows and a corresponding decrease to operating cash flows from the amounts previously reported.

2. Recent Accounting Pronouncements

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.2 million, which will be amortized over the weighted-average remaining requisite service period of 2.8 years. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation in the first quarter of 2005.

(in millions, except per share data)	March 31, 2005
Net Income	
As reported	$ 206.3
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	1.0
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	7.2
Pro forma	$ 200.1
Earnings per share ($)	
Basic - as reported	0.76
- pro forma	0.74
Diluted - as reported	0.76
- pro forma	0.74

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

Accounting for Uncertain Tax Positions. On July 14, 2005, the FASB issued an Exposure Draft, "Accounting for Uncertain Tax Positions," an interpretation of SFAS No. 109. This proposal seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, the proposal would require that a tax position meet a "probable recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements. The proposal would require recognition in the financial statements of the best estimate of the effects of a tax position only if that position is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of the Exposure Draft to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. FASB has not yet issued a final statement.

3. Stock Options and Awards

Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123.

NiSource currently issues long-term incentive grants to key management employees under a long-term incentive plan approved by stockholders on April 13, 1994 (1994 Plan). The 1994 Plan, as amended and restated, permits the following types of grants, separately or in combination: nonqualified stock options, incentive stock options, restricted stock awards, stock appreciation rights, performance units, contingent stock awards and dividend equivalents payable on grants of options, performance units and contingent stock awards. Under the plan, each option has a maximum term of ten years from the date of grant. NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Stock appreciation rights may be granted only in tandem with stock options on a one-for-one basis and are payable in cash, common stock, or a combination thereof. In addition, NiSource currently has non-qualified option grants outstanding and vested which were granted under a 1988 long-term incentive plan.

At the annual meeting of stockholders held on May 10, 2005, NiSource's stockholders approved proposed amendments to the 1994 Plan. The amendments (i) increased the maximum number of shares of NiSource common stock that may be subject to awards from 21 million to 43 million and (ii) extended the period during which awards could be granted to May 10, 2015 and extended the term of the plan until all the awards have been satisfied by either issuance of stock or the payment of cash. At March 31, 2006, there were 26,019,910 shares reserved for future awards under the amended and restated 1994 Plan.

NiSource has granted restricted stock awards, which are restricted as to transfer and are subject to forfeiture for specific periods from the date of grant and will vest over periods from one year or more. If a participant's employment is terminated prior to vesting other than by reason of death, disability or retirement, restricted shares are forfeited. However, awards may vest upon death, disability, or upon a change of control or retirement. There were 10,000 restricted shares outstanding at March 31, 2006, which were not a part of the time accelerated restricted stock award plan described below.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

NiSource awarded restricted shares and restricted stock units that contain provisions for time-accelerated vesting to key executives under the 1994 Plan. Most of these awards were issued in January 2003 and January 2004. These awards of restricted stock or restricted stock units generally vest over a period of six years or, in the case of restricted stock units at age 62 if an employee would become age 62 within six years, but not less than three years. If certain predetermined criteria involving measures of total shareholder return are met, as measured at the end of the third year after the grant date, the awards vest at the end of the third year. At March 31, 2006, NiSource had 820,542 awards outstanding which contain the time-accelerated provisions. The total shareholder return measures established for the 2003 awards were not met as of December 31, 2005, therefore these grants will not have an accelerated vesting period. The measures for the 2004 awards were not met as of March 31, 2006.

For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares.

The Amended and Restated Non-employee Director Stock Incentive Plan, which was approved by the Board and stockholders at the 2003 annual meeting, provides for the issuance of up to 500,000 shares of common stock to non-employee directors. The Plan provides for awards of common stock, which vest in 20% increments per year, with full vesting after five years. The Plan permits the granting of restricted stock units and allows for the award of nonqualified stock options, subject to immediate vesting in the event of the director's death or disability, or a change in control of NiSource. If a director's service on the Board is terminated for any reason other than retirement at or after age seventy, death or disability, any shares of common stock not vested as of the date of termination are forfeited. As of March 31, 2006, 89,860 restricted shares and 98,603 restricted stock units had been issued under the Plan.

Option grants are granted with an exercise price e[illegible] to the average of the high and low market price on the day of the grant. Stock option transactions for the first qu[illegible] ended March 31, 2006, were as follows:

	Options	Weighted Average Option Price ($)
Outstanding at January 1, 2006	**9,948,383**	**22.59**
Granted	**-**	**N/A**
Exercised	**(38,250)**	**20.22**
Cancelled	**(503,587)**	**23.76**
Outstanding at March 31, 2006	**9,406,546**	**22.54**
Exercisable at March 31, 2006	**9,377,975**	**22.54**

The following table summarizes information on stock options outstanding and exercisable at March 31, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices Per Share ($)	Number Outstanding	Weighted Average Exercise Price Per Share ($)	Weighted Average Remaining Contractual Life in Years	Number Exercisable	Weighted Average Exercise Price Per Share ($)
17.53 - 20.45	1,480,993	19.56	5.8	1,480,993	19.56
20.46 - 23.38	5,790,917	22.09	7.1	5,762,346	22.09
23.39 - 26.30	1,797,886	[illegible].18	4.3	1,797,886	25.18
26.31 - 29.22	336,750	[illegible]22	2.2	336,750	29.22
	9,406,546	[illegible]4	6.2	9,377,975	22.54

The[illegible]re no stock appreciation rights outsta[illegible] at March 31, 2006.

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No options were granted during the first three months ended March 31, 2006. The fair value of each option granted during the first quarter ended March 31, 2005 was estimated on the date of grant using the Black-Scholes option-pricing model with a dividend yield of 4.1%. The weighted average fair value of the options granted during the first quarter of 2005 was $3.34. The following assumptions were used:

	March 31, 2005
Expected Life (yrs.)	4.2
Interest Rate	3.5-3.6%
Volatility	22.6%

NiSource recognized compensation cost of $1.3 million and $1.5 million in the first quarter of 2006 and 2005, respectively, as well as related tax benefits of $0.5 million and $0.5 million, respectively. There were no modifications to awards as a result of the adoption of SFAS 123R.

As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.2 million, which will be amortized over the weighted-average remaining requisite service period of 2.8 years.

4. Income Taxes

For the three months ended March 31, 2006 and 2005, NiSource's provision for income taxes was calculated in accordance with APB No. 28 and FIN 18. Accordingly, the interim effective tax rate reflects the estimated annual effective tax rate for 2006 and 2005, respectively, adjusted for tax expense associated with certain discrete items recorded during the quarter. The effective tax rate differs from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and other permanent book/tax differences such as the electric production tax deduction provided under Internal Revenue Code Section 199.

5. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each period is reported net income. The computation of diluted average common shares follows:

Three Months Ended March 31, *(in thousands)*	2006	2005
Denominator		
Basic average common shares outstanding	**272,342**	270,327
Dilutive potential common shares		
Nonqualified stock options	**50**	319
Shares contingently issuable under employee stock plans	**572**	885
Shares restricted under employee stock plans	**119**	601
Diluted Average Common Shares	**273,083**	272,132

6. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. As of March 31, 2006, 821 employees were terminated as a result of the agreement with IBM, of which 554 became employees of IBM. During the first quarter of 2006, 142 employees were terminated and 10 became employees of IBM.

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In the fourth quarter of 2005, NiSource announced a plan to reduce its executive ranks by approximately 15% to 20% of the top-level executive group. In part, this reduction will come through anticipated attrition and consolidation of basic positions. As of March 31, 2006, the employment of 5 employees terminated as a result of the executive initiative, all of which occurred in the first quarter of 2006.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of March 31, 2006, approximately 1,565 employees were terminated, of whom zero employees were terminated during the first quarter of 2006.

Adjustments to the restructuring liability were recorded mainly for adjustments in estimated expenses related to previous restructuring initiatives. Adjustments in the estimated liability are reflected in "Operation and Maintenance" expense. Of the $9.2 million remaining restructuring liability from the Columbia merger and related initiatives, $8.7 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at December 31, 2005	Benefits Paid	Adjustments	Balance at March 31, 2006
Outsourcing initiative	$ 11.5	$ (4.7)	$ (1.3)	$ 5.5
Executive initiative	2.9	(0.9)	-	2.0
Columbia merger and related initiatives	10.1	(0.9)	-	9.2
Total	$ 24.5	$ (6.5)	$ (1.3)	$ 16.7

7. Discontinued Operations and Assets Held for Sale

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $49.7 million and $34.6 million at March 31, 2006 and December 31, 2005, respectively.

NiSource Corporate Services is in the process of selling its Marble Cliff facility. An impairment loss of $2.5 million was recognized in the first quarter of 2006 due to the current book value exceeding the estimated fair value of the facility. NiSource has accounted for this facility, valued at $12.7 million as of March 31, 2006 after impairment, as assets held for sale.

NiSource Development Company is in the process of selling its Northern Indiana headquarters facility. NiSource has accounted for this facility, with a net book value of $1.8 million as of March 31, 2006, as assets held for sale.

As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation.

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $11.9 million as of March 31, 2006, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.7 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

Three Months Ended March 31, *(in millions)*	**2006**	2005
Revenues from Discontinued Operations	**$ 0.9**	$ 1.0
Loss from discontinued operations	**(0.5)**	(3.8)
Income tax benefit	**(0.2)**	(1.6)
Net Loss from Discontinued Operations	**$ (0.3)**	$ (2.2)

8. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of March 2006, approximately 693 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On June 1, 2005, the PUCO approved Columbia of Ohio's application to decrease its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $26.3 million for the twelve months ended March 31, 2006, reflecting a reduction of $11.4 million of uncollected accounts receivable pending future recovery. As of March 31, 2006, Columbia of Ohio has $38.9 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the forty-five day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006.

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On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules in the Investigation until May 1, 2006.

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved the rates on an interim basis subject to refund on November 22, 2005. A final order approving this filing is expected in the second quarter of 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

Electric Operations Related Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately \$55.1 million each year, for a cumulative total of \$225 million, for the minimum 49-month period, beginning on July 1, 2002. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the \$55.1 million target. Credits amounting to \$10.7 million and \$14.4 million were recognized for electric customers for the first quarter of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. These particular charges, which amounted to \$8.7 million in 2005, and \$1.6 million for the first three months of 2006, were included as recoverable in Northern Indiana's FAC-68, FAC-69 and FAC-70 filings, but, pending a clarifying order from the IURC, Northern Indiana has provided a reserve for the full amount. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to \$0.5 million for the first three months of 2006. These costs began in April 2005 and totaled \$5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled

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$1.2 million for the first quarter of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana is evaluating the appropriate course of action for the Mitchell Station facility in light of the City of Gary's need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 as described below.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing is scheduled for the second quarter of 2006 and a final order is expected in the third quarter of 2006.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

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Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 as described above. The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 as described above. The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $6.9 million for the three months ended March 31, 2006, and $58.6 million from inception to date, while EERM revenues were $2.3 million for the first quarter of 2006 and $11.1 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. No hearing dates have been set.

9. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments to manage certain risks in its business. NiSource accounts for its derivatives under SFAS No. 133.

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Hedging Activities. The activity for the first quarter of 2006 and 2005 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

Three Months Ended March 31, *(in millions, net of taxes)*	**2006**	2005
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 150.7**	$ 93.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(51.7)**	52.6
Reclassification adjustment for net gain included in net income	**0.7**	1.8
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 99.7**	$ 148.1

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $266.3 million and $338.1 million at March 31, 2006 and December 31, 2005, respectively, of which $129.9 million and $152.6 million were included in "Current Assets," and $136.4 million and $185.5 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $121.8 million and $85.6 million at March 31, 2006 and December 31, 2005, respectively, of which $74.9 million and $63.4 million were included in "Current Liabilities," and $46.9 million and $22.2 million were included in "Other Liabilities and Deferred Credits."

During the first quarter of 2006 and 2005, zero and a loss of $0.1 million, net of taxes respectively, was recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the first quarter of 2006 and 2005, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $38.3 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky, Columbia of Maryland and Columbia of Virginia use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $6.1 million and $35.7 million of price risk management assets associated with these programs at March 31, 2006 and December 31, 2005, respectively. In addition, the Consolidated Balance Sheets reflected $6.3 million and zero of price risk management liabilities associated with these programs at March 31, 2006 and December 31, 2005, respectively.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. The Consolidated Balance Sheets reflected $0.8 million and $1.8 million of price risk management assets and $3.8 million and $2.5 million of price risk management liabilities associated with these programs at March 31, 2006 and December 31, 2005, respectively.

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Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that match the anticipated delivery needs of the program. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected zero and $1.6 million of price risk management assets and $0.3 million and zero of price risk management liabilities at March 31, 2006 and December 31, 2005, respectively, associated with the DependaBill program.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect Northern Indiana against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. The Consolidated Balance Sheets reflected $1.2 million and $2.2 million of price risk management assets and zero and $0.4 million of price risk management liabilities associated with this program at March 31, 2006 and December 31, 2005, respectively.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania, Columbia of Virginia and Columbia of Maryland (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $0.7 million and zero of price risk management assets and $4.5 million and $8.5 million of price risk management liabilities associated with the programs at March 31, 2006 and December 31, 2005, respectively.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the gas supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases. The Consolidated Balance Sheets reflected $205.0 million and $266.7 million of price risk management assets associated with this program at March 31, 2006 and December 31, 2005, respectively.

Interest Rate Risk Activities. Contemporaneously with the pricing of the 5.25% and 5.45% notes issued September 16, 2005, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized as an increase to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% respectively.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource Finance will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. As of March 31, 2006, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy, which may not qualify for hedge treatment as determined by SFAS No. 133.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges. The Consolidated Balance Sheets reflected $60.5 million and $68.0 million of price risk management assets and $79.2 million and $70.9 million of price risk management liabilities associated with this program at March 31, 2006 and December 31, 2005, respectively.

The fair market values of NiSource's power trading assets and liabilities were zero at March 31, 2006 and December 31, 2005.

10. Goodwill Assets

NiSource's goodwill assets at March 31, 2006 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at March 31, 2006 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

NiSource will perform its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas in the quarter ended June 30, 2006. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

11. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $7.1 million to its pension plans and $54.2 million to its other postretirement benefit plans in 2006.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

The following table provides the components of the plans' net periodic benefits cost for the first quarter of 2006 and 2005:

Three Months Ended March 31, *(in millions)*	Pension Benefits 2006	Pension Benefits 2005	Other Benefits 2006	Other Benefits 2005
Net periodic cost				
Service cost	**$ 10.7**	$ 10.4	**$ 2.3**	$ 2.3
Interest cost	**31.2**	32.0	**10.1**	10.4
Expected return on assets	**(43.9)**	(41.1)	**(4.6)**	(4.0)
Amortization of transitional obligation	**-**	-	**2.0**	2.4
Amortization of prior service cost	**1.5**	2.6	**0.1**	0.2
Recognized actuarial loss	**4.6**	4.3	**1.6**	0.9
Settlement loss	**-**	0.3	**-**	-
Net Periodic Benefits Cost	**$ 4.1**	$ 8.5	**$ 11.5**	$ 12.2

12. Asset Retirement Obligations

NiSource has accounted for retirement obligations on its assets since January 1, 2003 with the adoption of SFAS No. 143. In the fourth quarter 2005, NiSource adopted the provisions of FIN 47, which broadened the scope of SFAS No. 143 to include contingent asset retirement obligations and it also provided additional guidance for the measurement of the asset retirement liabilities. This accounting standard and the related interpretation requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes the cost, thereby increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted, and the capitalized cost is depreciated over the useful life of the related asset. The rate-regulated subsidiaries defer the difference between the amount recognized for depreciation and accretion and the amount collected in rates as required pursuant to SFAS No. 71 for those amounts it has collected in rates or expects to collect in future rates.

Changes in NiSource's liability for asset retirement obligations for the first quarter of 2006 are presented in the table below:

Three Months Ended March 31, *(in millions)*	**2006**
Beginning Balance	**$ 119.8**
Accretion	**1.8**
Ending Balance	**$ 121.6**

NiSource has recognized asset retirement obligations associated with various obligations including costs to remove and dispose of certain construction materials located within many of NiSource's facilities, certain costs to retire pipeline, removal costs for certain underground storage tanks, removal of certain pipelines known to contain PCB contamination, closure costs for certain sites including ash ponds, solid waste management units and a landfill, obligation to return leased rail cars to specified conditions and the removal costs of certain facilities and off-shore platforms, as well as some other nominal asset retirement obligations. NiSource recognizes that there are obligations to incur significant costs to retire wells associated with gas storage operations, however, these assets are land assets with indeterminable lives. Additionally, NiSource has a significant obligation associated with the decommissioning of its two hydro facilities located in Indiana. However, these assets have an indeterminate life and no asset retirement obligation has been recorded.

Certain costs of removal that have been, and continue to be, included in depreciation rates and collected in the service rates of the rate-regulated subsidiaries, did not meet the definition of an asset retirement obligation pursuant to SFAS No. 143 and FIN 47. The amount of the other costs of removal reflected as a component of NiSource's accumulated depreciation and amortization was approximately $1.2 billion and $1.1 billion at March 31, 2006 and December 31, 2005, respectively, based on rates for estimated removal costs embedded in composite depreciation rates. Upon the adoption of SFAS No. 143 on January 31, 2003, NiSource reclassified its cost of removal from accumulated depreciation to regulatory liabilities and other removal costs on the Consolidated Balance Sheets.

For the three months ended March 31, 2006, NiSource accrued $1.8 million of accretion, of which $0.3 million was expensed and $1.5 million was recorded as a regulatory asset. For the three months ended March 31, 2005, NiSource accrued $0.1 million of accretion, of which the majority of it was expensed. NiSource anticipates that the depreciation and accretion amounts to be recognized in 2006 associated with its asset retirement obligation assets and liabilities will be $2.8 million and $7.5 million, respectively, and will primarily be recorded as a regulatory asset or liability pursuant to SFAS No. 71.

13. Other Commitments and Contingencies

A. **Guarantees and Indemnities.** As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at March 31, 2006 and the years in which they expire were:

(in millions)	Total	2006	2007	2008	2009	2010	After
Guarantees of subsidaries debt	$ 5,008.6	$ 293.1	$ 32.4	$ 8.6	$ 464.0	$ 1,004.3	$ 3,206.2
Guarantees supporting commodity transactions of subsidiaries	1,018.8	571.0	204.2	39.6	43.3	-	160.7
Lines of credit	379.2	379.2	-	-	-	-	-
Letters of credit	96.0	7.8	19.5	68.7	-	-	-
Other guarantees	158.3	-	-	8.4	4.1	-	145.8
Total commercial commitments	$ 6,660.9	$ 1,251.1	$ 256.1	$ 125.3	$ 511.4	$ 1,004.3	$ 3,512.7

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.0 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. At March 31, 2006, NiSource had $379.2 million outstanding under the revolving line of credit. Through this revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $96.0 million for the benefit of third parties.

Other Guarantees or Obligations. After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy.

As part of PEI's sale to Private Power in 2003, NiSource retained certain obligations with respect to the former PEI subsidiaries. NiSource retained operational guarantees related to environmental compliance, inventory balances, employee relations, and a contingent obligation to Private Power that could be triggered if U.S. Steel exercised a

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

purchase option under its agreement with a former PEI subsidiary. At the time of the sale, NiSource allocated $0.6 million to this contingent option obligation. However, in November 2005, U.S. Steel Gary Works announced its intent to exercise the purchase option. As a result, in the fourth quarter of 2005, NiSource accrued an additional $7.4 million for the settlement of this obligation.

NiSource has purchase and sales agreement guarantees totaling $85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

As of March 31, 2006, a reserve of approximately $68 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations.
There were no new environmental matters relating to Gas Distribution Operations during the first quarter of 2006.

Gas Transmission and Storage Operations.
On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. These actions could require further reductions in NOx emissions from various emission sources in and near nonattainment areas, including reductions from pipeline Transmission and Storage Operations. The effects of the recent EPA actions on Transmission and Storage Operations cannot be determined at this time.

Columbia Transmission discovered and notified the State of West Virginia of compliance issues associated with turbine operations at two of its facilities. Columbia Transmission is currently negotiating with the West Virginia Department of Environmental Protection to resolve these issues.

NISOURCE INC.
***Notes to Consolidated Financial Statements* (continued) (unaudited)**

Electric Operations.
Air. On January 17, 2006, the EPA published in the Federal Register a proposed revision to the particulate matter NAAQS that would increase the stringency of the current fine particulate (PM2.5) standard and add a new standard for inhalable coarse particulate (particulate matter between 10 and 2.5 microns in diameter). The proposal would also revoke the current PM10 NAAQS except in areas with a population of 100,000 or more with monitors violating the current standard. In a separate but related action, the EPA proposed to amend its national ambient air quality monitoring requirements, including those for particulate matter that would include a design for a PM10-2.5 monitoring network necessary to establish attainment of the proposed new NAAQS. The EPA must issue final standards by September 27, 2006. Northern Indiana will continue to closely monitor developments in this area that could impact the emission control requirements for coal-fired boilers including Northern Indiana's electric generating stations.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. On March 15, 2006, the EPA signed three related rulemakings providing final regulatory decisions on implementing the CAIR. The EPA, in one of the rulings, denied several petitions for reconsideration of various aspects of the CAIR, including requests by Northern Indiana to reconsider SO2 and NOx allocations. The main rulemaking established federal implementation plans, or FIPs, for power plants to ensure that the emissions reductions required by the CAIR are achieved on schedule and provide criteria, whereby SIPs that meet a majority of the federal requirements or abbreviated SIPs could be approved if submitted by the states within six months of the September 2006 deadline. As an affected state, Indiana initiated state rule making in June 2005, for creating rules detailing how it will implement the federal rule and meet the emission caps. Indiana structured the draft rule to meet the EPA abbreviated CAIR SIP requirements and should therefore be eligible for a six-month extension of the submittal deadline. Accordingly, Indiana anticipates that the state CAIR rule will be finalized by March of 2007. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

Water. The Great Lakes Water Quality Initiative program is expected to add new water quality standards for facilities that discharge into the Great Lakes watershed, including Northern Indiana's three electric generating stations located on Lake Michigan. The State of Indiana has promulgated its regulations for this water discharge permit program and has received final EPA approval. All issues in subsequent litigation related to the EPA's actions have been resolved with the exception of the EPA's disapproval of the IDEM method for testing whole effluent toxicity. The water discharge permit for Michigan City Generating Station has been issued and became effective on April 1, 2006. Engineering studies have begun to determine specific compliance costs for this facility. The permit for the Bailly Generating Station is expected to be finalized within the next calendar quarter. Pending issuance of this permit, the cost of complying with these requirements cannot be predicted at this time.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

14. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)		March 31, 2006		December 31, 2005
Other comprehensive income (loss), before taxes:				
Unrealized gains (losses) on securities	$	**(0.2)**	$	0.3
Tax (expense) or benefit on unrealized gains (losses) on securities		**(0.1)**		(0.3)
Unrealized gains on cash flow hedges		**148.6**		228.5
Tax (expense) on unrealized gains on cash flow hedges		**(48.9)**		(77.8)
Minimum pension liability adjustment		**(260.1)**		(260.1)
Tax benefit on minimum pension liability adjustment		**103.8**		103.8
Total Accumulated Other Comprehensive Loss, net of taxes	$	**(56.9)**	$	(5.6)

15. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana. The Other Operations segment primarily includes gas and power marketing, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following table provides information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Three Months Ended March 31, *(in millions)*	2006	2005
REVENUES		
Gas Distribution Operations		
Unaffiliated	2,180.3	2,018.1
Intersegment	4.4	(0.8)
Total	2,184.7	2,017.3
Gas Transmission and Storage Operations		
Unaffiliated	158.5	158.2
Intersegment	73.1	71.5
Total	231.6	229.7
Electric Operations		
Unaffiliated	306.5	281.8
Intersegment	0.4	0.9
Total	306.9	282.7
Other Operations		
Unaffiliated	327.7	224.5
Intersegment	14.0	5.0
Total	341.7	229.5
Adjustments and eliminations	(92.1)	(75.9)
Consolidated Revenues	$ 2,972.8	$ 2,683.3

Operating Income (Loss)		
Gas Distribution Operations	206.0	274.9
Gas Transmission and Storage Operations	110.3	109.5
Electric Operations	68.1	65.4
Other Operations	(9.2)	(5.2)
Corporate	(6.7)	(6.9)
Consolidated Operating Income	$ 368.5	$ 437.7

16. Subsequent Event

On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource's plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource's assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counterparty credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the first quarter of 2006, income from continuing operations was $171.8 million, or $0.63 per share. This compares to income from continuing operations of $208.7 million, or $0.77 per share, for the year-ago period. The quarterly difference was due to lower net revenues due primarily to the mild winter weather and declines in residential usage by natural gas utility customers. Weather was 13% warmer than normal and 15% warmer than a year ago. Weather reduced net revenues in NiSource's Gas Distribution Operations business segment by approximately $46 million. Gas Distribution Operations net revenues were also reduced by approximately $11 million due to residential usage declines, which were slightly offset by approximately $2 million as a result of an increase in the number of residential customers. Residential usage declines are likely to continue to adversely impact the operating results of Gas Distribution Operations.

Excluding expenses that are recovered through regulatory trackers, and thereby increase both operating expenses and net revenues (see discussion below), operating expenses were up $16.0 million. This increase was due to $8.3 million of transition costs associated with the IBM agreement and $4.5 million of costs associated with scheduled maintenance at the Whiting Clean Energy facility.

NiSource is recognizing interest expense savings due to the refinancing of $2.4 billion in long-term debt during 2005. Interest expense was reduced by $8.2 million for the first quarter of 2006, compared with the year-ago period.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NISOURCE INC.

NiSource continues to focus on its four-point platform for long-term, sustainable growth. This plan is centered on its portfolio of low-risk, regulated assets: commercial and regulatory initiatives; commercial growth and expansion of the gas transmission and storage business; financial management of the balance sheet; and expense management. Following are updates related to these initiatives.

Commercial and Regulatory Initiatives

Sales of Shorter-Term Transportation and Storage Services. Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $25 million of shorter-term business for 2006, $3.4 million of which was recorded during the first quarter ended March 31, 2006. Columbia Gulf's mainline throughput increased by 16.5% over 2005 due to the increased utilization of these services.

Regulatory Trackers. Comparability of Gas Distribution Operations line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. The expenses that are recovered through these trackers increase both operating expenses and net revenues and have essentially no impact on total operating earnings results. Approximately $23.2 million of the increase in operation and maintenance expenses for the Gas Distribution Operations segment was a result of the effect of the regulatory trackers with a corresponding increase to net revenues reflecting recovery of certain costs.

Bay State Rate Case. On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. On November 30, 2005, Bay State received approval from the Massachusetts DTE to increase its rates by $11.1 million. The Massachusetts DTE also approved Bay State's request for a performance based rate plan but denied the request for cost recovery of a steel infrastructure replacement program.

Commercial Growth and Expansion of the Gas Transmission and Storage Business

Hardy Storage and Millennium Pipeline. Construction of the Hardy Storage project in West Virginia has begun and the project financing is expected to close in the second quarter of 2006. The redistribution of equity among partners in the Millennium Pipeline is now complete, with NiSource subsidiary Columbia Transmission holding a 47.5% equity stake. Subject to the receipt of regulatory approvals of all companion pipeline projects, the project has a targeted in-service date in the fourth quarter of 2007.

Financial Management of the Balance Sheet

Interest Expense Savings. Interest expense, net was $95.8 million for the quarter, a decrease of $8.2 million compared to the first quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates.

Expense Management

Operating Expenses. Operating expenses for the first quarter 2006 were $612.6 million, an increase of $37.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers that increase both operating expenses and net revenues, operating expenses were up $16.0 million. This increase was primarily due to $8.3 million of transition costs associated with the IBM agreement and $4.5 million of costs associated with scheduled maintenance at the Whiting Clean Energy facility.

With the majority of the NiSource property and casualty insurance renewing on July 1, 2006, indications are that NiSource will see an increase in premiums related to insurance for Offshore and Onshore facilities located in or near the Gulf of Mexico. In addition to increased premiums, deductibles and retentions along with added restrictions to coverage and limitations in capacity, for its property insurance program and to a lesser extent for the casualty insurance program are anticipated. Such increases and restrictions in coverage are being driven by the overall poor underwriting experience of the insurance industry over the past few years, resulting from the unprecedented losses sustained over the last few years from hurricanes such as Ivan, Katrina and Rita. This drives the need for underwriters to seek higher premiums and further restrict coverage.

2006 Outlook

NiSource currently expects income for continuing operations for 2006 to be between $1.33 to $1.43 basic earnings per share. This expectation takes in account the weather impact of 9 cents per share that occurred during the first quarter 2006.

Results of Operations
Quarter Ended March 31, 2006

Net Income

NiSource reported net income of $172.9 million, or $0.63 per share, for the three months ended March 31, 2006, compared to net income of $206.3 million, or $0.76 per share, for the first quarter 2005. Operating income was $368.5 million, a decrease of $69.2 million from the same period in 2005. All per share amounts are basic earnings per share. Basic average shares of common stock outstanding at March 31, 2006 were 272.3 million compared to 270.3 million at March 31, 2005.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the three months ended March 31, 2006, were $981.1 million, a $31.9 million decrease from the same period last year. Excluding the impact of $21.3 million of trackers discussed above, net revenues decreased by $53.2 million. The quarterly difference was due to lower Gas Distribution Operations net revenues due primarily to the mild winter weather and declines in residential usage partially offset by net revenue increases within Gas Transmission and Storage Operations and Electric Operations. Weather negatively impacted net revenues of Gas Distribution Operations by approximately $46 million. Gas Distribution Operations net revenues were also reduced by approximately $11 million due to residential usage declines, which were slightly offset by approximately $2 million as a result of an increase in the number of residential customers. Electric Operations net revenue increases of $2.9 were primarily a result of increased environmental cost recovery trackers, a reduction in customer credits, and an increase in industrial usage and the number of residential and commercial customers. Gas Transmission and Storage Operations net revenue increases of $2.0 million from the same period in 2005 were due to increased sales of shorter-term transportation and storage services described above.

Expenses

Operating expenses for the first quarter 2006 were $612.6 million, an increase of $37.3 million from the 2005 period. Excluding expenses that are recovered through regulatory trackers that increase both operating expenses and net revenues (see discussion above), operating expenses were up $16.0 million. This increase was primarily due to $8.3 million of transition costs associated with the IBM agreement and $4.5 million of costs associated with scheduled maintenance at the Whiting Clean Energy facility.

Other Income (Deductions)

Interest expense, net was $95.8 million for the quarter, a decrease of $8.2 million compared to the first quarter 2005. This decrease was due to the refinancing of $2.4 billion in long-term debt at lower rates during 2005, partially offset by higher short-term interest rates. Other, net was a loss of $3.4 million for the current quarter compared to loss of $0.5 million for the comparable 2005 period due to increased costs associated with factoring of accounts receivable. Higher fees, due to higher interest rates, and increased levels of accounts receivable balances resulted in the higher expenses.

Income Taxes

Income tax for the first quarter of 2006 was $96.5 million, a decrease of $26.9 million compared to the first quarter of 2005 due primarily to lower pretax income and a lower effective tax rate. The effective tax rate for the quarter ended March 31, 2006 was 36.0% compared to 37.2% for the comparable period last year. The lower effective tax rate is due to a reduction of $5.3 million in deferred state income tax liabilities resulting from revised estimates of consolidated state income tax apportionment factors, offset by $1.4 million of additional tax expense for recapture of income tax credits associated with disposition of NiSource's investment in a low income housing partnership.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. The recent increase in the price of natural gas has resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable. While the $1.25 billion revolving line of credit is projected to adequately meet these needs, on November 30, 2005, NiSource Finance entered into a new $300 million nine-month revolving credit agreement to further improve its available liquidity.

Operating Activities

Net cash from operating activities for the three months ended March 31, 2006 was $726.3 million, a decrease of $269.1 million from the three months ended March 31, 2005. This decrease was primarily due to the impact in 2006 of reducing relatively high accounts payable balances partially offset by the collection of under-recovered gas cost. High gas cost in December 2005 resulted in unusually large balances in accounts payable and under-recovered gas cost. Much milder weather in the first quarter of 2006 compared to the first quarter of 2005 resulted in less inventory being withdrawn and converted to cash in 2006. A federal tax refund in the first quarter of 2005 compared to a tax payment in the first quarter of 2006 and the timing of interest payments also decreased net cash from operating activities period over period.

Investing Activities

Capital expenditures of $121.6 million in the first three months of 2006 were $17.5 million higher than the comparable 2005 period. The spending for the first three months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in 2006 compared to last year, mainly for increased integrity-management improvements in the pipeline segment and expenditures to replace key components within electric generation in addition to new business projects. The program is expected to be funded primarily via cash from operations.

Financing Activities

On July 29, 2003, NiSource filed a shelf registration statement with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided an aggregate $2.8 billion of total issuance capacity. As of March 31, 2006, NiSource's shelf capacity was $850 million.

Cumulative Preferred Stock. On April 14, 2006, Northern Indiana redeemed all of its outstanding cumulative preferred stock, having a total redemption value of $81.6 million.

Credit Facilities. On November 30, 2005, NiSource Finance entered into a new $300 million 9-month revolving credit agreement with Dresdner Kleinwort Wasserstein LLC. The new facility will further improve NiSource's available liquidity in the current environment of volatile natural gas prices. During March 2005, NiSource Finance obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007.

NiSource Finance is currently considering an amendment to the Barclays credit facility, which would increase the aggregate commitment level to $1.5 billion and reduce its borrowing costs under the facility.

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NiSource Finance had outstanding credit facility advances of $379.2 million at March 31, 2006, at a weighted average interest rate of 5.01%, and advances of $898.0 million at December 31, 2005, at a weighted average interest rate of 4.95%. As of March 31, 2006 and December 31, 2005, NiSource Finance had $96.0 million and $101.6 million of stand-by letters of credit outstanding, respectively. At March 31, 2006, $67.9 million of the $96.0 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource Finance obtained during February 2004. Of the remaining $28.1 million of stand-by letters of credit outstanding at March 31, 2006, $24.7 million resided under NiSource Finance's five-year credit facility and $3.4 million resided under an uncommitted arrangement with another financial institution. As of March 31, 2006, $1,146.1 million of credit was available under both credit facilities.

Sale of Trade Accounts Receivables. On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement has a scheduled expiration date of May 12, 2006, and can be renewed if mutually agreed to by both parties. As of March 31, 2006, $285 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. NRC's agreement with the commercial paper conduit has a scheduled expiration date of December 22, 2006, and can be renewed if mutually agreed to by both parties. As of March 31, 2006, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during the first quarter of 2006, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $6.1 million for the three months ended March 31, 2006.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards. As of March 31, 2006, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the first quarter of 2006. The daily market exposure for the gas marketing and trading portfolios on an average, high and low basis was $0.6 million, $0.9 million and $0.2 million during the first quarter of 2006, respectively. Prospectively, management has set the VaR limit at $0.5 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was $2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Should TPC enter into power derivative contracts in the future to manage price risk associated with Whiting Clean Energy, those contracts would be limited to the physical generation capacity of Whiting Clean Energy.

Refer to Note 9, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $1.0 billion of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 9, "Risk Management and Energy Trading Activities," and Note 13-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

Other Information

Recently Adopted Accounting Pronouncements

SFAS No. 123 (revised 2004) – Share-Based Payment. Effective January 1, 2006, NiSource adopted SFAS No. 123R using the modified prospective transition method. SFAS No. 123R requires measurement of compensation cost for all stock-based awards at fair value on the date of grant and recognition of compensation over the service period for awards expected to vest. In accordance with the modified prospective transition method, NiSource's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS No. 123R. Prior to the adoption of SFAS No. 123R, NiSource applied the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans and complied with the disclosure requirements of SFAS No. 123. There were no modifications to awards as a result of the adoption of SFAS 123R.

NiSource does not anticipate ongoing operating results to be materially impacted by the adoption of SFAS No. 123R. NiSource recognized a cumulative effect of change in accounting principle of $0.4 million, net of income taxes, which reflects the net cumulative impact of estimating future forfeitures in the determination of period expense, rather than recording forfeitures when they occur as previously permitted. NiSource anticipates that other than the requirement for expensing stock options, the current share-based awards will continue to be accounted for substantially as they are currently. For 2006, NiSource's Board has determined that it would not provide incumbent executives additional grants of options, restricted or contingent shares. As of March 31, 2006, the total remaining unrecognized compensation cost related to non-vested awards amounted to $8.2 million, which will be amortized over the weighted-average remaining requisite service period of 2.8 years.

SFAS No. 154 – Accounting Changes and Error Corrections. In May 2005, the FASB issued SFAS No. 154 to provide guidance on the accounting for and reporting of accounting changes and error corrections, which is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to the newly adopted accounting principle, and for the reporting of an error correction. Effective January 1, 2006, NiSource adopted SFAS No. 154. There were no impacts to NiSource's consolidated financial statements as a result of the adoption of SFAS No. 154.

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005. NiSource has adopted FIN 47 in the fourth quarter 2005. Refer to Note 12, "Asset Retirement Obligations," in the Notes to Consolidated Financial Statements for additional information.

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Recently Issued Accounting Pronouncements

Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. On March 31, 2006, the FASB issued an Exposure Draft, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans," an amendment of SFAS No. 87, 88, 106, and 132R. This proposed Statement seeks to improve existing reporting for defined benefit postretirement plans by requiring these employer business entities to do the following; a) recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan measured as the difference between the fair value of the plan assets and the benefit obligation, b) recognize as a component of other comprehensive income, net of tax, the actuarial gains and losses and the prior service costs and credits that were not recognized as components of net periodic benefit cost pursuant to prior rules, c) recognize to the opening balance of retained earnings any transition asset or obligation remaining from the initial application of SFAS No. 87 or 106, d) measure defined benefit plan assets and defined benefit plan obligations as of the date of the employer's statement of financial position, and e) disclose additional information in the notes to financial statements about certain affects on net periodic benefit cost in the upcoming fiscal year. Based on the measurement of the various defined benefit pension and other postretirement plans' assets and benefit obligations at December 31, 2005, the impact of the proposed Statement, should it have been in effect at December 31, 2005, would have reduced Total Other Assets by approximately $69 million, increased Total Other Liabilities and Deferred Credits by approximately $171 million and decreased Total common stock equity by approximately $240 million. The proposed rules will not have an impact on the Statement of Consolidated Income at adoption and all impacts are non-cash. The release of a final interpretation is scheduled for September of 2006, with an effective date for fiscal years ending after December 15, 2006.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

Three Months Ended March 31, *(in millions)*	**2006**	2005
Net Revenues		
Sales Revenues	**$ 2,019.1**	$ 1,840.5
Less: Cost of gas sold	**1,624.2**	1,419.2
Net Sales Revenues	**394.9**	421.3
Transportation Revenues	**165.6**	176.8
Net Revenues	**560.5**	598.1
Operating Expenses		
Operation and maintenance	**228.5**	198.7
Depreciation and amortization	**57.3**	55.8
Other taxes	**68.7**	68.7
Total Operating Expenses	**354.5**	323.2
Operating Income	**$ 206.0**	$ 274.9
Revenues ($ in Millions)		
Residential	**1,409.0**	1,261.7
Commercial	**494.5**	431.3
Industrial	**81.3**	74.6
Transportation	**165.6**	176.8
Off System Sales	**95.3**	51.2
Other	**(61.0)**	21.7
Total	**2,184.7**	2,017.3
Sales and Transportation (MMDth)		
Residential sales	**91.5**	109.1
Commercial sales	**33.3**	39.5
Industrial sales	**6.6**	7.8
Transportation	**152.4**	174.7
Off System Sales	**10.8**	7.1
Other	**0.3**	0.4
Total	**294.9**	338.6
Heating Degree Days	**2,273**	2,673
Normal Heating Degree Days	**2,625**	2,627
% Colder (Warmer) than Normal	**(13%)**	2%
Customers		
Residential	**2,448,796**	2,382,114
Commercial	**213,199**	215,719
Industrial	**5,193**	5,740
Transportation	**698,951**	749,831
Other	**59**	61
Total	**3,366,198**	3,353,465

NiSource's natural gas distribution operations serve approximately 3.4 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with

NISOURCE INC.
Gas Distribution Operations (continued)

over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

Restructuring
Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.9 million for the first quarter of 2006 and the restructuring liability remaining at March 31, 2006 was $8.1 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. As of March 2006, approximately 693 thousand of Gas Distribution Operations' residential, small commercial and industrial customers were using an alternate supplier.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. Columbia of Ohio commenced recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. On June 1, 2005, the PUCO approved Columbia of Ohio's application to decrease its Uncollectible Expense Rider rate. This application was based on projected annual bad debt recovery requirements of $26.3 million for the twelve months ended March 31, 2006, reflecting a reduction of $11.4 million of uncollected accounts receivable pending future recovery. As of March 31, 2006, Columbia of Ohio has $38.9 million of uncollected accounts receivable pending future recovery.

On November 21, 2005, Columbia of Ohio filed an application with the PUCO, requesting authority to increase its PIP rider rate from $.0821/Mcf to $.6449/Mcf. This filing provided for the recovery of Columbia of Ohio's deferred PIP balance over a twelve-month period plus the expected level of arrears during the succeeding twelve-month period. On December 23, 2005, Columbia of Ohio supplemented its application, and as an alternative offered to extend the recovery period for its deferred balance over 36 months, with carrying costs. This filing provided, in the alternative, for the implementation of a revised PIP rate of $.4004/Mcf. Columbia of Ohio's Supplement to its Application indicated that the PIP rate contained in its November 21, 2005 application would be billed absent express PUCO approval of the alternative within the 45-day review process. The PUCO took no action within the forty-five day period, and on January 9, 2006, Columbia of Ohio filed revised tariffs to reflect the new $.6449/Mcf PIP rider rate, effective with February 2006 bills. On February 1, 2006, the PUCO issued an Entry in which it indicated that it had approved Columbia of Ohio's application (as supplemented) on the 46th day after the filing (January 6, 2006). On February 28, 2006, Columbia of Ohio filed revised tariffs, reflecting the lower PIP rider rate of $.4004 /Mcf and an extension of the recovery period for its deferred balance over 36 months, with carrying costs, to be effective with bills rendered on and after March 2, 2006. On February 6, 2006, the Office of the Consumers' Counsel filed an application for rehearing. By Entry on Rehearing dated March 7, 2006, the PUCO denied the application for rehearing. On April 6, 2006, the Office of Consumers' Counsel and other consumer groups filed a second application for rehearing. Columbia of Ohio filed a memorandum contra on April 17, 2006.

On November 2, 2005, Columbia of Virginia filed an Application with the VSCC for approval of a performance based rate-making methodology ("PBR Plan"), which would freeze non-gas cost rates at their current levels for five years beginning January 1, 2006. The VSCC issued a Preliminary Order on November 9, 2005 that docketed the PBR Plan and simultaneously initiated an investigation ("Investigation") into the justness and reasonableness of Columbia of Virginia's current rates, charges and terms and conditions of service. The Preliminary Order initially required Columbia of Virginia to file the schedules typically required for a general rate case application on or before February 3, 2006. By Order dated January 4, 2006, the VSCC granted a Columbia of Virginia Motion to extend the filing of schedules in the Investigation until May 1, 2006.

In accordance with the IURC's 1999 Order that permits Northern Indiana to utilize a flexible GCA mechanism to recover its pipeline demand costs annually and changes in commodity gas costs monthly, Northern Indiana filed

NISOURCE INC.
Gas Distribution Operations (continued)

GCA7, covering the period November 1, 2005 through October 31, 2006 on August 29, 2005. The IURC approved the rates on an interim basis subject to refund on November 22, 2005. A final order approving this filing is expected in the second quarter of 2006.

On July 13, 2005, Northern Indiana and other parties filed a joint Stipulation and Settlement Agreement with the IURC resolving all terms of a new gas ARP program. The IURC approved the Settlement on January 31, 2006. The new ARP is effective May 1, 2006 through April 30, 2010. The new ARP continues key products and services including Northern Indiana's Choice program for customers. The ARP also continues the GCIM and adds a new incentive mechanism that shares savings of reduced transportation costs between the company and customers. Northern Indiana and the settling parties also agreed to a moratorium on base rates with the ability to address certain defined issues during the term of this agreement.

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of March 31, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 13-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather

In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation's territories for the first quarter of 2006 was 15% warmer than the comparable quarter in 2005, and 13% warmer than normal overall.

Throughput

Total volumes sold and transported of 294.9 MMDth for the first quarter of 2006, decreased 43.7 MMDth from the same period last year. This decrease in volume was experienced across residential, commercial, and industrial markets and was attributable mainly to the milder weather and decreased residential customer usage compared to the same period last year. Decreases in commercial and industrial customers also contributed to this decrease in gas volume.

Net Revenues

Net revenues for the three months ended March 31, 2006 were $560.5 million, a decrease of $37.6 million from the same period in 2005 due primarily to the impact of warmer weather amounting to approximately $46 million for the quarter and approximately $11 million due to residential usage declines. This decrease in net revenues was partially offset by an increase in revenues recognized for regulatory trackers of $23.2 million, which are offset in operating expenses, and approximately $2 million as a result of an increase in the number of residential customers.

Operating Income

For the first quarter of 2006, Gas Distribution Operations reported operating income of $206.0 million, a decrease of $68.9 million from the same period in 2005. The decrease in operating income was mainly attributable to warmer weather and reduced residential customer usage described above as well as $6.1 million of transition costs and new system development costs associated with the IBM agreement. The $23.2 million increase in revenues from regulatory trackers was offset by $23.2 million of increased tracker related operation and maintenance expenses.

NISOURCE INC.
Gas Transmission and Storage Operations

Three Months Ended March 31, *(in millions)*	**2006**	2005
Operating Revenues		
Transportation revenues	**$ 184.2**	$ 178.4
Storage revenues	**44.4**	45.2
Other revenues	**3.0**	6.1
Total Operating Revenues	**231.6**	229.7
Less: Cost of gas sold	**5.4**	5.5
Net Revenues	**226.2**	224.2
Operating Expenses		
Operation and maintenance	**72.3**	71.4
Depreciation and amortization	**28.7**	28.1
Other taxes	**14.9**	15.2
Total Operating Expenses	**115.9**	114.7
Operating Income	**$ 110.3**	$ 109.5

Throughput (MMDth)		
Columbia Transmission		
Market Area	**328.5**	395.6
Columbia Gulf		
Mainline	**161.6**	138.7
Short-haul	**16.6**	18.2
Columbia Pipeline Deep Water	**2.9**	3.5
Crossroads Gas Pipeline	**11.0**	12.0
Granite State Pipeline	**11.6**	13.9
Intrasegment eliminations	**(156.3)**	(138.6)
Total	**375.9**	443.3

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline and Granite State Gas. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in nineteen northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring
Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.6 million for the first quarter of 2006 and the restructuring liability remaining at March 31, 2006 was $2.8 million. Refer to Note 6, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 after which all assessment costs will be recorded as operating expenses. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. It is anticipated that operating expenses will increase approximately $7 - $12 million in future years related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of March 31, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 13-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Proposed Millennium Pipeline Project
Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is currently being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Coastal Zone Management Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. On March 31, the United States Federal District Court denied Millennium's appeal.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase 1 of the project. Millennium recently completed renegotiations of the precedent agreements with its anchor shippers. The reconfigured Millennium project relies on completion of some or all of several other related pipeline projects proposed by Empire, Algonquin, Iroquois, and Islander East collectively referred to as the "Companion Pipelines." The timing of receipt of the necessary regulatory approvals for Millennium and its Companion Pipelines may impact the targeted in-service date during the fourth quarter of 2007 and may even affect the viability of Phase 1. Provided the necessary approvals are received in a timely manner, Millennium plans to begin construction in Spring 2007.

In March 2006, Columbia Atlantic Trading, a NiSource subsidiary, sold its 21.0% interest in the Millennium partnership to KeySpan Millennium (owned by KeySpan Corp.) and DTE Millennium (owned by DTE Energy Co.) through an equity redistribution and a re-writing of the partnership agreements. The Millennium partnership is now currently made up of the following companies: Columbia Transmission (47.5%), DTE Millennium (26.25%), KeySpan Millennium (26.25%). Columbia Transmission will be the operator.

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States.

Columbia Transmission and Piedmont have formed Hardy Storage, to develop a natural gas storage field from a depleted natural gas production field in West Virginia. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

An open season for Hardy Storage conducted in early 2004 resulted in full subscription of the project's storage capacity under long-term firm contracts. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in November 2007, and will ultimately be able to deliver 176 MMDth per day of firm storage service on behalf of the four customers subscribing to capacity in Hardy Storage. These customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005. Construction began in the first quarter of 2006. Service from both projects is expected to be available in 2007.

Other Growth Projects

Columbia Transmission recently held open seasons for three additional projects, two Eastern Market expansion projects, and an Appalachian pipeline expansion in Kentucky and West Virginia. Columbia Gulf recently held an open season to expand the East Lateral System. Market interest for all projects is encouraging. Columbia Transmission has signed precedent agreements with four East Coast customers for one of the Eastern Market expansions. Customer negotiations are ongoing for the remaining projects.

Sales of Shorter-Term Transportation and Storage Services

Seasonal price fluctuations in the national energy market created opportunities for customers to utilize existing shorter-term transportation and storage tariff services provided by Columbia Transmission and Columbia Gulf. A newly redeveloped, Houston-based commercial team has capitalized on these opportunities. Columbia Transmission entered into contracts that represent revenues in excess of $25 million of shorter-term business for 2006, $3.4 million of which was recorded during the first quarter ended March 31, 2006. Columbia Gulf's mainline throughput increased by 16.5% over 2005 due to the increased utilization of these services.

Throughput

Throughput for the Gas Transmission and Storage Operations segment totaled 375.9 MMDth for the first quarter 2006, compared to 443.3 MMDth for the same period in 2005. The decrease of 67.4 MMDth is due to warmer weather and to a lesser extent lower offshore natural gas production due to the 2005 Gulf of Mexico hurricanes which impacted the first quarter of 2006. Columbia Gulf mainline throughput increased to 161.6 MMDth for the first quarter of 2006 compared to 138.7 MMDth for the same period in 2005 due to increased utilization of the shorter-term transportation and storage services described above.

Net Revenues

Net revenues were $226.2 million for the first quarter 2006, an increase of $2.0 million from the same period in 2005, primarily due to increased sales of shorter-term transportation and storage services described above.

Operating Income

Operating income was $110.3 million for the first quarter 2006 compared to $109.5 million in the first quarter 2005. Operating income increased as a result of the change in net revenues described above, partially offset by slightly higher operating expenses of $1.2 million. Operation and maintenance expenses increased slightly as a result of higher employee and administrative expense of $1.5 million due primarily to transition costs associated with the IBM agreement.

NISOURCE INC.
Electric Operations

For the Three Months Ended March 31, *(in millions)*	2006	2005
Net Revenues		
Sales revenues	$ 306.9	$ 282.7
Less: Cost of sales	117.3	96.0
Net Revenues	189.6	186.7
Operating Expenses		
Operation and maintenance	60.5	61.1
Depreciation and amortization	46.1	45.5
Other taxes	14.9	14.7
Total Operating Expenses	121.5	121.3
Operating Income	$ 68.1	$ 65.4
Revenues ($ in millions)		
Residential	80.9	73.4
Commercial	82.4	73.2
Industrial	125.5	112.4
Wholesale	5.5	7.5
Other	12.6	16.2
Total	306.9	282.7
Sales (Gigawatt Hours)		
Residential	761.1	767.0
Commercial	894.0	894.2
Industrial	2,437.4	2,328.3
Wholesale	152.1	161.2
Other	28.6	32.6
Total	4,273.2	4,183.3
Electric Customers		
Residential	395,653	392,527
Commercial	51,313	50,485
Industrial	2,521	2,531
Wholesale	8	28
Other	762	766
Total	450,257	446,337

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 450 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

NISOURCE INC.
Electric Operations (continued)

The U.S. Steel Industry continues to adjust to changing market conditions including international competition, increased energy costs, and fluctuating demand for their products. The industry has responded with plant consolidation and rationalization to reduce costs and improve their position in the market place. Increased use of advanced technology by U.S. steel producers has lowered production costs and increased productivity, reducing the labor differential between international producers and those in the United States.

Steel demand for 2006 is anticipated to remain at current levels for the first half of the year. It is estimated that international pressure may reduce the price per ton for rolled steel by as much as 20% by June 2006. This anticipated price reduction may cause inventories to increase once again and repeat the price/production cycle seen in 2004 and 2005. Electric sales to the steel industry in 2005 were down 3.2% as compared to 2004.

In 2005, Northern Indiana coal deliveries from the PRB area were limited to 80 – 85% of contracted amounts as a result of maintenance problems on track owned jointly by the Union Pacific Railroad Company and Burlington Northern Santa Fe Railway Company. Northern Indiana met the expected electricity demand through the end of 2005 by changing the fuel blend, which reduced its need for PRB coal. Northern Indiana has been blending this fuel for a number of years. In the second quarter of 2006, track maintenance will resume until completion, but at this time it is unknown if coal deliveries will be impacted.

Regulatory Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order provides a rate moratorium through July 31, 2006. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. The revenue credit is calculated based on electric usage and therefore in times of high usage the credit may be more than the $55.1 million target. Credits amounting to $10.7 million and $14.4 million were recognized for electric customers for the first quarter of 2006 and 2005, respectively.

As part of Northern Indiana's use of the MISO's transmission service, Day 1, Northern Indiana incurs transmission charges, based upon the FERC-approved tariff, as well as administrative fees, which relate to the MISO's management and operations of the transmission system. Day 1 transmission charges are recovered through the FAC process. During 2004, an IURC order denied recovery or deferral of Day 1 administrative fees during Northern Indiana's rate moratorium. Day 2 charges consist of fuel-related and non-fuel-related categories. On June 1, 2005, the IURC issued an order authorizing Northern Indiana to recover fuel-related Day 2 costs. The order denied recovery or deferral of non-fuel Day 2 costs during Northern Indiana's rate moratorium, which expires July 31, 2006. The June 2005 order was unclear as to the categorization of certain types of MISO charges as to whether they were fuel or non-fuel. These particular charges, which amounted to $8.7 million in 2005, and $1.6 million for the first three months of 2006, were included as recoverable in Northern Indiana's FAC-68, FAC-69 and FAC-70 filings, but, pending a clarifying order from the IURC, Northern Indiana has provided a reserve for the full amount. On February 17, 2006, a settlement agreement was filed in cause 42962 providing for recovery through the FAC process of these charges, subject to an agreed upon standard of reasonableness for the charges. The settling parties are Northern Indiana, Indianapolis Power & Light, Vectren Energy Delivery of Indiana, Inc. and the OUCC. The IURC approved Northern Indiana's FAC-69 and FAC-70 filings, in January 2006 and April 2006, respectively, but noted in both orders that this particular category of charges was approved "subject to refund" and subject to final orders. On May 4, 2006, the IURC issued an order, ruling that these charges were to be classified as fuel charges and were therefore recoverable through the FAC mechanism, beginning with charges incurred on December 9, 2005. The Day 2 non-fuel category includes costs recorded as non-recoverable in net revenues, which amounted to $0.5 million for the first three months of 2006. These costs began in April 2005 and totaled $5.4 million for the year 2005. Day 1 and Day 2 administrative fees, which were recorded as non-recoverable operating expenses, totaled $1.2 million for the first quarter of 2006 and were $5.1 million for the year 2005. Northern Indiana is authorized to begin the deferral of all non-fuel and administrative MISO charges incurred after July 31, 2006 for consideration in a future rate proceeding. As part of the established settlement process with market participants, MISO uses "resettlement" statements to make adjustments related to prior operating periods. Amounts related to these adjustments cannot be anticipated or estimated in advance. Northern Indiana records these amounts when billed.

NISOURCE INC.
Electric Operations (continued)

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. On January 18, 2006, the IURC issued a final order dismissing, without prejudice, this cause and the related settlement agreement finding that the agreement entered into between the City of Gary and Northern Indiana lacks essential terms necessary for it to be a valid and enforceable contract under Indiana law. Northern Indiana is evaluating the appropriate course of action for the Mitchell facility in light of the City of Gary's need for that property and the substantial costs associated with restarting the facility.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO. A hearing in this matter was held in December 2004. Northern Indiana will withdraw this petition if the final order from the IURC in cause 42824 approves recovery of intermediate dispatchable power costs incurred in August to December 2005 as described below.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. On March 9, 2006, LaPorte's appeal of the IURC's interim order was dismissed. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing is scheduled for the second quarter of 2006 and a final order is expected in the third quarter of 2006.

Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement on August 19, 2005 for purposes of partially settling cause 42824 (described above). The OUCC and the Industrial Group agreed to support Northern Indiana's recovery of intermediate dispatchable power, through its FAC for the period August 9, 2005 through November 30, 2005. Additional settlement provisions include Northern Indiana's agreement to file an electric base rate case on or before July 1, 2008.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery.

Northern Indiana filed FAC-68 on August 15, 2005. This filing included a projected amount of intermediate dispatchable power costs for October to December 2005, consistent with the Interim Order in 42824. The IURC approved this filing on October 26, 2005.

NiSource Inc.
Electric Operations (continued)

Northern Indiana filed FAC-69 on November 3, 2005. This filing included a reconciliation of actual intermediate dispatchable power purchases for August and September 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 as described above. The order approving the FAC-69 factor was issued January 11, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

Northern Indiana filed FAC-70 on February 6, 2006. This filing included a reconciliation of actual intermediate dispatchable power purchases for October, November and December 2005. The filing also included recovery of certain MISO charges under consideration in cause 42962 as described above. The order approving the FAC-70 factor was issued April 20, 2006. The intermediate dispatchable power cost recovery is subject to refund based upon the outcome of cause 42824 (described above).

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) AFUDC and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On December 21, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $306 million. The ECRM revenues amounted to $6.9 million for the three months ended March 31, 2006, and $58.6 million from inception to date, while EERM revenues were $2.3 million for the first quarter of 2006 and $11.1 million from inception to date. On February 3, 2006, Northern Indiana filed ECR-7 simultaneously with EER-3 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $230.6 million and depreciation and operating expenses of $18.3 million through December 31, 2005. On March 29, 2006, the IURC approved Northern Indiana's ECR-7 filing.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans announced by Jupiter. On December 21, 2005, Jupiter filed with the Indiana Court of Appeals a verified motion for remand asking that the case be moved to the IURC for further proceedings. On March 15, 2006, the Court of Appeals denied Jupiter's motion for remand. On March 30, 2006, Jupiter filed a second complaint with the IURC, in which Jupiter alleges service problems and seeks additional relief. No hearing dates have been set.

Environmental Matters

Currently, various environmental matters impact the Electric Operations segment. As of March 31, 2006, a reserve has been recorded to cover probable environmental response actions. Refer to Note 13-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for the Electric Operations segment.

Sales

Electric Operations sales quantities for the first quarter of 2006 were 4,273.2 gwh, an increase of 89.9 gwh compared to the 2005 period, as a result of increased industrial usage.

Net Revenues

In the first quarter of 2006, electric net revenues of $189.6 million increased by $2.9 million from the comparable 2005 period. This improvement was primarily a result of increased environmental cost recovery trackers of $2.5, a reduction in customer credits, and an increase in industrial usage and the number of residential and commercial customers mentioned above.

NISOURCE INC.
Electric Operations (continued)

Operating Income
Operating income for the first quarter of 2006 was $68.1 million, an increase of $2.7 million from the same period in 2005. The increase was primarily due to the changes in net revenue mentioned above. While operating expenses were relatively flat as compared to the 2005 period, increases in unrecoverable MISO costs of $0.5 million and increased maintenance expenditures were offset by reduced employee and administrative expense.

NISOURCE INC.
Other Operations

Three Months Ended March 31, *(in millions)*	**2006**	2005
Net Revenues		
Products and services revenue	**$ 341.7**	$ 229.5
Less: Cost of products purchased	**336.1**	224.1
Net Revenues	**5.6**	5.4
Operating Expenses		
Operation and maintenance	**12.4**	6.4
Depreciation and amortization	**3.0**	2.9
Gain on sale of assets	**(2.7)**	(0.5)
Other taxes	**2.1**	1.8
Total Operating Expenses	**14.8**	10.6
Operating Loss	**$ (9.2)**	$ (5.2)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $11.9 million at March 31, 2006, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first three months of 2006, the PEI holding companies' consolidated after-tax loss was approximately $10.2 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time for the next three years.

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy. The FERC accepted a tariff covering the sale of such intermediate dispatchable power.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition (cause 42824) with the IURC for approval of a three-year arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy facility to

NISOURCE INC.
Other Operations (continued)

Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration. Northern Indiana filed supplemental testimony on January 26, 2006 indicating that it no longer is seeking approval of the three-year arrangement. The testimony clarifies that Northern Indiana is seeking affirmation from the IURC that the intermediate dispatchable power purchases made between August 9, 2005 and December 31, 2005 which were made pursuant to the July 1, 2005 interim order were reasonable. The evidentiary hearing and final order are expected in the second quarter of 2006.

Net Revenues
Net revenues of $[illegible] million for the first quarter of 2006 increased by $0.2 million from the first quarter of 2005, as a result of increased gas marketing revenues of $1.1 million.

Operating Loss
Other Operations reported an operating loss of $9.2 million for the first quarter of 2006, versus an operating loss of $5.2 million for the comparable 2005 period. The increase in the operating loss resulted primarily from increased scheduled maintenance for Whiting Clean Energy of $4.5 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were adequate and effective.

Changes in Internal Controls
There was no change in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. **United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana**

   The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

   Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

   The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. The decision of the Special Master has been briefed and argued by the parties and presented to the Federal District Court Judge for a final ruling, which is expected in the second quarter of 2006.

ITEM 1A. RISK FACTORS

No material changes from the risk factors disclosed in NiSource's 2005 Form 10-K filed on March 10, 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Company Purchases of Equity Securities

The following table provides information about purchases by the Company during the quarter ended March 31, 2006 of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share (2)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans
January 2006	280,306	$ 21.03	N/A	N/A

(1) Shares of Common Stock that are tendered by employees to the Company to satisfy the employees' tax withholding obligations in connection with the vesting of awards of restricted stock, which are repurchased by the Company based on their fair market value on the vesting date.

(2) The calculation of the average price per share does not give effect to any fees, commissions or other costs associated with the repurchase of such shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

NISOURCE INC.

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(10.1)	Amended and Restated NiSource Inc. Executive Severance Policy (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on January 31, 2006). *
(10.2)	Amended and Restated NiSource Inc. Directors' Charitable Gift Program (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K filed on January 31, 2006). *
(31.1)	Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
(31.2)	Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. **
(32.1)	Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **
(32.2)	Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). **
*	Management contract or compensatory plan or arrangement of NiSource Inc.
**	Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: May 5, 2006

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☑ No ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☑

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,621,430 shares outstanding at October 31, 2005.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED SEPTEMBER 30, 2005

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DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
Columbia	Columbia Energy Group
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
IWC	Indianapolis Water Company
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
Primary Energy	Primary Energy, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
APB No. 28	Accounting Principles Board Opinion No. 28, "Interim Financial Reporting"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
DOT	United States Department of Transportation
ECRM	Environmental Cost Recovery Mechanism
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share

DEFINED TERMS (continued)

FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 45	FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
ITC	Independent Transmission Company (Grid America)
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Mahonia	Mahonia II Limited
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
MMI	Midwest Market Initiative
MOU	Memorandum of Understanding
MSCP	Morgan Stanley Dean Witter Capital Partners IV, L.P.
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OPSB	Ohio Power Siting Board
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PPS	Price Protection Service
PRB	Powder River Basin
PSC	Kentucky Public Service Commission
PUC	Public Utilities Commission
PUCO	Public Utilities Commission of Ohio
QPAI	Qualified production activities income
RAM	Retainage Adjustment Mechanism
SAILS^{SM}	Stock Appreciation Income Linked Securities^{SM}
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 87	Statement of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions"
SFAS No. 109	Statement of Financial Accounting Standards No. 109, "Accounting for Uncertain Tax Positions"
SFAS No. 123	Statement of Financial Accounting Standards No. 123, "Share-Based Payment"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended

DEFINED TERMS (continued)

SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SIP	State Implementation Plan
SO2	Sulfur dioxide
Tcf	Trillion cubic feet
Triana	Triana Energy Holdings
VaR	Value-at-risk and instrument sensitivity to market factors

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

(in millions, except per share amounts*)*	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net Revenues				
Gas Distribution	$ 380.1	$ 329.2	$ 2,865.2	$ 2,604.0
Gas Transportation and Storage	179.1	186.4	721.0	738.2
Electric	381.7	305.0	945.9	841.1
Other	222.9	157.6	668.4	511.1
Gross Revenues	1,163.8	978.2	5,200.5	4,694.4
Cost of Sales	556.1	389.1	2,925.1	2,499.0
Total Net Revenues	607.7	589.1	2,275.4	2,195.4
Operating Expenses				
Operation and maintenance	326.5	282.3	982.0	888.4
Depreciation and amortization	136.1	125.6	407.6	378.0
Impairment and loss (gain) on sale of assets	-	(0.1)	20.4	0.9
Other taxes	51.9	53.2	215.1	199.1
Total Operating Expenses	514.5	461.0	1,625.1	1,466.4
Operating Income	93.2	128.1	650.3	729.0
Other Income (Deductions)				
Interest expense, net	(107.1)	(99.5)	(312.8)	(300.8)
Dividend requirements on preferred stock of subsidiaries	(1.0)	(1.1)	(3.2)	(3.3)
Other, net	3.3	1.0	6.4	3.9
Total Other Income (Deductions)	(104.8)	(99.6)	(309.6)	(300.2)
Income (Loss) From Continuing Operations Before Income Taxes	(11.6)	28.5	340.7	428.8
Income Taxes	(5.8)	6.8	129.9	154.8
Income (Loss) from Continuing Operations	(5.8)	21.7	210.8	274.0
Income (Loss) from Discontinued Operations - net of taxes	(6.3)	8.7	(20.1)	4.5
Gain (Loss) on Disposition of Discontinued Operations - net of taxes	5.3	(1.6)	47.8	(1.6)
Net Income (Loss)	$ (6.8)	$ 28.8	$ 238.5	$ 276.9
Basic Earnings (Loss) Per Share ($)				
Continuing operations	(0.02)	0.08	0.78	1.04
Discontinued operations	(0.01)	0.03	0.10	0.02
Basic Earnings (Loss) Per Share	(0.03)	0.11	0.88	1.06
Diluted Earnings (Loss) Per Share ($)				
Continuing operations	(0.02)	0.08	0.77	1.03
Discontinued operations	(0.01)	0.03	0.10	0.02
Diluted Earnings (Loss) Per Share	(0.03)	0.11	0.87	1.05
Dividends Declared Per Common Share	0.23	0.23	0.69	0.69
Basic Average Common Shares Outstanding (millions)	271.7	262.7	271.1	262.5
Diluted Average Common Shares (millions)	273.7	264.6	272.9	264.5

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets

(in millions)	**September 30, 2005** (unaudited)	December 31, 2004
ASSETS		
Property, Plant and Equipment		
Utility Plant	**$ 16,500.5**	$ 16,194.1
Accumulated depreciation and amortization	**(7,495.8)**	(7,247.7)
Net utility plant	**9,004.7**	8,946.4
Other property, at cost, less accumulated depreciation	**421.1**	427.5
Net Property, Plant and Equipment	**9,425.8**	9,373.9
Investments and Other Assets		
Assets of discontinued operations and assets held for sale	**34.7**	38.6
Unconsolidated affiliates	**70.4**	64.2
Other investments	**115.2**	113.0
Total Investments and Other Assets	**220.3**	215.8
Current Assets		
Cash and cash equivalents	**932.5**	29.5
Restricted cash	**1.8**	56.3
Accounts receivable (less reserve of $57.2 and $55.6, respectively)	**438.6**	889.1
Gas inventory	**666.5**	452.9
Underrecovered gas and fuel costs	**230.0**	293.8
Materials and supplies, at average cost	**71.1**	70.6
Electric production fuel, at average cost	**27.6**	29.2
Price risk management assets	**371.0**	61.1
Exchange gas receivable	**208.2**	169.6
Regulatory assets	**179.4**	136.2
Prepayments and other	**86.4**	96.1
Total Current Assets	**3,213.1**	2,284.4
Other Assets		
Price risk management assets	**214.6**	148.3
Regulatory assets	**551.1**	568.4
Goodwill	**3,677.3**	3,687.2
Intangible assets	**498.5**	520.3
Deferred charges and other	**181.4**	189.5
Total Other Assets	**5,122.9**	5,113.7
Total Assets	**$ 17,982.1**	$ 16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Consolidated Balance Sheets (continued)

(in millions, except share amounts)	**September 30, 2005** (unaudited)	December 31, 2004
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value - 400,000,000 shares authorized, 272,597,142 and 270,625,370 shares issued and outstanding, respectively	$ **2.7**	$ 2.7
Additional paid-in-capital	**3,968.5**	3,924.0
Retained earnings	**913.6**	925.4
Accumulated other comprehensive income (loss) and other common stock equity	**21.7**	(65.0)
Total common stock equity	**4,906.5**	4,787.1
Preferred stocks—Series without mandatory redemption provisions	**81.1**	81.1
Long-term debt, excluding amounts due within one year	**4,778.8**	4,835.9
Total Capitalization	**9,766.4**	9,704.1
Current Liabilities		
Current portion of long-term debt	**2,212.9**	1,299.9
Short-term borrowings	**-**	307.6
Accounts payable	**535.2**	648.4
Dividends declared on common and preferred stocks	**63.8**	1.1
Customer deposits	**94.9**	92.2
Taxes accrued	**171.9**	160.9
Interest accrued	**142.8**	84.1
Overrecovered gas and fuel costs	**16.3**	15.5
Price risk management liabilities	**119.4**	46.9
Exchange gas payable	**312.0**	325.1
Deferred revenue	**35.8**	31.5
Regulatory liabilities	**55.5**	30.2
Accrued liability for postretirement and pension benefits	**92.8**	85.5
Other accruals	**500.8**	478.2
Total Current Liabilities	**4,354.1**	3,607.1
Other Liabilities and Deferred Credits		
Price risk management liabilities	**13.2**	5.5
Deferred income taxes	**1,686.0**	1,665.9
Deferred investment tax credits	**71.8**	78.4
Deferred credits	**68.2**	74.0
Deferred revenue	**71.0**	86.9
Accrued liability for postretirement and pension benefits	**473.2**	413.0
Preferred stock liabilities with mandatory redemption provisions	**-**	0.6
Regulatory liabilities and other removal costs	**1,276.5**	1,168.6
Other noncurrent liabilities	**201.7**	183.7
Total Other Liabilities and Deferred Credits	**3,861.6**	3,676.6
Commitments and Contingencies	**-**	-
Total Capitalization and Liabilities	$ **17,982.1**	$ 16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Nine Months Ended September 30, *(in millions)*		2005		2004
Operating Activities				
Net income	$	**238.5**	$	276.9
Adjustments to reconcile net income to net cash from continuing operations:				
Depreciation and amortization		**407.6**		378.0
Net changes in price risk management activities		**(85.7)**		3.2
Deferred income taxes and investment tax credits		**(56.8)**		(5.9)
Deferred revenue		**(11.6)**		(21.7)
Amortization of unearned compensation		**6.6**		6.9
Loss (Gain) on sale of assets		**(1.4)**		0.9
Loss on impairment of assets		**21.8**		-
Income from unconsolidated affiliates		**(3.5)**		(1.1)
Loss (gain) from sale of discontinued operations		**(47.8)**		1.6
Loss (income) from discontinued operations		**20.1**		(4.5)
Amortization of discount/premium on debt		**14.6**		13.9
Other adjustments		**(1.3)**		(1.9)
Changes in assets and liabilities:				
Accounts receivable		**423.8**		395.6
Inventories		**(212.6)**		(123.7)
Accounts payable		**(97.2)**		(196.4)
Customer deposits		**2.7**		1.7
Taxes accrued		**(7.7)**		(49.4)
Interest accrued		**62.9**		58.5
(Under) Overrecovered gas and fuel costs		**64.7**		15.5
Exchange gas receivable/payable		**(22.0)**		7.8
Other accruals		**(1.2)**		(38.2)
Prepayment and other current assets		**16.3**		41.1
Regulatory assets/liabilities		**(17.5)**		40.7
Postretirement and postemployment benefits		**41.6**		15.8
Deferred credits		**(5.7)**		(11.4)
Deferred charges and other noncurrent assets		**13.2**		(18.0)
Other noncurrent liabilities		**11.9**		24.3
Net Cash Flows from Continuing Operations		**774.3**		810.2
Net Cash Flows used for Discontinued Operations		**(17.4)**		(0.1)
Net Cash Flows from Operating Activities		**756.9**		810.1
Investing Activities				
Capital expenditures		**(406.9)**		(382.3)
Proceeds from disposition of assets		**7.4**		5.9
Other investing activities		**119.1**		(2.9)
Net Cash Flows used for Investing Activities		**(280.4)**		(379.3)
Financing Activities				
Issuance of long-term debt		**1,000.0**		-
Retirement of long-term debt		**(115.9)**		(235.8)
Change in short-term debt		**(307.6)**		(7.1)
Issuance of common stock		**39.3**		11.1
Acquisition of treasury stock		**(1.7)**		(3.7)
Dividends paid - common shares		**(187.6)**		(182.5)
Net Cash Flows from (used for) Financing Activities		**426.5**		(418.0)
Increase in cash and cash equivalents		**903.0**		12.8
Cash and cash equivalents at beginning of year		**29.5**		27.1
Cash and cash equivalents at end of period	**$**	**932.5**	$	39.9
Supplemental Disclosures of Cash Flow Information				
Cash paid for interest		**240.9**		231.8
Interest capitalized		**1.3**		1.9
Cash paid for income taxes		**97.4**		136.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Comprehensive Income (unaudited)

(in millions, net of taxes)	Three Months Ended September 30, **2005**	Three Months Ended September 30, 2004	Nine Months Ended September 30, **2005**	Nine Months Ended September 30, 2004
Net Income (Loss)	**$ (6.8)**	$ 28.8	**$ 238.5**	$ 276.9
Other comprehensive income, net of taxes				
Foreign currency translation adjustment	**-**	-	**-**	0.7
Net unrealized gains on cash flow hedges	**94.4**	18.1	**110.6**	26.7
Net gain (loss) on available for sale securities	**(0.2)**	0.3	**0.3**	0.7
Minimum pension liability adjustment	**(22.7)**	4.6	**(22.7)**	4.6
Total other comprehensive income, net of taxes	**71.5**	23.0	**88.2**	32.7
Total Comprehensive Income	**$ 64.7**	$ 51.8	**$ 326.7**	$ 309.6

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation. In the Statements of Consolidated Cash Flows for the nine months ended September 30, 2004, the classification of the activity in restricted cash balances has been reclassified to an investing activity within "Other investing activities." NiSource previously presented such changes as an operating activity. For the nine months ended September 30, 2004, this resulted in a $2.8 million increase to investing cash flows and a corresponding decrease to operating cash flows from the amounts previously reported.

2. Recent Accounting Pronouncements

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005, and early adoption is encouraged. NiSource is currently reviewing the legal obligations surrounding future retirement of tangible long-lived assets with regards to this interpretation.

SFAS No. 123 (revised 2004) – Share-Based Payment. In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after December 15, 2005, as directed by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. NiSource plans to adopt this standard on January 1, 2006, using a modified version of the prospective application as described in the statement. NiSource is currently reviewing its share-based compensation programs and the provisions of SFAS No. 123R.

Accounting for Uncertain Tax Positions. On July 14, 2005, the FASB issued an Exposure Draft, "Accounting for Uncertain Tax Positions," that would interpret SFAS No. 109. This proposal seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, the proposal would require that a tax position meet a "probable recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements. The proposal would require recognition in the financial statements of the best estimate of the effects of a tax position only if that position is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of the Exposure Draft to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements. The Exposure Draft is scheduled to be finalized in the first quarter of 2006.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Basic average common shares outstanding increased from the comparative 2004 period due primarily to the issuance of approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts associated with the SAILS^{SM} on November 1, 2004. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

incentive compensation plans. The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

(in thousands)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Denominator				
Basic average common shares outstanding	**271,724**	262,651	**271,080**	262,494
Dilutive potential common shares				
Nonqualified stock options	**512**	134	**439**	155
Shares contingently issuable under employee stock plans	**884**	1,180	**884**	1,180
SAILS^{SM}	**-**	-	**-**	18
Shares restricted under employee stock plans	**541**	601	**511**	649
Diluted Average Common Shares	**273,661**	264,566	**272,914**	264,496

4. Stock Options and Awards

FASB SFAS No. 123R encourages, but does not require at this time, entities to adopt the fair value method of accounting for stock-based compensation plans. NiSource plans to adopt SFAS No. 123R on January 1, 2006, as allowed for by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. The fair value method would require the amortization of the fair value of stock-based compensation at the date of grant over the related vesting period. NiSource continues to apply the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans. NiSource complies with the disclosure requirements of SFAS No. 123. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

($ in millions, except per share data)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net Income (Loss)				
As reported	**(6.8)**	28.8	**238.5**	276.9
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**1.2**	1.6	**4.2**	4.3
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	**(1.2)**	(3.2)	**(10.4)**	(9.0)
Pro forma	**(6.8)**	27.2	**232.3**	272.2
Earnings (loss) per share				
Basic - as reported	**(0.03)**	0.11	**0.88**	1.06
- pro forma	**(0.03)**	0.10	**0.86**	1.04
Diluted - as reported	**(0.03)**	0.11	**0.87**	1.05
- pro forma	**(0.03)**	0.10	**0.85**	1.03

NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Due to the one-year vesting terms of the options awarded prior to 2005 and the immediate vesting of the options awarded in January 2005, the pro-forma expense shown for 2005 is weighted in the first quarter. This creates no additional pro-forma expense in the second, third or fourth quarter of 2005, and slightly higher pro-forma expense for the nine months ended September 30, 2005 compared to the same period of 2004.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

5. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. In connection with the IBM agreement, a total reduction of approximately 1,000 positions is expected through the transition period. Approximately 570 of the impacted employees are expected to become employees of IBM or its subcontractors. As of September 30, 2005, 570 employees were terminated during the quarter as a result of the agreement with IBM, of which 499 became employees of IBM. NiSource recognized approximately $18 million in restructuring charges in the third quarter of 2005 for non-cash pension and post-retirement benefit expense related to the severed employees, which is reflected in the liability for postretirement and pension benefits. Of the $18 million restructuring charge recorded in the third quarter, $10.6 million was recorded by the Gas Distribution Operations segment, $3.5 million was recorded by the Gas Transmission and Storage Operations segment, $2.0 million was recorded by the Electric Operations segment, $0.5 million was recorded by the Other Operations segment and $1.4 million was recorded by Corporate. In June 2005, NiSource recorded a restructuring charge of $16.4 million for estimated severance payments expected to be made in connection with the IBM agreement. Of the $16.4 million restructuring charge recorded for the second quarter, $11.2 million was recorded by the Gas Distribution Operations segment, $2.7 million was recorded by the Gas Transmission and Storage Operations segment, $1.8 million was recorded by the Electric Operations segment, $0.2 million was recorded by the Other Operations segment and $0.5 million was recorded by Corporate. These restructuring charges are included in "Operation and maintenance" expense on the Statements of Consolidated Income.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of September 30, 2005, approximately 1,565 employees were terminated, of whom zero and 3 employees were terminated during the quarter and nine months ended September 30, 2005, respectively.

NiSource recognized a $16.4 million restructuring liability in the second quarter of 2005 for estimated severance payments to be made as a result of the IBM outsourcing agreement. Adjustments to the restructuring liability were recorded mainly for reductions in estimated expenses related to previous restructuring initiatives. Of the $10.5 million remaining restructuring liability from the Columbia merger and related initiatives, $9.9 million is related to facility exit costs.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at Dec. 31, 2004	Additions	Benefits Paid	Adjustments	Balance at Sept. 30, 2005
Outsourcing initiative	$ -	$ 16.4	$ (1.9)	$ -	$ 14.5
Columbia merger and related initiatives	14.6	-	(3.1)	(1.0)	10.5
Total	$ 14.6	$ 16.4	$ (5.0)	$ (1.0)	$ 25.0

6. Discontinued Operations and Assets Held for Sale

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.2 million as of September 30, 2005,

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are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.0 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from the golf course assets of Lake Erie Land, Transcom, and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2005**	2004	**2005**	2004
Revenues from Discontinued Operations	**$ 1.7**	$ 1.7	**$ 3.9**	$ 3.7
Loss from discontinued operations	**(9.8)**	(5.5)	**(31.0)**	(12.0)
Income tax benefit	**(3.5)**	(14.2)	**(10.9)**	(16.5)
Net Income (Loss) from Discontinued Operations	**$ (6.3)**	$ 8.7	**$ (20.1)**	$ 4.5

The loss from discontinued operations for the current quarter included changes to reserves for contingencies primarily related to CER. For the nine months ended September 30, 2005, the loss from discontinued operations included changes to reserves for contingencies primarily related to CER and an impairment of assets related to Transcom.

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $34.7 million and $38.6 million at September 30, 2005 and December 31, 2004, respectively.

Results for the nine months ended September 30, 2005 included a $47.8 million gain on disposition of discontinued operations, net of taxes, resulting mainly from changes to reserves for contingencies related primarily to the previous sales of IWC, former Primary Energy subsidiaries and other dispositions.

7. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. Through the month of September 2005, approximately 660 thousand of Gas Distribution Operations' residential, small commercial and industrial customers selected an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The program provides residential and small commercial customers the option to choose their natural gas supplier and avoids the stranded costs associated with the previous pilot. In addition, Columbia of Kentucky received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of

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the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. As of September 30, 2005, Columbia of Ohio has $37.9 million of uncollected accounts receivable pending future recovery. On May 2, 2005, Columbia of Ohio filed an application for approval to decrease its Uncollectible Expense Rider rate, effective June 2005. This request for reduction in its Uncollectible Expense Rider rate was based on projected annual recovery requirements of $26.3 million for the period ending March 31, 2006 -- a reduction of $11.4 million from Columbia of Ohio's then effective rate. On June 1, 2005, the PUCO approved Columbia of Ohio's application to adjust its Uncollectible Expense Rider rate.

On December 2, 2004, Columbia of Ohio filed two applications with the OPSB, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On February 7, 2005, the OPSB notified Columbia of Ohio that the applications were certified as complete. Columbia of Ohio also filed requests for waivers from certain OPSB requirements. The waivers were approved on February 4, 2005. On April 14, 2005, the OPSB issued an Order (i) finding that the effective date of the applications is April 15, 2005, (ii) granting Columbia of Ohio's motion to consolidate the cases for hearing purposes, and (iii) establishing a public hearing date of June 20, 2005, and an adjudicatory hearing date of June 21, 2005. On July 7, 2005 a Stipulation and Recommendation was filed in which all parties recommended approval of Columbia of Ohio's plans for the construction of the Northern Columbus Loop Natural Gas Pipeline. On August 3, 2005, the OPSB approved Columbia of Ohio's construction of the Northern Columbus Loop Natural Gas Pipeline project.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. If approved, the increase is expected to go into effect on December 1, 2005. The rate filing also includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program.

On August 25, 2005, the Pennsylvania PUC approved the general stipulation in the Columbia of Pennsylvania's gas cost recovery proceeding. Under the general stipulation, Columbia of Pennsylvania was authorized to make changes to its gas purchasing hedging program. The Pennsylvania PUC further found that Columbia of Pennsylvania has met all legal standards as to all actual purchased gas costs in the historic period and that Columbia of Pennsylvania has taken all steps necessary to negotiate favorable gas supply contracts and obtain lower cost gas supplies for the upcoming year.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. The IURC issued their final Order on August 24, 2005 permitting Northern Indiana full recovery of its gas costs and affirming its position on the regulatory pricing of gas in storage as decided in Northern Indiana's GCA5.

Northern Indiana's GCA7 annual demand cost recovery filing, covering the period November 1, 2005 through October 31, 2006 was made on August 29, 2005. A procedural schedule was established on October 13, 2005, setting this filing for hearing later in the fourth quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Settlement Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the current ARP to March 31, 2006. The IURC approved the settlement agreement on January 26, 2005. The agreement, as approved by the IURC, grandfathered the terms of existing contracts that marketers have with Choice customers and established a scope for negotiations. On May 2, 2005, Northern Indiana filed an unopposed motion that provided Parties more time to negotiate terms of the ARP and extend the expiration date of the current ARP to April 30, 2006. This action was approved by the IURC on May 25, 2005. A joint Stipulation and Settlement Agreement resolving all terms of the new ARP among Parties was filed with the IURC on July 13, 2005. The Settlement establishes a four-year term that expires May 1, 2010, provides for the continuation of current products and services offered under the current ARP including the GCIM, spells out the terms of Northern Indiana's merchant role, establishes a risk and reward mechanism to mitigate cost allocations created through Northern Indiana's Choice program, and a rate moratorium with exceptions for the term of the Agreement. An unopposed hearing was held on October 18, 2005 with a final IURC decision expected in the fourth quarter of 2005.

Northern Indiana filed to extend and expand its one-year Winter Warmth, energy assistance, pilot on October 3, 2005. Northern Indiana is seeking approval to provide $7.9 million in low-income and hardship deposit and bill assistance and low-income weatherization support effective December 16, 2005. The program is funded by $0.9 million in Northern Indiana contributions and $7.0 million from ratepayers through a volumetric surcharge. Northern Indiana expects both a hearing and an order on this filing in the fourth quarter of 2005.

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. Credits amounting to $46.7 million and $41.9 million were recognized for electric customers for the first nine months of 2005 and 2004, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003, also known as "Day 1." In April 2005, Northern Indiana, as well as the other two participants of the ITC, announced their withdrawal from the ITC and the ITC ceased operations effective November 1, 2005. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana incurs categories of transmission charges based upon MISO's FERC-approved tariff. One of the categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana appealed this decision to the Indiana Appellate Court, but on April 27, 2005, the Court affirmed the IURC's original decision. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. MISO Day 1 administrative fees were $2.3 million for the first nine months of 2005. The Day 1 MISO Schedule 10 administrative fees are currently estimated to be $2.5 to $3.0 million annually.

The MISO has launched the MMI, also known as "Day 2," implementing structures and processes of an electricity market for the MISO region. The MMI provides non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO's MMI tariffs have been approved by the FERC. Financially binding activities began with the opening of the market for bids and offers on March 25, 2005, and the real-time market on April 1, 2005. Northern Indiana and TPC are actively participating in the MMI. Based on the first six months of market operations, management expects a financial impact of approximately $2.4 million annually in operating expenses for MMI administrative costs, which were $1.6 million for the period April through September 2005. These are in addition to the MISO Day 1 Schedule 10 administrative costs for which Northern Indiana was denied deferral treatment in 2004. MMI energy costs are being accounted for in the same manner that energy costs were recorded prior to the implementation of the MMI,

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and for Northern Indiana are recovered through the FAC in accordance with the final IURC order issued on June 1, 2005. The detailed MMI tariff manages aspects of system reliability through the use of a market-based congestion management system. The FERC approved tariff includes a centralized dispatch platform, which dispatches the most economic resources to meet load requirements efficiently and reliably in the MISO region. The tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The MISO performs a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO also performs the real-time resource dispatch for resources under its control on a five-minute basis. The tariff also allows for the allocation, auction or sale of FTRs, which are instruments that protect against congestion costs occurring in the day-ahead market. Northern Indiana has not yet been a participant in the auction market for FTRs, but is allocated FTRs on a seasonal basis and at zero cost, for its use to protect against congestion costs. Northern Indiana retains its obligation for load following and other ancillary services.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. On June 15, 2005, Northern Indiana filed testimony and exhibits establishing a new basis for the cap. Northern Indiana received approval from the IURC of its request on July 20, 2005. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the demolition and environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for these costs.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and ITC. A hearing in this matter was held December 1 and 2, 2004. The settlement, described in the following paragraph, covers this proceeding. An IURC order, based upon the settlement, is expected in the first quarter of 2006.

On March 31, 2005, Northern Indiana and the OUCC filed an MOU with the IURC that could have resulted in settlements of the City of Gary petition and Purchased Power and Transmission Tracker petition. The settlement agreement that was contemplated by the MOU would have provided, among other things, for the recovery of Northern Indiana's costs for Intermediate Dispatchable Power purchased from TPC and would have required Northern Indiana to file a base rate case in 2007. The MOU provided that a settlement was contingent upon: 1) acceptable results of a third party evaluation study to be performed by an independent consultant relating to the use of Whiting Clean Energy and the Mitchell Station to meet the control performance standards required by the North American Electric Reliability Council and 2) affirmative consent to the other terms of the MOU by Northern Indiana's large industrial electric customers. The scope of the proposed settlement did not include MISO costs. The ability to recover or defer MISO costs was to be determined in another proceeding before the IURC, filed by several of the investor-owned electric utilities in Indiana (see the following paragraph). The evaluation study was completed on June 30, 2005 by the engineering firm, Burns and McDonnell. On July 14, 2005, the OUCC filed a notice disavowing the MOU. In addition to confirming the need for a solution to help Northern Indiana meet certain control performance standards, the evaluation study identified several potential, alternative solutions. Northern Indiana, the OUCC and the Industrial Group, reached a settlement agreement for purposes of partially settling the Interim Order approving Whiting Clean Energy to sell to TPC electric power generated at Whiting Clean Energy's generating facility which would then be sold to Northern Indiana and settling all matters in the City of Gary and

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Purchased Power and Transmission Tracker petitions. The OUCC and the Industrial Group agree that they will recommend to the IURC that Northern Indiana be allowed to recover through its FAC the cost of fuel per the Power Purchase Agreement between TPC and Northern Indiana from August 9, 2005 through November 30, 2005. Northern Indiana began recovering the cost of this fuel through the FAC in August 2005 per this agreement, in accordance with the IURC approval received in FAC 68 (See below). Northern Indiana, the OUCC and the Industrial Group agreed to meet in November 2005 to assess the need for a portion of or the entire Intermediate Dispatchable Power contract amount from TPC and Whiting Clean Energy beyond November 30, 2005. Northern Indiana anticipates that the parties will collaborate to reach a mutually acceptable solution that will address electric reliability issues.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005, and an IURC order was issued on June 1, 2005. The order, applicable to Northern Indiana, authorized recovery or deferral of fuel related MISO Day 2 costs but denied recovery or deferral of non-fuel MISO Day 2 costs during Northern Indiana's rate moratorium.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition with the IURC for approval of an arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration.

Pursuant to the July 1, 2005 interim order, Northern Indiana filed for recovery of fuel costs associated with Intermediate Dispatchable Power purchases in FAC 68. On October 26, 2005, the IURC issued an order in FAC 68 allowing recovery of the fuel cost associated with the Intermediate Dispatchable Power purchases.

On November 26, 2002, Northern Indiana received approval for an environmental cost tracker. Under the environmental cost tracker, Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On January 19, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $305 million. On October 13, 2005, Northern Indiana filed for approval of the revised cost estimates to meet the environmental standards. Northern Indiana anticipates a total capital investment amounting to approximately $306 million. The ECRM revenues amounted to $20.8 million for the nine months ended September 30, 2005, and $44.8 million from inception to date, while EERM revenues were $5.2 million for the first nine months of 2005. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004. The IURC approved ECR-5 and EER-2 on March 23, 2005. ECR-6 was filed in August 2005 for capital expenditures (net of accumulated depreciation) of $232.7 million and was approved by the IURC on October 26, 2005, with slight modifications.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup

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line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter had both filed motions requesting the IURC to reconsider its order and were denied. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. On June 15, 2005, Northern Indiana filed a Motion to Stay with the Indiana Court of Appeals requesting a stay of the portions of the order that require Northern Indiana to pay $2.5 million to Jupiter and install a backup line to serve Jupiter. On July 13, 2005, Northern Indiana's Motion to Stay the IURC's April 13, 2005 ruling was denied. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans recently announced by Jupiter.

8. Risk Management and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments to manage certain risks in its business. NiSource accounts for its derivatives under SFAS No. 133.

Hedging Activities. The activity for the third quarter and nine months ended September 30, 2005 and 2004 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, net of taxes)	**2005**	2004	**2005**	2004
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 109.9**	$ 100.2	**$ 93.7**	$ 91.6
Unrealized hedging gains arising during the period on derivatives qualifying as cash flow hedges	**106.4**	27.0	**132.3**	57.2
Reclassification adjustment for net gain included in net income	**(12.0)**	(8.9)	**(21.7)**	(30.5)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 204.3**	$ 118.3	**$ 204.3**	$ 118.3

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $477.4 million and $200.0 million at September 30, 2005 and December 31, 2004, respectively, of which $271.4 million and $51.7 million were included in "Current Assets," and $206.0 million and $148.3 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $121.8 million and $26.7 million at September 30, 2005 and December 31, 2004, respectively, of which $108.6 million and $21.3 million were included in "Current Liabilities," and $13.2 million and $5.4 million were included in "Other Liabilities and Deferred Credits," respectively.

During the third quarter of 2005 and 2004, a gain of $1.5 million and zero, net of taxes respectively, were recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the third quarter of 2005 and 2004, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $102.7 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky and Columbia of Maryland use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked

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to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $105.0 million and $0.5 million of price risk management assets associated with these programs at September 30, 2005 and December 31, 2004, respectively. In addition, the Consolidated Balance Sheets reflected zero and $9.2 million of price risk management liabilities associated with these programs at September 30, 2005 and December 31, 2004, respectively.

Northern Indiana offers a PPS as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana PPS, which allows non-jurisdictional customers the opportunity to lock in their gas cost. The Consolidated Balance Sheets reflected $13.9 million and zero of price risk management assets and zero and $5.3 million of price risk management liabilities associated with these programs at September 30, 2005 and December 31, 2004, respectively.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases fixed priced gas, as well as options to call on additional volumes that match the anticipated delivery needs of the program and currently uses NYMEX futures and options contracts for these hedge transactions. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected $6.4 million and zero of price risk management assets and zero and $0.8 million of price risk management liabilities at September 30, 2005 and December 31, 2004, respectively, associated with the DependaBill program.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect the company against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71. The Consolidated Balance Sheets reflected $3.2 million of price risk management assets and zero of price risk management liabilities at September 30, 2005.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania and Columbia of Maryland, (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $10.8 million and $4.6 million of price risk management liabilities associated with these programs at September 30, 2005 and December 31, 2004, respectively.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will

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fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases. The Consolidated Balance Sheets reflected $303.7 million and $159.6 million of price risk management assets associated with this program at September 30, 2005 and December 31, 2004, respectively.

Interest Rate Risk Activities. Contemporaneously with the pricing of the 5.25% and 5.45% notes issued September 16, 2005, NiSource Finance settled $900 million of forward starting interest rate swap agreements with six counterparties. NiSource paid an aggregate settlement payment of $35.5 million which is being amortized as an increase to interest expense over the term of the underlying debt, resulting in an effective interest rate of 5.67% and 5.88% respectively.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on United States 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales. As of September 30, 2005, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy, which may not qualify for hedge treatment as determined by SFAS No. 133.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges. The Consolidated Balance Sheets reflected $151.1 million and $10.5 million of price risk management assets and $121.9 million and $18.3 million of price risk management liabilities associated with this program at September 30, 2005 and December 31, 2004, respectively.

The fair market values of NiSource's power trading assets and liabilities were zero at September 30, 2005 and $8.8 million and $11.9 million, respectively, at December 31, 2004.

9. Goodwill Assets

In the quarter ended June 30, 2005, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission

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and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as an "Impairment and loss (gain) on sale of assets" on the Statement of Consolidated Income. Factors contributing to this charge were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

NiSource's goodwill assets at September 30, 2005 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill balances at September 30, 2005 for Northern Indiana Fuel and Light and Kokomo Gas were $13.3 million and $5.5 million, respectively.

10. Long-Term Debt

On September 16, 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds will be used in part to redeem $900 million of NiSource Finance notes due November 15, 2005. Contemporaneously with the pricing of the 5.25% and 5.45% notes, NiSource Finance settled $900 million of forward starting swaps resulting in a $35.5 million payment to NiSource's swap counterparties. The swap termination payments will be amortized over the life of the new debt issues, resulting in an effective interest rate of 5.67% and 5.88% respectively.

On August 25, 2005, NiSource Finance announced it had entered into a definitive agreement with institutional investors providing for the sale of $900 million of the company's unregistered senior notes. The $900 million in senior notes will be issued on November 28, 2005, in four tranches; $315 million of 7-year notes at a coupon rate of 5.21%; $230 million of 10-year notes at a coupon rate of 5.36%; $90 million of 11-year notes at a coupon rate of 5.41%; and $265 million of 20-year notes at a coupon rate of 5.89%. The proceeds, along with other funding sources, will be used to refinance $1.1 billion of Columbia senior unsecured notes that become callable on November 28, 2005. As such, NiSource has classified $1.1 billion from "Long-term debt" to "Current portion of long-term debt" on the Consolidated Balance Sheets.

11. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. In accordance with SFAS No. 87, NiSource adjusted its minimum pension liability at September 30, 2005, increasing the pension liability by approximately $27 million. The increase in the liability is primarily due to a reduction in the discount rate from 6.0% to 5.5% used to determine the pension benefit obligation. NiSource expects to make contributions of $3.6 million to its pension plans and $51.1 million to its other postretirement benefit plans in 2005. As of September 30, 2005, NiSource has contributed $0.5 million to its pension plans and $38.4 million to its other postretirement benefit plans.

During the third quarter of 2005 NiSource recognized a $16.2 million curtailment for pension and other postretirement benefits and a $2.2 million cost for special termination benefits in connection with business processes outsourced in connection with the IBM agreement. Of this amount, approximately $0.4 million was recorded as a regulatory asset per SFAS No. 71.

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The following tables provide the components of the plans' net periodic benefits cost for the third quarter and nine months ended September 30, 2005 and September 30, 2004:

Three months ended September 30, *(in millions)*	Pension Benefits 2005	2004	Other Benefits 2005	2004
Net periodic cost				
Service cost	**$ 10.5**	$ 9.8	**$ 2.3**	$ 2.2
Interest cost	**32.0**	31.7	**10.4**	9.9
Expected return on assets	**(41.1)**	(39.3)	**(3.9)**	(3.5)
Amortization of transitional obligation	**-**	-	**2.4**	2.9
Amortization of prior service cost	**2.7**	2.4	**0.2**	0.2
Recognized actuarial loss	**4.2**	4.5	**0.9**	0.7
Special termination benefits	**2.2**	-	**-**	-
Settlement/Curtailment loss	**5.4**	-	**10.8**	-
Net Periodic Benefits Cost	**$ 15.9**	$ 9.1	**$ 23.1**	$ 12.4

Nine months ended September 30, *(in millions)*	Pension Benefits 2005	2004	Other Benefits 2005	2004
Net periodic cost				
Service cost	**$ 31.3**	$ 29.4	**$ 6.9**	$ 6.6
Interest cost	**96.0**	95.1	**31.3**	29.7
Expected return on assets	**(123.3)**	(117.9)	**(11.9)**	(10.5)
Amortization of transitional obligation	**-**	-	**7.3**	8.7
Amortization of prior service cost	**7.9**	7.2	**0.6**	0.6
Recognized actuarial loss	**12.8**	13.5	**2.8**	2.1
Special termination benefits	**2.2**	-	**-**	-
Settlement/Curtailment loss	**5.7**	-	**10.8**	-
Net Periodic Benefits Cost	**$ 32.6**	$ 27.3	**$ 47.8**	$ 37.2

12. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at September 30, 2005 and the years in which they expire were:

(in millions)	Total	2005	2006	2007	2008	2009	After
Guarantees of subsidaries debt	$ 5,010.1	$ 901.4	$ 293.1	$ 32.4	$ 8.7	$ 464.0	$ 3,310.5
Guarantees supporting commodity transactions of subsidiaries	1,046.8	53.5	760.9	23.5	44.8	47.5	116.6
Letters of credit	106.3	0.2	27.0	1.0	78.1	-	-
Other guarantees	161.9	-	-	-	10.1	4.4	147.4
Total commercial commitments	$ 6,325.1	$ 955.1	$ 1,081.0	$ 56.9	$ 141.7	$ 515.9	$ 3,574.5

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $5.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets, which is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to

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pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.0 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. At September 30, 2005, NiSource had no guaranteed amounts outstanding under the revolving line of credit. Through this revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $106.3 million for the benefit of third parties.

Other Guarantees. After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. The total of the outstanding debt guaranteed for Whiting Clean Energy at September 30, 2005 was $322.9 million, of which approximately $300.1 million of debt related to Whiting Clean Energy was included in NiSource's Consolidated Balance Sheets.

NiSource retains certain operational guarantees with respect to former PEI subsidiaries. NiSource's retained financial guarantees of $140.6 million as of June 30, 2005 of debt outstanding, which related to three of the PEI projects, were satisfied in the third quarter when the outstanding debt was refinanced by the buyer of those subsidiaries, thus relieving NiSource of its guaranties of such debt. The fair value of those financial guarantees, $10.5 million, were reversed in the third quarter and recognized as income from discontinued operations. The operational guarantees retained by NiSource are related to environmental compliance, inventory balances, employee relations, and a residual future purchase guarantee. The fair value of these guarantees was determined to be $0.6 million and a portion of the net proceeds in the sale amount were assumed allocated to the guarantees as prescribed by FIN 45.

Off Balance Sheet Items. NiSource has purchase and sales agreement guarantees totaling $85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued guarantees, which support up to approximately $1.0 billion of commodity-related payments for its current and former subsidiaries. Refer to the discussion above in this Note 12-A, "Guarantees and Indemnities - Guarantees Supporting Commodity Transactions of Subsidiaries" for additional information.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale to Triana, and decline over time as volumes are delivered in satisfaction of the contractual obligations, ending in February 2006. NiSource is indemnified by Triana with respect to any liability for gas deliveries to be made to Mahonia. As of September 30, 2005, approximately 12.7 Bcf remained to be delivered under the forward sales agreements.

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, adequately offset any losses that could have been incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource did not recognize a liability related to the retention of the Mahonia guarantees.

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In October 2005, press reports indicate that Triana agreed to sell CER to Chesapeake Energy Corporation, which sale reportedly would include the assumption of $75 million in forward gas sales agreements. Chesapeake Energy Corporation is the third-largest independent natural gas producer in the United States. Due to the lower gas volumes to be delivered under the forward gas sales agreements with Mahonia and NiSource's evaluation of Chesapeake Energy Corporation's ability to deliver those gas volumes, NiSource has not recognized any liability related to the retention of the Mahonia guarantees.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

As of September 30, 2005, a reserve of approximately $68.1 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations and Gas Transmission and Storage Operations.
Air. After a lengthy legal proceeding, the EPA has begun implementing the Particulate Matter and Ozone NAAQS it revised in July 1997. As a result, the EPA has designated those areas that are not in compliance with the standards. The Clean Air Act provides for a process that would provide for promulgation of rules specifying a compliance level, compliance deadline, and necessary controls to be implemented within designated areas over the next few years. In the interim, existing ozone ambient air quality standards will remain in place and may require imposition of additional controls in areas of non-attainment. In addition, the EPA has reissued the portion of the NOx SIP Call regulation (dealing with regional ozone transport) which is applicable to certain pipeline engines and turbines, but which was remanded by the Court of Appeals after challenge by the pipeline industry. The resulting rules require additional reductions in NOx emissions from reciprocating engines and turbines at pipeline compressor stations (including compressor stations owned by Columbia Transmission and Columbia Gulf). The EPA and state regulatory authorities are in the process of setting final implementation requirements. Certain states have already begun to propose new NOx emission requirements that may be applicable to pipeline compressor station engines and turbines (e.g., on October 1, 2005 the State of Kentucky published its draft NOx SIP Call Phase II rule). NiSource believes that the costs relating to compliance with any new limits may be significant but are dependent upon the ultimate control program established by the relevant state and the EPA, and currently are not reasonably estimable. NiSource will continue to closely monitor developments in this area.

Electric Operations.
Air. On June 28 and 29, 2004, the EPA responded to the states' initial recommendations for the EPA designation of areas meeting and not meeting the NAAQS for fine particles. (Fine particles are those less than or equal to 2.5 micrometers in diameter and are also referred to as PM2.5.) The EPA's PM2.5 nonattainment designations were announced on December 17, 2004, and published in the Federal Register on January 5, 2005. The designations became effective on April 5, 2005. Indiana has disputed some of the June 2004, EPA designation recommendations and submitted final 2004 monitoring data on February 17, 2005, for EPA re-evaluation of the disputed areas. On March 7, 2005, the Indiana Attorney General filed a legal action on behalf of the IDEM asking that all but three areas (none of these three areas are in Northern Indiana's service territory) be removed from the EPA's nonattainment list. The EPA is expected to finalize by early 2006, an implementation rule detailing state obligations to bring the nonattainment areas into attainment with the PM2.5 NAAQS. Indiana and other states will be required to finalize state rulemaking by April 2008 that specify emissions reductions consistent with the final EPA

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

implementation rule to bring the designated areas into attainment by as early as April 2010. Northern Indiana will continue to closely monitor developments in this area.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. Phase I reductions would be required by January 2009 and January 2010 for NOx and SO2, respectively. Phase II reductions for both NOx and SO2 would be required by January 2015. Emission trading programs would be established to meet the emission caps. As an affected state, Indiana is required to initiate a state rule making, for submittal to the EPA by September 11, 2006, creating rules, or a SIP, detailing how it will implement the federal rule and meet the emission caps. In June 2005, Indiana initiated the process to develop a state rule to implement the EPA CAIR. The final form of the state rule will determine whether Northern Indiana and other utilities in the state will be able to participate in the EPA's emission trading programs and impact the level of control required for each unit. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On March 15, 2005, the EPA issued the CAMR, that will require mercury emissions reductions from electric power generating stations. The rule establishes a two-phased reduction of mercury from Indiana electric utilities by establishing a cap-and-trade program with a state-wide annual cap on emissions. The first phase begins in 2010, a second phase in 2018, designed to achieve about a 70% reduction in utility emissions of mercury. Emission trading programs could be established to assist compliance with these emission caps. In June 2005, Indiana initiated the state process to develop a state rule to implement the EPA's CAMR. The final form of the state rule implementing the CAMR will determine Northern Indiana's ability to participate in the federal trading program and impact the level of control required for each unit. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On April 15, 2004, the EPA proposed amendments to its July 1999 Regional Haze Rule that requires states to set periodic goals for improving visibility in 156 natural areas across the United States by implementing state emission reduction rules. These amendments would apply to the eligible industrial facilities emitting air pollutants that reduce visibility. States must develop implementation rules by January 2008. Resulting rules could require additional reductions of NOx, SO2 and particulate matter from coal-fired boilers including Northern Indiana's electric generating stations, depending upon the outcome of multi-pollutant regulations. On July 6, 2005, EPA finalized Regional Haze Regulations and guidelines that allow states that opt to participate in the CAIR cap-and-trade program to not require affected facilities to install, operate and maintain additional control equipment. Until the state rules are promulgated, the potential impact on Northern Indiana is uncertain. Northern Indiana will continue to closely monitor developments in this area.

Water. On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems whose compliance is based on any of five options. To determine the impacts of the Bailly Station's intake on the aquatic organisms in Lake Michigan, a detailed background biological sampling program was initiated in April 2005 and will continue for at least one year. The results of this sampling program will be utilized to choose the appropriate compliance option, or combination of options, for the facility. Specific impacts and available compliance options of the final Phase II rule for the remaining two operating Northern Indiana generating stations are still in the process of being determined at this time.

Remediation. On March 31, 2005, the EPA and Northern Indiana entered into an Administrative Order on Consent under the authority of Section 3008(h) of the Resource Conservation and Recovery Act for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. A reserve has been established to fund the required investigations and conduct interim measures at the facility. The final costs of clean up have not yet been

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

13. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Income (Loss), which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	**September 30, 2005**	December 31, 2004
Other comprehensive loss, before taxes:		
Unrealized gains (losses) on securities	**$ 0.7**	$ (0.4)
Unrealized gains on cash flow hedges	**315.1**	142.8
Minimum pension liability adjustment	**(281.7)**	(243.6)
Other comprehensive income (loss), before taxes:	**34.1**	(101.2)
Income tax benefit related to items of other comprehensive income (loss)	**2.7**	49.8
Total Accumulated Other Comprehensive Income (Loss), net of taxes	**$ 36.8**	$ (51.4)

14. Income Taxes

For the nine months ended September 30, 2005 and 2004, NiSource's provision for income taxes was calculated in accordance with APB. No 28. Accordingly, the interim effective tax rate reflects the estimated annual effective tax rate for 2005 and 2004, respectively. The effective tax rate differs from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and certain non-deductible expenses such as the goodwill impairment recorded in the second quarter of 2005.

15. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana and engages in wholesale and wheeling transactions. The Other Operations segment primarily includes gas marketing, power marketing and trading, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following table provides information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
REVENUES				
Gas Distribution Operations				
Unaffiliated	**$ 442.8**	$ 395.0	**$ 3,207.3**	$ 2,956.1
Intersegment	**4.5**	4.4	**4.2**	7.6
Total	**447.3**	399.4	**3,211.5**	2,963.7
Gas Transmission and Storage Operations				
Unaffiliated	**130.7**	133.1	**426.8**	433.3
Intersegment	**57.0**	55.7	**186.4**	187.0
Total	**187.7**	188.8	**613.2**	620.3
Electric Operations				
Unaffiliated	**372.6**	298.7	**935.7**	818.3
Intersegment	**0.4**	4.6	**1.7**	13.3
Total	**373.0**	303.3	**937.4**	831.6
Other Operations				
Unaffiliated	**208.5**	142.6	**620.7**	460.8
Intersegment	**5.9**	5.0	**15.7**	19.3
Total	**214.4**	147.6	**636.4**	480.1
Adjustments and eliminations	**(58.6)**	(60.9)	**(198.0)**	(201.3)
Consolidated Revenues	**$ 1,163.8**	$ 978.2	**$ 5,200.5**	$ 4,694.4

Operating Income (Loss)				
Gas Distribution Operations	**$ (69.6)**	$ (35.7)	**$ 211.0**	$ 264.4
Gas Transmission and Storage Operations	**62.2**	69.1	**248.5**	254.0
Electric Operations	**110.4**	95.4	**236.8**	236.2
Other Operations	**-**	(0.7)	**(14.1)**	(26.2)
Corporate	**(9.8)**	-	**(31.9)**	0.6
Consolidated Operating Income	**$ 93.2**	$ 128.1	**$ 650.3**	$ 729.0

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the third quarter of 2005, NiSource reported a loss of $5.8 million from continuing operations, or a loss of $0.02 per basic share, while for the nine months ended September 30, 2005, NiSource reported income from continuing operations of $210.8 million, or $0.78 per basic share. This compares to income from continuing operations of $21.7 million, or $0.08 per basic share, for the year-ago quarter and income from continuing operations of $274.0 million, or $1.04 per basic share for the nine months ended September 30, 2004. The quarterly difference was primarily due to $49 million of restructuring expenses, consulting fees, and transition costs incurred in connection with the outsourcing agreement with IBM. For the nine month period, costs related to the outsourcing agreement with IBM and other transformation activities were $81.7 million, comprised of severance and a non-cash postretirement and pension benefit charge of $34.6 million, certain fees and other transition costs of $27.3 million, consulting fees of $6.7 million, and business transformation costs that include impairments of obsolete software systems and initial costs for a new work management system of $13.1 million.

Other factors that adversely impacted the operating results for the quarter and first nine months of the year included decreased revenues in the natural gas transmission and storage business due to the pipelines' new long-term contracts with their largest customers that were renegotiated over the past two years, partially offset by remarketing efforts. Also, costs increased in Electric Operations stemming from the implementation of the MISO and higher generation expenses, and in Gas Distribution Operations, depreciation expense has increased in 2005 resulting primarily from the expiration of the 1999 stipulation for Columbia of Ohio. These impacts were partially offset by increases in net revenues from Electric Operations, primarily driven by favorable weather and increased sales to customers, and a decrease in losses from Whiting Clean Energy for the quarter and nine months ended September 30, 2005.

Also, contributing to the decline in EPS was an increase in the average number of shares outstanding at September 30, 2005, compared to the year earlier, due primarily to the issuance of approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts associated with the SAILS^{SM} on November 1, 2004.

NiSource has progressed towards its key initiatives during this nine month period of 2005 to build a platform for long-term sustainable growth in 2006 and beyond including: pipeline growth and expansion; broad regulatory and commercial initiatives premised on existing assets; ongoing financial management of the balance sheet; and expense management.

In June 2005, NiSource Corporate Services and IBM signed a definitive agreement to provide a broad range of business process and support services to NiSource. The 10-year agreement is expected to deliver approximately $395 million in net savings, after costs to achieve, in operating and capital costs across NiSource's 15 primary operating subsidiaries over the course of the contract, as well as providing new tools and technology advances and enhanced service capabilities. On July 1, 2005, IBM assumed responsibility for Information Technology, Human Resources and Supply Chain procurement functions across NiSource as well as transition and transformation processes in the Meter to Cash and Customer Contact Centers. Included in the Information Technology transformation process during 2005 and 2006 are major projects in Human Resources, Finance and Accounting, Supply Chain, Gas Management, Operations and Meter to Cash. As of September 30, 2005, 499 employees have transitioned employment to IBM while knowledge transfer of other assumed functions continue. The identified net savings do not include efficiencies and other benefits from a three-year project to implement common work management solutions (WMS) and geographical information systems (GIS) across operations.

As a regulated company, NiSource is exposed to regulatory risk and manages this risk by monitoring its operations and working with various regulatory bodies to maintain a business that continues to provide value for its customers and stockholders in this changing environment. During the nine months ended September 30, 2005, NiSource continued to make progress with regulatory and commercial initiatives that began in 2004. Northern Indiana continues to work with the OUCC and some of the utility's industrial customers to explore various options to address Northern Indiana's need for additional power to meet its unique customer load. Northern Indiana continues to be optimistic that the parties can collaborate to reach a mutually acceptable solution that will address electric reliability issues. Whiting Clean Energy, another NiSource subsidiary, offers an immediate, economic and dependable solution to the reliability concerns for Northern Indiana customers. The IURC on July 1, 2005 issued an interim order approving Northern Indiana purchases of Whiting Clean Energy power necessary to meet those reliability concerns. The order allows Northern Indiana to recover only the fuel costs associated with such purchases through the normal fuel cost adjustment process.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. If approved, the increase could go into effect as early as December 1, 2005. The rate filing also includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program.

In the first quarter of 2005, Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time for the next three years.

NiSource's Gas Transmission and Storage Operations segment, under the leadership of Chris Helms, Pipeline Group President, who joined NiSource in April 2005, is well positioned to identify and capture long-term growth opportunities by helping meet increasing market demand for natural gas in the eastern United States. NiSource's Columbia Transmission recently launched an open season for a proposed expansion of its natural gas transmission system in central and southern Virginia. An open season was also held in connection with a proposed Eastern Market expansion to provide storage and transportation services to growing Mid-Atlantic markets. Millennium, which is targeting a November 1, 2007, in-service date, filed an amended certificate application with the FERC in August 2005. Hardy Storage is on track to develop a natural gas storage field from a depleted natural gas production field in Hardy and Hampshire Counties, West Virginia. Hardy Storage, which is being jointly developed by Columbia Transmission and a subsidiary of Piedmont, filed its formal project application with the FERC in April 2005, and received a favorable order on November 1, 2005, which should allow for construction to begin as scheduled later this year.

NiSource also continued to strengthen its financial position through management of the balance sheet and expenses. In September 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds will be used in part to redeem $900 million of NiSource Finance notes due November 15, 2005. Additionally, in August 2005 NiSource Finance announced it had entered into a definitive agreement with institutional investors providing for the sale of $900 million of the company's unregistered senior notes. The $900 million in senior notes will be issued on November 28, 2005, for which the proceeds, along with other funding sources, will be used to refinance $1.1 billion of Columbia senior unsecured notes that become callable on November 28, 2005.

In March 2005, NiSource entered into a $1.25 billion revolving credit agreement to fund future working capital requirements and other corporate needs. The new five-year agreement replaces existing agreements and is expected to reduce interest expense by approximately $0.9 million during the calendar year and by about $1.2 million annually thereafter.

NiSource expects that its financial results for 2005 will continue to be negatively impacted by transition and transformation costs associated with the IBM agreement, regulatory proceedings and pipeline re-contracting that took place in 2004, and the debt extinguishment costs anticipated with the refinancing of the Columbia debt in November 2005. Additionally other operational, regulatory and business issues will continue to impact 2005 results including incremental costs associated with MISO in NiSource's Indiana electric market that are not recoverable under current regulatory agreements, continued losses for Whiting Clean Energy (although lower than previous years), and lower natural gas usage by customers of NiSource gas distribution companies.

The unusually active hurricane season and resulting natural gas price volatility has had a significant impact on natural gas prices. The higher natural gas prices will likely affect natural gas usage, limit the opportunities for commercial activities for the foreseeable future, and may impact the potential for regulatory initiatives. These issues are expected to continue for the remainder of 2005 and extend into 2006.

The Katrina and Rita hurricanes did not cause severe damage to NiSource's pipelines. The costs of repairing any damage to pipeline facilities are not expected to have a material impact on NiSource's 2005 result.

Results of Operations
The Quarter Ended September 30, 2005

Net Income
NiSource reported a net loss of $6.8 million, or a loss of $0.03 per basic share, for the three months ended September 30, 2005, compared to net income of $28.8 million, or $0.11 per basic share, for the third quarter of 2004. NiSource's net income reflects the impact of discontinued operations, including a $1.0 million loss for the third quarter of 2005 and a $7.1 million gain for the comparative quarter last year, mainly related to NiSource's former subsidiary, CER. Operating income was $93.2 million, a decrease of $34.9 million from the same period in 2004. These results include $49.0 million of costs related to the outsourcing agreement with IBM.

Basic average shares of common stock outstanding for the three months ended September 30, 2005 were 271.7 million compared to 262.7 million at September 30, 2004. The increase was primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{SM}.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the three months ended September 30, 2005, were $607.7 million, an $18.6 million increase from the same period last year. The increased net revenues resulted

from higher Electric Operations sales of approximately $19.9 million due to favorable weather conditions and continued increases in customer sales, and increased revenue from Whiting Clean Energy of $7.1 million. Net revenues were reduced by approximately $5 million from the re-contracting of firm transportation and storage contracts that expired October 31, 2004, net of remarketing activities.

Expenses

Operating expenses for the third quarter of 2005 were $514.5 million, an increase of $53.5 million from the 2004 period. The increase was primarily due to $49.0 million of expenses recognized in the current quarter for the outsourcing agreement with IBM and other associated business transformation activities. These expenses included a restructuring charge for a pension and other postretirement benefits curtailment of $18.0 million, certain fees and other transition costs of $27.3 million, consulting fees of $1.5 million and business transformation costs related to a new work management system of $2.2 million. Operating expenses also increased by $10.5 million for higher depreciation expense due primarily to the expiration of the 1999 stipulation for Columbia of Ohio.

Other Income (Deductions)

Interest expense, net was $107.1 million for the quarter, an increase of $7.6 million compared to the third quarter of 2004, due primarily to the impact of higher short-term interest rates on variable rate debt and higher average long-term debt balances due to the prefunding of November 2005 debt maturities. Other, net was $3.3 million for the current quarter compared to $1.0 million of income for the comparable 2004 period due to increased interest income.

Income Taxes

Income tax for the third quarter of 2005 provided a benefit of $5.8 million due to losses incurred in the quarter, whereas income tax expense was $6.8 million in the comparable 2004 period. The income tax benefit represented a 50% effective tax rate for the third quarter of 2005 as a result of losses incurred together with a $1.1 million tax benefit recorded upon filing NiSource's 2004 consolidated federal income tax return. The comparable 2004 period was favorably impacted by the reversal of a $5.7 million tax reserve, offset by a $1.3 million increase in tax expense related to the regulatory treatment of depreciation differences.

Results of Operations
Nine Months Ended September 30, 2005

Net Income

NiSource reported net income of $238.5 million, or $0.88 per basic share, for the nine months ended September 30, 2005, compared to $276.9 million, or $1.06 per basic share, for the first nine months of 2004. Operating income was $650.3 million, a decrease of $78.7 million from the same period in 2004 due primarily to the costs associated with the outsourcing agreement with IBM. NiSource's net income reflects the $27.7 million positive impact of discontinued operations recognized mostly in the second quarter of 2005, the result of changes to reserves for contingencies related to the previous sale of discontinued assets and an impairment charge for certain discontinued assets.

Basic average shares of common stock outstanding for the nine months ended September 30, 2005 were 271.1 million compared to 262.5 million at September 30, 2004. The increase was primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{SM}.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. These trackers increase both operating expenses and net revenues and have essentially no impact on total operating income results. Approximately $26 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the nine months ended September 30, 2005, were $2,275.4 million, an $80.0 million increase from the same period last year. The increase in revenues resulted largely from regulatory initiatives, which increased approximately $53 million, and included the expiration of the

1999 stipulation for Columbia of Ohio, environmental trackers that allow for recovery of certain capital expenditures, and the impact of regulatory trackers discussed above. Net revenues also increased as a result of favorable weather conditions in Electric and Gas Distribution Operations of approximately $30 million, increased revenues at Whiting Clean Energy of $10.5 million and $8.9 million from a third party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract. These increases were partially offset by a $16.0 million loss of revenue attributable to the re-contracting of firm transportation and storage contracts that expired October 31, 2004, net of remarketing activities.

Expenses
Operating expenses for the nine months ended September 30, 2005 were $1,625.1 million, an increase of $158.7 million from the 2004 period. The increase was primarily the result of $81.7 million of expenses recognized for the outsourcing agreement with IBM and other associated business transformation activities. These expenses included restructuring charges of $34.6 million that included severance and non-cash pension and other post retirement costs, certain fees and other transition costs of $27.3 million, $6.7 million of consulting fees, a $10.9 million charge for obsolete software systems, and $2.2 million of business transformation costs related to a new work management system. In addition, 2005 results include a $10.9 million impairment charge related to goodwill at Kokomo Gas, higher other tax expense of $16.0 million due primarily to a favorable accrual adjustment to estimated property taxes recorded in the second quarter of 2004, higher depreciation of $29.6 million primarily the result of the expiration of the 1999 stipulation for Columbia of Ohio and the impact of trackers discussed above.

Other Income (Deductions)
Interest expense, net was $312.8 million for the nine months ended September 30, 2005 compared to $300.8 million for the nine months ended September 30, 2004. This increase of $12.0 million was mainly due to the impact of higher short-term interest rates on variable rate debt and higher average long-term debt balances associated with the prefunding of November 2005 debt maturities.

Income Taxes
Income tax expense for the nine months ended September 30, 2005 was $129.9 million, a decrease of $24.9 million compared to the 2004 period, due primarily to lower pre-tax income. The effective tax rate of 38.1% reflects the impact of the non-deductible goodwill impairment charge recorded in the second quarter of 2005 and increased taxes related to Ohio income tax law changes enacted on June 30, 2005, offset by an income tax benefit from an electric production deduction (discussed below) and a favorable adjustment recorded upon filing NiSource's 2004 consolidated federal income tax return. The comparable 2004 period was favorably impacted by the reversal of a $5.7 million tax reserve.

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana and Whiting Clean Energy's electric production activities qualify for this deduction. The deduction is equal to 3% of QPAI for the taxable year, with certain limitations. This deduction increases to 6% of QPAI beginning in 2007 and 9% of QPAI beginning in 2010 and thereafter. The 2005 tax benefit associated with the Section 199 domestic production deduction is estimated to be $2 million. The United States Treasury Department has issued guidance for calculating this deduction in Notice 2005-14 and in proposed regulations issued on October 20, 2005. NiSource is still evaluating the impact of the recently issued proposed regulations and, as such, the estimated $2 million tax benefit is subject to revision.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas. The recent increase in the price of natural gas has resulted in an increase in working capital requirements to fund the cost of gas placed in storage, the cost of gas flowing directly to our customers and the related increase in accounts receivable. While the $1.25 billion revolving line of credit is projected to adequately meet these needs, NiSource is reviewing several options to increase the available liquidity.

Operating Activities. Net cash from operating activities for the nine months ended September 30, 2005 was $756.9 million, a decrease of $53.2 million from the comparable 2004 period. Increases in cash from continuing operations as a result of the timing of gas and fuel purchases and the recovery of such cost in rates and lower tax payments were more than offset by the impact of deferred taxes and cash used for discontinued operations. The additional cash required for deferred tax payments was due to the expiration in 2004 of "bonus" tax depreciation enacted under the Job Creation and Worker Assistance Act of 2002.

Investing Activities. Capital expenditures of $406.9 million in the first nine months of 2005 were $24.6 million higher than the comparable 2004 period. The spending for the first nine months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in the fourth quarter 2005 as compared to last year, mainly to support increased pipeline integrity related work and growth initiatives within Gas Transmission and Storage Operations.

Financing Activities. At September 30, 2005, NiSource had no borrowings under the company's line of credit and NiSource's shelf capacity was $850 million.

Long-term Debt

On September 16, 2005, NiSource Finance issued $450 million of 5.25% 12-year unsecured notes that mature September 15, 2017 and $550 million of 5.45% 15-year unsecured notes that mature September 15, 2020. The proceeds will be used in part to redeem $900 million of NiSource Finance notes due November 15, 2005. Contemporaneously with the pricing of the 5.25% and 5.45% notes, NiSource Finance settled $900 million of forward starting swaps resulting in a $35.5 million payment to NiSource's swap counterparties. The swap termination payments will be amortized over the life of the new debt issues, resulting in an effective interest rate of 5.67% and 5.88% respectively.

On August 25, 2005, NiSource Finance announced it had entered into a definitive agreement with institutional investors providing for the sale of $900 million of the company's unregistered senior notes. The $900 million in senior notes will be issued on November 28, 2005, in four tranches; $315 million of 7-year notes at a coupon rate of 5.21%; $230 million of 10-year notes at a coupon rate of 5.36%; $90 million of 11-year notes at a coupon rate of 5.41%; and $265 million of 20-year notes at a coupon rate of 5.89%. The proceeds, along with other funding sources, will be used to refinance $1.1 billion of Columbia senior unsecured notes that become callable on November 28, 2005.

During July 2005, Northern Indiana redeemed $34 million of its medium-term notes with an average interest rate of 6.62%

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

On November 23, 2004, NiSource Finance issued $450 million of five-year floating rate unsecured notes that mature November 23, 2009. The notes are callable, at par, on or after November 23, 2006. Subsequently, on December 10, 2004, NiSource Finance used $250 million of the proceeds from the $450 million floating rate note offering to redeem $250 million of existing floating rate notes that were due May 2005. The remaining proceeds were used to repay a portion of NiSource Finance short-term borrowings.

On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{SM}. NiSource received approximately $144.4 million in satisfaction of the SAILS^{SM} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the debt component of the SAILS^{SM} was reset to 3.628% per annum. The debentures mature November 1, 2006.

During February 2004, Northern Indiana redeemed $111.1 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes, with an average interest rate of 7.49% and 7.63%, respectively. The associated redemption premium was $4.6 million, of which $4.2 million was charged to operating expense and $0.4 million was recorded as a regulatory asset.

Credit Facilities

During March 2005, NiSource Finance obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007. NiSource had no outstanding credit facility advances at September 30, 2005 and $307.6 million at December 31, 2004, at a weighted average interest rate of 3.04%. NiSource had $902.7 million of short-term investment balances at September 30, 2005. As of September 30, 2005 and December 31, 2004, NiSource had $106.3 million and $111.6 million of stand-by letters of credit outstanding, respectively. At September 30, 2005, $77.3 million of the $106.3 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource obtained during February 2004. Of the remaining $29 million of stand-by letters of credit outstanding at September 30, 2005, $25.4 million resided under NiSource's five-year revolving credit facility and $3.6 million resided under an uncommitted arrangement with another financial institution. As of September 30, 2005, $1,224.6 million of credit was available under the credit facility.

Sale of Trade Accounts Receivables

On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly-owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit sponsored by Dresdner Kleinwort Wasserstein. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement, which originally expired in May 2005 was extended for another year on May 13, 2005, and now has a scheduled expiration date of May 12, 2006, and can be renewed again if mutually agreed to by both parties. As of September 30, 2005, $59.1 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. The agreement will expire on December 26, 2005, but can be renewed if mutually agreed to by both parties. As of September 30, 2005, NRC had sold $150.3 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by NRC. Northern Indiana receives a fee, which provides adequate compensation, for such services.

NISOURCE INC.

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during the third quarter and first nine months of 2005, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $4.8 million and $14.5 million for the quarter and nine months ended September 30, 2005, respectively.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards. As of September 30, 2005, all power trading contracts were settled. TPC may enter into power derivative contracts in the future to manage price risk associated with operating Whiting Clean Energy, which may not qualify for hedge treatment as determined by SFAS No. 133.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

NISOURCE INC.

The fair values of the contracts related to NiSource's trading operations and the activity affecting the changes in the fair values during the third quarter of 2005 are:

(in millions)	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Fair value of contracts outstanding at the beginning of the period	**$ 1.0**	$ (3.0)
Contracts realized or otherwise settled during the period (including net option premiums received)	**0.4**	(0.4)
Fair value of new contracts entered into during the period	**-**	(1.3)
Other changes in fair values during the period	**(1.4)**	4.7
Fair value of contracts outstanding at the end of the period	**$ -**	$ -

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was zero, during the third quarter of 2005 and will likely remain that way going forward. The daily market exposure for the gas marketing portfolio on an average, high and low basis was \$0.2 million, \$0.7 million and \$0.1 million during the third quarter of 2005, respectively. Prospectively, management has set the VaR limit at \$0.5 million for gas marketing. Exceeding this limit would result in management actions to reduce portfolio risk. The VaR limit for power trading was \$2.5 million, however, this limit was reduced to zero in the third quarter of 2005 with the settlement of all power trading contracts. Should TPC enter into power derivative contracts in the future to manage price risk associated with Whiting Clean Energy, those contracts would be limited to the physical generation capacity of Whiting Clean Energy.

Refer to Note 8, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately \$1.0 billion of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling \$85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 8, "Risk Management and Energy Trading Activities," and Note 12-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale to Triana, and decline over time as volumes are delivered in satisfaction of the contractual obligations, ending in February 2006. NiSource is indemnified by Triana with respect to any liability for gas deliveries to be made to

Mahonia. As of September 30, 2005, approximately 12.7 Bcf remained to be delivered under the forward sales agreements.

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, adequately offset any losses that could have been incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource did not recognize a liability related to the retention of the Mahonia guarantees.

In October 2005, press reports indicate that Triana agreed to sell CER to Chesapeake Energy Corporation, which sale reportedly would include the assumption of $75 million in forward gas sales agreements. Chesapeake Energy Corporation is the third-largest independent natural gas producer in the United States. Due to the lower gas volumes to be delivered under the forward gas sales agreements with Mahonia and NiSource's evaluation of Chesapeake Energy Corporation's ability to deliver those gas volumes, NiSource has not recognized any liability related to the retention of the Mahonia guarantees.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Net Revenues				
Sales Revenues	**$ 392.3**	$ 344.1	**$ 2,901.1**	$ 2,651.4
Less: Cost of gas sold	**266.7**	220.7	**2,163.7**	1,963.5
Net Sales Revenues	**125.6**	123.4	**737.4**	687.9
Transportation Revenues	**55.0**	55.3	**310.4**	312.3
Net Revenues	**180.6**	178.7	**1,047.8**	1,000.2
Operating Expenses				
Operation and maintenance	**169.7**	142.8	**537.7**	471.8
Depreciation and amortization	**55.7**	48.2	**167.8**	144.5
Impairment and loss on sale of assets	**-**	-	**10.5**	-
Other taxes	**24.8**	23.4	**120.8**	119.5
Total Operating Expenses	**250.2**	214.4	**836.8**	735.8
Operating Income (Loss)	**$ (69.6)**	$ (35.7)	**$ 211.0**	$ 264.4
Revenues ($ in Millions)				
Residential	**209.2**	193.8	**1,895.6**	1,644.7
Commercial	**76.6**	70.8	**646.1**	583.5
Industrial	**37.6**	27.6	**152.6**	146.3
Transportation	**55.0**	55.3	**310.4**	312.3
Off System Sales	**13.8**	24.9	**134.1**	180.2
Other	**55.1**	27.0	**72.7**	96.7
Total	**447.3**	399.4	**3,211.5**	2,963.7
Sales and Transportation (MMDth)				
Residential sales	**12.9**	13.8	**151.6**	151.2
Commercial sales	**5.6**	6.4	**56.0**	59.4
Industrial sales	**3.5**	4.1	**15.3**	16.5
Transportation	**96.5**	95.6	**379.5**	395.6
Off System Sales	**1.3**	4.5	**17.6**	30.5
Other	**0.1**	0.1	**0.4**	0.5
Total	**119.9**	124.5	**620.4**	653.7
Heating Degree Days	**21**	33	**3,180**	3,191
Normal Heating Degree Days	**58**	58	**3,168**	3,196
% Colder (Warmer) than Normal	**(64%)**	(43%)	**0%**	0%
Customers				
Residential			**2,404,247**	2,314,195
Commercial			**209,227**	211,649
Industrial			**5,310**	5,820
Transportation			**664,023**	725,572
Other			**61**	61
Total			**3,282,868**	3,257,297

NiSource's natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with

NiSource Inc.
Gas Distribution Operations (continued)

over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

Restructuring
Gas Distribution Operations recorded restructuring charges of $10.6 million in the third quarter of 2005 and $11.2 million in the second quarter of 2005 in connection with the IBM agreement mentioned previously, of which $16.7 million was an allocation from NiSource Corporate Services. Payments made for all restructuring initiatives within Gas Distribution Operations amounted to $0.9 million for the third quarter of 2005 and the restructuring liability remaining at September 30, 2005, was $10.2 million. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. Through the month of September 2005, approximately 660 thousand of Gas Distribution Operations' residential, small commercial and industrial customers selected an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The program provides residential and small commercial customers the option to choose their natural gas supplier and avoids the stranded costs associated with the previous pilot. In addition, Columbia of Kentucky received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad debt recovery requirements in November 2004. As of September 30, 2005, Columbia of Ohio has $37.9 million of uncollected accounts receivable pending future recovery. On May 2, 2005, Columbia of Ohio filed an application for approval to decrease its Uncollectible Expense Rider rate, effective June 2005. This request for reduction in its Uncollectible Expense Rider rate was based on projected annual recovery requirements of $26.3 million for the period ending March 31, 2006 – a reduction of $11.4 million from Columbia of Ohio's then effective rate. On June 1, 2005, the PUCO approved Columbia of Ohio's application to adjust its Uncollectible Expense Rider rate.

On December 2, 2004, Columbia of Ohio filed two applications with the OPSB, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On February 7, 2005, the OPSB notified Columbia of Ohio that the applications were certified as complete. Columbia of Ohio also filed requests for waivers from certain OPSB requirements. The waivers were approved on February 4, 2005. On April 14, 2005, the OPSB issued an Order (i) finding that the effective date of the applications is April 15, 2005, (ii) granting Columbia of Ohio's motion to consolidate the cases for hearing purposes, and (iii) establishing a public hearing date of June 20, 2005, and an adjudicatory hearing date of June 21, 2005. On July 7, 2005 a Stipulation and Recommendation was filed in which all parties recommended approval of Columbia of Ohio's plans for the construction of the Northern Columbus Loop Natural Gas Pipeline. On August 3, 2005, the OPSB approved Columbia of Ohio's construction of the Northern Columbus Loop Natural Gas Pipeline project.

NISOURCE INC.
Gas Distribution Operations (continued)

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. If approved, the increase is expected to go into effect on December 1, 2005. The rate filing also includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program.

On August 25, 2005, the Pennsylvania PUC approved the general stipulation in the Columbia of Pennsylvania's gas cost recovery proceeding. Under the general stipulation, Columbia of Pennsylvania was authorized to make changes to its gas purchasing hedging program. The Pennsylvania PUC further found that Columbia of Pennsylvania has met all legal standards as to all actual purchased gas costs in the historic period and that Columbia of Pennsylvania has taken all steps necessary to negotiate favorable gas supply contracts and obtain lower cost gas supplies for the upcoming year.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. The IURC issued their final Order on August 24, 2005 permitting Northern Indiana full recovery of its gas costs and affirming its position on the regulatory pricing of gas in storage as decided in Northern Indiana's GCA5.

Northern Indiana's GCA7 annual demand cost recovery filing, covering the period November 1, 2005 through October 31, 2006 was made on August 29, 2005. A procedural schedule was established on October 13, 2005, setting this filing for hearing later in the fourth quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Settlement Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the current ARP to March 31, 2006. The IURC approved the settlement agreement on January 26, 2005. The agreement, as approved by the IURC, grandfathered the terms of existing contracts that marketers have with Choice customers and established a scope for negotiations. On May 2, 2005, Northern Indiana filed an unopposed motion that provided Parties more time to negotiate terms of the ARP and extend the expiration date of the current ARP to April 30, 2006. This action was approved by the IURC on May 25, 2005. A joint Stipulation and Settlement Agreement resolving all terms of the new ARP among Parties was filed with the IURC on July 13, 2005. The Settlement establishes a four-year term that expires May 1, 2010, provides for the continuation of current products and services offered under the current ARP including the GCIM, spells out the terms of Northern Indiana's merchant role, establishes a risk and reward mechanism to mitigate cost allocations created through Northern Indiana's Choice program, and a rate moratorium with exceptions for the term of the Agreement. An unopposed hearing was held on October 18, 2005 with a final IURC decision expected in the fourth quarter of 2005.

Northern Indiana filed to extend and expand its one-year Winter Warmth, energy assistance, pilot on October 3, 2005. Northern Indiana is seeking approval to provide $7.9 million in low-income and hardship deposit and bill assistance and low-income weatherization support effective December 16, 2005. The program is funded by $0.9 million in Northern Indiana contributions and $7.0 million from ratepayers through a volumetric surcharge. Northern Indiana expects both a hearing and an order on this filing in the fourth quarter of 2005.

NISOURCE INC.
Gas Distribution Operations (continued)

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of September 30, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 12-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation's territories for the third quarter of 2005 was 36% warmer than the comparable quarter in 2004, and 64% warmer than normal.

For the first nine months of 2005, weather was slightly colder than normal and slightly warmer than the first nine months of 2004.

Throughput
Total volumes sold and transported of 119.9 MMDth for the third quarter of 2005, decreased 4.6 MMDth from the same period last year. This decrease in volume was experienced across residential, commercial, and industrial markets and was attributable mainly to the milder weather compared to the same period last year.

For the nine-month period ended September 30, 2005, total volumes sold and transported were 620.4 MMDth, a decrease of 33.3 MMDth from the same period in 2004. This decrease was primarily the result of decreased off-system sales and transportation sales in the nine months ended September 30, 2005, compared to the nine months ended September 30, 2004, and warmer weather in the third quarter of 2005 compared to the third quarter of 2004.

Net Revenues
Net revenues for the three months ended September 30, 2005 were $180.6 million, which were essentially flat compared to the same period in 2004.

For the nine-month period ended September 30, 2005, net revenues were $1,047.8 million, a $47.6 million increase from the same period in 2004, largely due to increased revenues recognized for trackers of $27.2 million, which are offset in operating expense. Revenues also increased $14 million from regulatory initiatives, including the stipulation for Columbia of Ohio, and $3.8 million from a favorable weather impact compared to the same period last year. Partially offsetting these impacts was lower customer usage, net of customer increases, which negatively impacted sales by approximately $10 million.

Operating Income
For the third quarter of 2005, Gas Distribution Operations reported an operating loss of $69.6 million, versus an operating loss of $35.7 million for the comparable 2004 period. The increase in operating loss was mainly attributable to transition costs and a pension and other postretirement benefit charge associated with the IBM agreement totaling $29.9 million and increased depreciation expense of $7.5 million that primarily resulted from the expiration of 1999 stipulation for Columbia of Ohio. Increased administrative expenses for the quarter were offset by lower employee benefit related costs.

Operating income for the first nine months of 2005 totaled $211.0 million, a $53.4 million decrease compared to the same period in 2004 largely due to a restructuring charge, transition costs and a pension and other postretirement benefit charge associated with the IBM agreement totaling $41.3 million. Also, depreciation expense increased $23.3 million that primarily resulted from the expiration of 1999 stipulation for Columbia of Ohio and a $10.9 million goodwill impairment loss recognized for Kokomo Gas in the second quarter of 2005. These increases in costs were partially offset by increased net revenues discussed above.

NiSource Inc.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Operating Revenues				
Transportation revenues	**$ 141.5**	$ 142.4	**$ 470.1**	$ 479.1
Storage revenues	**44.4**	44.3	**133.6**	134.0
Other revenues	**1.8**	2.1	**9.5**	7.2
Total Operating Revenues	**187.7**	188.8	**613.2**	620.3
Less: Cost of gas sold	**6.4**	2.1	**18.3**	12.5
Net Revenues	**181.3**	186.7	**594.9**	607.8
Operating Expenses				
Operation and maintenance	**77.8**	76.9	**219.0**	226.3
Depreciation and amortization	**28.6**	28.2	**85.3**	85.9
Loss (gain) on sale of assets	**-**	(0.1)	**-**	0.2
Other taxes	**12.7**	12.6	**42.1**	41.4
Total Operating Expenses	**119.1**	117.6	**346.4**	353.8
Operating Income	**$ 62.2**	$ 69.1	**$ 248.5**	$ 254.0

	2005	2004	2005	2004
Throughput (MMDth)				
Columbia Transmission				
Market Area	**144.1**	125.9	**708.2**	701.2
Columbia Gulf				
Mainline	**120.4**	114.9	**402.1**	415.5
Short-haul	**27.1**	28.9	**68.7**	76.8
Columbia Pipeline Deep Water	**2.7**	4.1	**9.4**	12.8
Crossroads Gas Pipeline	**9.5**	9.2	**31.5**	29.7
Granite State Pipeline	**3.2**	3.5	**22.8**	23.1
Intrasegment eliminations	**(110.4)**	(116.6)	**(390.6)**	(415.3)
Total	**196.6**	169.9	**852.1**	843.8

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline and Granite State Gas. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in nineteen northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Operational Impacts Associated with Hurricanes Katrina and Rita

Preliminary hurricane related damage assessments for Columbia Gulf are estimated to be between $15 to $20 million. NiSource does not anticipate a material impact on operating income results. Most of these costs will be recovered through insurance or capitalized as new plant additions.

Management anticipates having substantially all of its facilities able to accept gas by November 15, 2005 and estimated revenue losses for 2005 are anticipated to be $2.5 million. The impact on 2006 will depend primarily on when Gulf Coast supplies, processing facilities, pipelines and throughput return to pre-hurricane levels.

On October 21, 2005, Columbia Transmission and Columbia Gulf sent an informational notice to their customers regarding the uncertainty of Gulf Coast supply during the upcoming winter heating season. The notice outlined steps that Columbia Transmission and Columbia Gulf will follow, as well as suggestions for their customers, to ensure operational integrity throughout the winter.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Restructuring
Gas Transmission and Storage Operations recorded restructuring charges of $3.5 million in the third quarter of 2005 and $2.7 million in the second quarter of 2005 in connection with the IBM agreement mentioned previously, which was allocated from NiSource Corporate Services. Payments made for all restructuring initiatives within Gas Transmission and Storage Operations amounted to $0.5 million for the third quarter of 2005 and the restructuring liability remaining at September 30, 2005, was $3.6 million. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 at which time all assessment costs will be expensed. Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. There is no material impact on 2005 for this order, but it is anticipated that operating expenses will increase approximately $8 to $12 million in 2006 related to this guidance and the expenditures NiSource expects to incur to comply with the DOT's Integrity Management Rule.

On March 31, 2005, the FERC issued an order regarding Columbia Transmission's annual EPCA filing. The FERC's order accepted the filing, subject to refund, and established a hearing to address issues related to the appropriate methodology for allocating costs associated with the new electric Downingtown Compressor units. An uncontested settlement was reached among the parties and was filed with FERC on August 31, 2005. On October 26, 2005, the FERC approved the settlement without modifications or conditions. The settlement will not have a material financial impact on the company.

On March 29, 2005, the FERC issued an unconditional order accepting Columbia Transmission's March 1, 2005 RAM filing. Columbia Transmission's March 1, 2004 RAM is still pending before the FERC, with no statutory time requirement for future action; however, with the approval of the 2005 RAM filing, management does not anticipate a material adverse order.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of September 30, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 12-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Proposed Millennium Pipeline Project
Millennium has proposed a pipeline project, in which Columbia Transmission is participating and will serve as operator, which will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is currently being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse, New York. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

The FERC issued an order in September 2002 in which it granted final certificate authority for the original Millennium project, but specified that Millennium could not begin construction until certain environmental and other conditions were met. One such condition, impacting what is now being marketed as Phase 2 of the project, was compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS determined that the Hudson River crossing plan was not consistent with the Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal

Gas Transmission and Storage Operations (continued)

District Court on February 13, 2004. The procedural schedule calls for all briefings to be completed by the end of 2005.

On August 1, 2005, Millennium submitted a certificate amendment filing to the FERC. This amended filing requests authorization from the FERC to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase I of the project. The executed precedent agreements contained various conditions. Millennium is currently renegotiating certain of these conditions. The success of these renegotiations and the timing of receipt of the necessary approvals may impact the targeted in-service date of November 1, 2007 and may even affect the viability of Phase I. Provided the renegotiations are successful and the necessary approvals are received in a timely manner, Millennium plans to begin construction in mid-2006.

During the second quarter of 2004, a NiSource affiliate purchased an additional interest in the project. NiSource is finalizing plans to transfer this interest to other sponsors in 2005. The other sponsors are Columbia Transmission, MCNIC Millennium Company (subsidiary of DTE Energy Company), and KeySpan Millennium, L.L.C. (subsidiary of KeySpan Corporation). If the transfer of this interest occurs as currently contemplated, development of the project, other than Phase I, would require unanimous agreement of the sponsors. Decisions by the sponsors regarding additional aspects of the project may impair Millennium's ability to recover in rates certain development costs it has previously incurred.

Hardy Storage Project

In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States.

Columbia Transmission and Piedmont have formed Hardy Storage, to develop a natural gas storage field from a depleted natural gas production field in West Virginia. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

An open season for Hardy Storage conducted in early 2004 resulted in full subscription of the project's storage capacity under long-term firm contracts. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in November 2007, and will ultimately be able to deliver 176 MMDth per day of firm storage service on behalf of the four customers subscribing to capacity in Hardy Storage. These customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, and received a favorable order on November 1, 2005, which should allow for construction to begin as scheduled later this year. Service from both projects is expected to be available in 2007.

Other Growth Projects

Open seasons for two additional projects, the central and southern Virginia expansion and the Eastern Market expansion, were held earlier this year. Market interest for both projects was encouraging and customer negotiations are ongoing. Assuming the successful completion of negotiations, regulatory approvals are anticipated to be initiated during 2006.

Throughput

Throughput for the Gas Transmission and Storage Operations segment totaled 196.6 MMDth for the third quarter 2005, an increase of 26.7 MMDth from the same period in 2004. The increase in throughput is mainly due to increased power generation deliveries.

Throughput for the nine months ended September 30, 2005 was 852.1 MMDth, an increase of 8.3 MMDth from the same period in 2004 due to increased power generation deliveries experienced in the third quarter of 2005 and

NiSource Inc.
Gas Transmission and Storage Operations (continued)

partially offset by warmer weather in the first six months of 2005 than for the comparable period in 2004, and a continued overall decline of offshore natural gas production, and other non-weather factors.

Throughput for both the quarter and nine month period has been negatively impacted by Hurricanes Katrina and Rita, which is expected to continue in the fourth quarter of 2005 and into the first quarter of 2006.

Net Revenues
Net revenues were $181.3 million for the third quarter 2005, a decrease of $5.4 million from the same period in 2004, due to the re-contracting of firm transportation and storage agreements that expired October 31, 2004, which reduced net revenues by $4.9 million, net of remarketing activities.

Net revenues were $594.9 for the first nine months of 2005 compared to $607.8 million for the first nine months of 2004. The $12.9 million decrease in net revenues was mainly due to the re-contracting of firm transportation and storage agreements that expired October 31, 2004, which amounted to $16.0 million, net of remarketing activities, and decreased revenues from trackers, which are offset in operating expense. These decreases in net revenues were partially offset by a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, amounting to $8.9 million in the second quarter of 2005.

Operating Income
Operating income was $62.2 million for the third quarter 2005 compared to $69.1 million in the third quarter 2004. The decrease in operating income was mainly attributable to transition costs and a pension and other postretirement benefit charge associated with the IBM agreement totaling $8.5 million, and lower net revenues described above. This increase was partially offset by reduced employee and administrative expenses of $4.5 million mainly due to decreased pension expense.

For the first nine months of 2005, operating income was $248.5 million, a $5.5 million decrease from the first nine months of 2004. The decrease was mainly attributable to transition costs and a pension and other postretirement benefit charge associated with the IBM agreement totaling $11.2 million, and lower net revenues described above. This decrease was partially offset by a third-party buyout of a bankruptcy claim in the second quarter of 2005 relating to the rejection of a shipper's long-term contract, amounting to $8.9 million, and a $10.3 million reduction in employee and administrative expenses mainly due to decreased pension and other benefit expenses.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Electric Operations

(in millions)	Three Months Ended September 30, 2005	2004	Nine Months Ended September 30, 2005	2004
Net Revenues				
Sales revenues	**$ 373.0**	$ 303.3	**$ 937.4**	$ 831.6
Less: Cost of sales	**142.2**	92.4	**330.3**	258.7
Net Revenues	**230.8**	210.9	**607.1**	572.9
Operating Expenses				
Operation and maintenance	**62.3**	57.2	**192.4**	176.3
Depreciation and amortization	**46.9**	44.1	**138.6**	132.6
Gain on sale of assets	**-**	-	**(0.4)**	-
Other taxes	**11.2**	14.2	**39.7**	27.8
Total Operating Expenses	**120.4**	115.5	**370.3**	336.7
Operating Income	**$ 110.4**	$ 95.4	**$ 236.8**	$ 236.2
Revenues ($ in millions)				
Residential	**118.3**	86.9	**269.0**	224.8
Commercial	**92.8**	78.8	**251.7**	222.4
Industrial	**116.9**	100.3	**333.9**	304.1
Wholesale	**14.6**	18.8	**28.4**	41.6
Other	**30.4**	18.5	**54.4**	38.7
Total	**373.0**	303.3	**937.4**	831.6
Sales (Gigawatt Hours)				
Residential	**1,197.9**	923.7	**2,732.9**	2,372.4
Commercial	**1,082.4**	990.1	**2,964.7**	2,749.6
Industrial	**2,240.1**	2,295.3	**6,753.6**	6,960.7
Wholesale	**336.5**	504.2	**693.6**	1,063.6
Other	**34.3**	31.0	**82.8**	97.2
Total	**4,891.2**	4,744.3	**13,227.6**	13,243.5
Cooling Degree Days	**655**	377	**935**	582
Normal Cooling Degree Days	**576**	576	**803**	803
% Warmer (Colder) than Normal	**14%**	(35%)	**16%**	(28%)
Electric Customers				
Residential			**393,382**	389,878
Commercial			**50,922**	49,983
Industrial			**2,512**	2,518
Wholesale			**12**	26
Other			**767**	777
Total			**447,595**	443,182

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 448 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

NISOURCE INC.
Electric Operations (continued)

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

Northern Indiana coal deliveries from the PRB area have been limited to 80% - 85% of contracted amounts as a result of recent rail track problems experienced by the Union Pacific and Burlington Northern Santa Fe Railroads. Northern Indiana anticipates being able to meet the expected electricity demand through the end of the year by changing the fuel blend, which will reduce its need for PRB coal. Northern Indiana has been blending the fuel for a number of years.

Restructuring
Electric Operations recorded restructuring charges of $2.0 million in the third quarter of 2005 and $1.8 million in the second quarter of 2005 in connection with the IBM agreement previously discussed, of which $3.7 million was allocated from NiSource Corporate Services. At September 30, 2005, the remaining restructuring liability for Electric Operations was $0.1 million, relating to a restructuring plan initiated in 2000, which is substantially complete. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Electric Operations segment.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. Credits amounting to $46.7 million and $41.9 million were recognized for electric customers for the first nine months of 2005 and 2004, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003, also known as "Day 1." In April 2005, Northern Indiana, as well as the other two participants of the ITC, announced their withdrawal from the ITC and the ITC ceased operations effective November 1, 2005. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana incurs categories of transmission charges based upon MISO's FERC-approved tariff. One of the categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana appealed this decision to the Indiana Appellate Court, but on April 27, 2005, the Court affirmed the IURC's original decision. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. MISO Day 1 administrative fees were $2.3 million for the first nine months of 2005. The Day 1 MISO Schedule 10 administrative fees are currently estimated to be $2.5 to $3.0 million annually.

The MISO has launched the MMI, also known as "Day 2," implementing structures and processes of an electricity market for the MISO region. The MMI provides non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO's MMI tariffs have been approved by the FERC. Financially binding activities began with the opening of the market for bids and offers on March 25, 2005, and the real-time market on April 1, 2005. Northern Indiana and TPC are actively participating in the MMI. Based on the first six months of market operations, management expects a financial impact of approximately $2.4 million annually in operating expenses for MMI administrative costs, which were $1.6 million for the period April through September 2005. These are in addition to the MISO Day 1 Schedule 10 administrative costs for which Northern Indiana was denied deferral treatment in 2004. MMI energy costs are

NISOURCE INC.
Electric Operations (continued)

being accounted for in the same manner that energy costs were recorded prior to the implementation of the MMI, and for Northern Indiana are recovered through the FAC in accordance with the final IURC order issued on June 1, 2005. The detailed MMI tariff manages aspects of system reliability through the use of a market-based congestion management system. The FERC approved tariff includes a centralized dispatch platform, which dispatches the most economic resources to meet load requirements efficiently and reliably in the MISO region. The tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The MISO performs a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO also performs the real-time resource dispatch for resources under its control on a five-minute basis. The tariff also allows for the allocation, auction or sale of FTRs, which are instruments that protect against congestion costs occurring in the day-ahead market. Northern Indiana has not yet been a participant in the auction market for FTRs, but is allocated FTRs on a seasonal basis and at zero cost, for its use to protect against congestion costs. Northern Indiana retains its obligation for load following and other ancillary services.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. On June 15, 2005, Northern Indiana filed testimony and exhibits establishing a new basis for the cap. Northern Indiana received approval from the IURC of its request on July 20, 2005. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the demolition and environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for these costs. The associated demolition and environmental cleanup costs are estimated to be between $38 million to $53 million.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and ITC. A hearing in this matter was held December 1 and 2, 2004. The settlement, described in the following paragraph, covers this proceeding. An IURC order, based upon the settlement, is expected in the first quarter of 2006.

On March 31, 2005, Northern Indiana and the OUCC filed an MOU with the IURC that could have resulted in settlements of the City of Gary petition and Purchased Power and Transmission Tracker petition. The settlement agreement that was contemplated by the MOU would have provided, among other things, for the recovery of Northern Indiana's costs for Intermediate Dispatchable Power purchased from TPC and would have required Northern Indiana to file a base rate case in 2007. The MOU provided that a settlement was contingent upon: 1) acceptable results of a third party evaluation study to be performed by an independent consultant relating to the use of Whiting Clean Energy and the Mitchell Station to meet the control performance standards required by the North American Electric Reliability Council and 2) affirmative consent to the other terms of the MOU by Northern Indiana's large industrial electric customers. The scope of the proposed settlement did not include MISO costs. The ability to recover or defer MISO costs was to be determined in another proceeding before the IURC, filed by several of the investor-owned electric utilities in Indiana (see the following paragraph). The evaluation study was completed on June 30, 2005 by the engineering firm, Burns and McDonnell. On July 14, 2005, the OUCC filed a notice disavowing the MOU. In addition to confirming the need for a solution to help Northern Indiana meet certain control performance standards, the evaluation study identified several potential, alternative solutions. Northern

NISOURCE INC.
Electric Operations (continued)

Indiana, the OUCC and the Industrial Group, reached a settlement agreement for purposes of partially settling the Interim Order approving Whiting Clean Energy to sell to TPC electric power generated at Whiting Clean Energy's generating facility which would then be sold to Northern Indiana and settling all matters in the City of Gary and Purchased Power and Transmission Tracker petitions. The OUCC and the Industrial Group agree that they will recommend to the IURC that Northern Indiana be allowed to recover through its FAC the cost of fuel per the Power Purchase Agreement between TPC and Northern Indiana from August 9, 2005 through November 30, 2005. Northern Indiana began recovering the cost of this fuel through the FAC in August 2005 per this agreement, in accordance with the IURC approval received in FAC 68 (See below). Northern Indiana, the OUCC and the Industrial Group agreed to meet in November 2005 to assess the need for a portion of or the entire Intermediate Dispatchable Power contract amount from TPC and Whiting Clean Energy beyond November 30, 2005. Northern Indiana anticipates that the parties will collaborate to reach a mutually acceptable solution that will address electric reliability issues.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005, and an IURC order was issued on June 1, 2005. The order, applicable to Northern Indiana, authorized recovery or deferral of fuel related MISO Day 2 costs but denied recovery or deferral of non-fuel MISO Day 2 costs during Northern Indiana's rate moratorium.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition with the IURC for approval of an arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration.

Pursuant to the July 1, 2005 interim order, Northern Indiana filed for recovery of fuel costs associated with Intermediate Dispatchable Power purchases in FAC 68. On October 26, 2005, the IURC issued an order in FAC 68 allowing recovery of the fuel cost associated with the Intermediate Dispatchable Power purchases.

On November 26, 2002, Northern Indiana received approval for an environmental cost tracker. Under the environmental cost tracker, Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. On January 19, 2005, the IURC approved Northern Indiana's latest compliance plan with the estimate of $305 million. On October 13, 2005, Northern Indiana filed for approval of the revised cost estimates to meet the environmental standards. Northern Indiana anticipates a total capital investment amounting to approximately $306 million. The ECRM revenues amounted to $20.8 million for the nine months ended September 30, 2005, and $44.8 million from inception to date, while EERM revenues were $5.2 million for the first nine months of 2005. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures (net of accumulated depreciation for those components which have been placed in service) of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004. The IURC approved ECR-5 and EER-2 on March 23, 2005. ECR-6 was filed in August 2005 for capital expenditures (net of accumulated depreciation) of $232.7 million and was approved by the IURC on October 26, 2005, with slight modifications.

NISOURCE INC.
Electric Operations (continued)

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter had both filed motions requesting the IURC to reconsider its order and were denied. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. On June 15, 2005, Northern Indiana filed a Motion to Stay with the Indiana Court of Appeals requesting a stay of the portions of the order that require Northern Indiana to pay $2.5 million to Jupiter and install a backup line to serve Jupiter. On July 13, 2005, Northern Indiana's Motion to Stay the IURC's April 13, 2005 ruling was denied. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working with Jupiter to incorporate the IURC required backup line and the special fast switching equipment with growth plans recently announced by Jupiter.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of September 30, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 12-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Electric Operations.

Sales
Electric sales quantities for the third quarter of 2005 were 4,891.2 gwh, an increase of 146.9 gwh compared to the 2004 period. Residential and commercial sales quantities improved due to increases in the number of customers and warmer weather in the current period, and were partially offset by decreased wholesale transaction sales and decreased industrial sales due to steel customers running at lower levels.

Electric sales for the first nine months of 2005 was 13,227.6 gwh, a decrease of 15.9 gwh compared to the 2004 period, as a result of decreased wholesale transaction sales and decreased industrial sales due to steel customers running at lower levels. Residential and commercial sales quantities increased due to increases in the number of customers and warmer weather.

Net Revenues
In the third quarter of 2005, Electric Operations net revenues of $230.8 million increased by $19.9 million from the comparable 2004 period. This improvement was primarily a result of warmer weather compared to the third quarter of last year that favorably impacted net revenues by approximately $19 million. Also, increased sales to residential and commercial customers, due to both usage and added customers, and environmental cost trackers increased net revenues by $7.4 million and $4.9 million respectively. Partially offsetting these impacts were MISO costs of $5.3 million and revenue credits of $2.2 million.

In the first nine months of 2005, Electric Operations net revenues were $607.1 million, an increase of $34.2 million from the comparable 2004 period as a result of an increase in sales of approximately $26 million due to favorable weather conditions, an increase of $12.4 million in environmental cost trackers, $4.5 million of which is offset in operating expenses, and increased sales to residential and commercial customers due to both usage and added customers. These increases in Electric Operations net revenues were partially offset by $9.5 million in increased costs associated with MISO and revenue credits of $4.7 million.

Operating Income
Operating income for the third quarter of 2005 was $110.4 million, an increase of $15.0 million from the same period in 2004. The increase was primarily due to higher net revenues described above and partially offset by transition costs and a pension and other postretirement benefit charge associated with the IBM agreement totaling $5.0 million.

NISOURCE INC.
Electric Operations (continued)

Operating income for the first nine months of 2005 was $236.8 million, an increase of $0.6 million from the same period in 2004. Operating income increases from higher net revenues described above were mostly offset by higher operating expenses. Operating expenses increased by $33.6 million resulting from a property tax accrual reduction of $18.1 million in the comparable 2004 period and increased costs in 2005 associated with the IBM agreement for restructuring, transition, and a pension and other postretirement benefit charge totaling $6.7 million, as well as increased electric production expense of $6.9 million and MISO fees included in operating expenses of $3.0 million.

NISOURCE INC.
Other Operations

(in millions)	Three Months Ended September 30, **2005**	2004	Nine Months Ended September 30, **2005**	2004
Net Revenues				
Products and services revenue	**$ 214.4**	$ 147.6	**$ 636.4**	$ 480.1
Less: Cost of products purchased	**198.1**	133.7	**607.5**	461.9
Net Revenues	**16.3**	13.9	**28.9**	18.2
Operating Expenses				
Operation and maintenance	**12.2**	10.9	**29.3**	31.8
Depreciation and amortization	**2.9**	2.7	**8.8**	8.0
Loss (gain) on sale of assets	**(0.1)**	-	**(0.6)**	0.7
Other taxes	**1.3**	1.0	**5.5**	3.9
Total Operating Expenses	**16.3**	14.6	**43.0**	44.4
Operating Loss	**$ -**	$ (0.7)	**$ (14.1)**	$ (26.2)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Restructuring
Other Operations recorded restructuring charges of $0.5 million in the third quarter of 2005 and $0.2 million in the second quarter of 2005 in connection with the IBM agreement previously discussed, which was allocated from NiSource Corporate Services. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Other Operations segment.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.2 million at September 30, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first nine months of 2005, the PEI holding companies' consolidated after-tax loss was approximately $17.7 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, approval of the electric sales agreement discussed in the following paragraph, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time for the next three years.

NISOURCE INC.
Other Operations (continued)

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of Intermediate Dispatchable Power, utilizing the generation facilities of Whiting Clean Energy. Whiting Clean Energy has filed and the FERC accepted a tariff covering the sale of such Intermediate Dispatchable Power. TPC has similarly filed and the FERC accepted a petition seeking approval of its proposed contract with Northern Indiana. TPC and Whiting Clean Energy, along with Northern Indiana, have also filed a separate petition with the IURC in which they requested approval for the sale of Intermediate Dispatchable Power this summer from Whiting Clean Energy through TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC. On August 31, 2005, the IURC denied LaPorte County's Petition for Reconsideration. On September 29, 2005, LaPorte County filed its Notice of Appeal of the IURC's Order of August 31, 2005 denying its Petition for Reconsideration.

Net Revenues
Net revenues of $16.3 million for the third quarter of 2005 increased by $2.4 million from the third quarter of 2004, due to increased net revenue from Whiting Clean Energy of $8.7 million, partially offset by a $5.1 million settlement of a lawsuit in the comparable 2004 period.

For the first nine months of 2005, net revenues were $28.9 million, a $10.7 million increase compared to the same period in 2004. The increase was mainly due to higher revenues from Whiting Clean Energy of $12.1 million and increased gas marketing revenues of $3.2 million, partially offset by a $5.1 million settlement of a lawsuit in the comparable 2004 period.

Operating Income
Other Operations did not have any operating income for the third quarter of 2005, compared to an operating loss of $0.7 million for the comparable 2004 period. The decrease in the operating loss resulted primarily from the increase in net revenues described above and was partially offset by recording $1.4 million of losses upon consolidation of an investment that was previously accounted for as an equity investment and $1.0 million of higher gas costs resulting from the Katrina hurricane.

For the first nine months of 2005, operating loss was $14.1 million compared to an operating loss of $26.2 million for the comparable 2004. This improvement was primarily due to the increase in net revenues discussed above.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report, NiSource's disclosure controls and procedures were adequate and effective to ensure that material information relating to NiSource and its consolidated subsidiaries would be made known to them by others within those entities.

Changes in Internal Controls

In June 2005, NiSource Corporate Services and IBM signed a definitive agreement to provide a broad range of business process and support services to NiSource. On July 1, 2005, IBM assumed responsibility for Information Technology, Human Resources and Supply Chain procurement functions across NiSource as well as transition and transformation processes in the Meter to Cash and Customer Contact Centers. Included in the Information Technology transformation process during 2005 and 2006 are major projects in Human Resources, Finance and Accounting, Supply Chain, Gas Management, Operations and Meter to Cash. As of September 30, 2005, 499 employees have transitioned employment to IBM while knowledge transfer of other assumed functions continue. Internal controls related to these various activities have not been changed for the third quarter 2005, however, in many cases new people are performing those controls or control activities are being performed in a different location.

The MISO Day 2 market became effective on April 1, 2005, which impacted Northern Indiana's regulated electric generation and purchase power operations. In connection with the implementation of MISO Day 2, NiSource has implemented new processes and modified existing processes to facilitate participation in, and resultant settlements within the MISO market.

Besides the internal control changes referenced above, there have been no other changes in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. **Stand Energy Corporation, et al. v. Columbia Gas Transmission Corporation, et al., Kanawha County Court, West Virginia**

   On July 14, 2004, Stand Energy Corporation filed a complaint in Kanawha County Court in West Virginia. The complaint contains allegations against various NiSource companies, including Columbia Transmission and Columbia Gulf, and asserts that those companies and certain "select shippers" engaged in an "illegal gas scheme" that constituted a breach of contract and violated state law. The "illegal gas scheme" complained of by the plaintiffs relates to the Columbia Transmission and Columbia Gulf gas imbalance transactions that were the subject of the FERC enforcement staff investigation and subsequent settlement approved in October 2000. Columbia Transmission and Columbia Gulf filed a Notice of Removal with the Federal Court in West Virginia on August 13, 2004 and a Motion to Dismiss on September 10, 2004. In October 2004, however, the plaintiffs filed their Second Amended Complaint, which clarified the identity of some of the "select shipper" defendants and added a federal antitrust cause of action. On January 6, 2005, the Court denied the Columbia companies' motion to strike the Second Amended Complaint and granted the plaintiffs leave to amend. To address the issues raised in the Second Amended Complaint, the Columbia companies revised their briefs in support of the previously filed motions to dismiss. In June 2005, the Court granted in part and denied in part the Columbia companies' motion to dismiss the Second Amended Complaint. The Columbia companies have filed an answer to the Second Amended Complaint.

2. **United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana**

   The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

   Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

   The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. The recommendations of the Special Master still must be adopted by the court.

3. **Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court**

   The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against Columbia Natural Resources alleging that Columbia Natural Resources underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that Columbia Natural Resources fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from Columbia Natural Resources (and its predecessors or successors) on lands lying within the boundary of the State of West Virginia. All individuals, corporations, agencies, departments or instrumentalities of the United States of America are excluded from the class. Columbia Natural Resources appealed the decision certifying the class and the Supreme Court of West Virginia denied the appeal. Although NiSource sold Columbia Natural Resources in 2003, it remains obligated to manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial has been rescheduled from the third quarter of 2005 to the first quarter of 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

* Exhibit filed herewith.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: November 4, 2005

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☑ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 272,489,710 shares outstanding at July 29, 2005.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED JUNE 30, 2005

Table of Contents

DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
Columbia	Columbia Energy Group
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Maryland	Columbia Gas of Maryland, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
IWC	Indianapolis Water Company
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NiSource	NiSource Inc.
NiSource Corporate Services	NiSource Corporate Services Company
NiSource Finance	NiSource Finance Corp.
Northern Indiana	Northern Indiana Public Service Company
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
APB No. 28	Accounting Principles Board Opinion No. 28, "Interim Financial Reporting"
ARP	Alternative Regulatory Plan
BART	Best Available Retrofit Technology
BBA	British Banker Association
Bcf	Billion cubic feet
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
DOT	U.S. Department of Transportation
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
EGU	Electric generating units
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share

DEFINED TERMS (continued)

FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 45	FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"
FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
ITC	Independent Transmission Company (Grid America)
IURC	Indiana Utility Regulatory Commission
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Mahonia	Mahonia II Limited
Maine OPA	Maine Office of Public Advocate
Maine PUC	Maine Public Utility Commission
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
MMI	Midwest Market Initiative
MOU	Memorandum of Understanding
MSCP	Morgan Stanley Dean Witter Capital Partners IV, L.P.
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OCC	Office of the Ohio Consumers' Counsel
OPSB	Ohio Power Siting Board
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PRB	Powder River Basin
PSC	Kentucky Public Service Commission
PUCO	Public Utilities Commission of Ohio
QPAI	Qualified production activities income
RAM	Retainage Adjustment Mechanism
SAILS[SM]	Stock Appreciation Income Linked Securities[SM]
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 109	Statement of Financial Accounting Standards No. 109, "Accounting for Uncertain Tax Positions"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SIP	State Implementation Plan

DEFINED TERMS (continued)

SO_2	Sulfur dioxide
Tcf	Trillion cubic feet
Triana	Triana Energy Holdings
VaR	Value-at-risk and instrument sensitivity to market factors

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

(in millions, except per share amounts*)*	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Revenues				
Gas Distribution	$ **658.3**	$ 616.4	$ **2,485.1**	$ 2,274.8
Gas Transportation and Storage	**213.0**	206.5	**541.9**	551.8
Electric	**281.9**	272.6	**564.2**	536.1
Other	**202.0**	148.4	**445.5**	353.5
Gross Revenues	**1,355.2**	1,243.9	**4,036.7**	3,716.2
Cost of Sales	**700.5**	628.9	**2,369.0**	2,109.9
Total Net Revenues	**654.7**	615.0	**1,667.7**	1,606.3
Operating Expenses				
Operation and maintenance	**317.9**	283.7	**655.5**	606.1
Depreciation and amortization	**136.4**	127.3	**271.5**	252.4
Impairment and loss on sale of assets	**20.9**	0.3	**20.4**	1.0
Other taxes	**60.1**	45.9	**163.2**	145.9
Total Operating Expenses	**535.3**	457.2	**1,110.6**	1,005.4
Operating Income	**119.4**	157.8	**557.1**	600.9
Other Income (Deductions)				
Interest expense, net	**(101.7)**	(99.1)	**(205.7)**	(201.3)
Dividend requirements on preferred stock of subsidiaries	**(1.1)**	(1.1)	**(2.2)**	(2.2)
Other, net	**3.6**	0.1	**3.1**	2.9
Total Other Income (Deductions)	**(99.2)**	(100.1)	**(204.8)**	(200.6)
Income From Continuing Operations Before Income Taxes	**20.2**	57.7	**352.3**	400.3
Income Taxes	**12.3**	22.2	**135.7**	148.0
Income from Continuing Operations	**7.9**	35.5	**216.6**	252.3
Loss from Discontinued Operations - net of taxes	**(11.6)**	(0.9)	**(13.8)**	(4.2)
Gain on Disposition of Discontinued Operations - net of taxes	**42.7**	-	**42.5**	-
Net Income	$ **39.0**	$ 34.6	$ **245.3**	$ 248.1
Basic Earnings (Loss) Per Share ($)				
Continuing operations	**0.03**	0.13	**0.80**	0.96
Discontinued operations	**0.12**	-	**0.11**	(0.01)
Basic Earnings Per Share	**0.15**	0.13	**0.91**	0.95
Diluted Earnings (Loss) Per Share ($)				
Continuing operations	**0.03**	0.13	**0.76**	0.95
Discontinued operations	**0.11**	-	**0.10**	(0.01)
Diluted Earnings Per Share	**0.14**	0.13	**0.90**	0.94
Dividends Declared Per Common Share	**0.23**	0.23	**0.46**	0.46
Basic Average Common Shares Outstanding (millions)	**271.2**	262.5	**270.8**	262.4
Diluted Average Common Shares (millions)	**273.1**	264.5	**272.6**	264.6

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets

(in millions)		**June 30, 2005**		December 31, 2004
		(unaudited)		
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	**16,367.0**	$	16,194.1
Accumulated depreciation and amortization		**(7,416.0)**		(7,247.7)
Net utility plant		**8,951.0**		8,946.4
Other property, at cost, less accumulated depreciation		**423.1**		427.5
Net Property, Plant and Equipment		**9,374.1**		9,373.9
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		**34.8**		38.6
Unconsolidated affiliates		**67.1**		64.2
Other investments		**116.9**		113.0
Total Investments and Other Assets		**218.8**		215.8
Current Assets				
Cash and cash equivalents		**258.2**		29.5
Restricted cash		**31.8**		56.3
Accounts receivable (less reserve of $77.4 and $55.6, respectively)		**474.3**		889.1
Gas inventory		**213.8**		452.9
Underrecovered gas and fuel costs		**85.6**		293.8
Materials and supplies, at average cost		**73.6**		70.6
Electric production fuel, at average cost		**32.7**		29.2
Price risk management assets		**97.2**		61.1
Exchange gas receivable		**195.5**		169.6
Regulatory assets		**166.1**		136.2
Prepayments and other		**101.7**		96.1
Total Current Assets		**1,730.5**		2,284.4
Other Assets				
Price risk management assets		**193.3**		148.3
Regulatory assets		**566.0**		568.4
Goodwill		**3,677.3**		3,687.2
Intangible assets		**513.0**		520.3
Deferred charges and other		**185.9**		189.5
Total Other Assets		**5,135.5**		5,113.7
Total Assets	$	**16,458.9**	$	16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Consolidated Balance Sheets (continued)

(in millions)	June 30, 2005 (unaudited)	December 31, 2004
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value - 400,000,000 shares authorized, 272,322,505 and 270,625,370 shares issued and outstanding, respectively	$ 2.7	$ 2.7
Additional paid-in-capital	3,958.8	3,924.0
Retained earnings	983.2	925.4
Accumulated other comprehensive loss and other common stock equity	(49.8)	(65.0)
Total common stock equity	4,894.9	4,787.1
Preferred stocks—Series without mandatory redemption provisions	81.1	81.1
Long-term debt, excluding amounts due within one year	4,807.3	4,835.9
Total Capitalization	9,783.3	9,704.1
Current Liabilities		
Current portion of long-term debt	1,260.1	1,299.9
Short-term borrowings	-	307.6
Accounts payable	390.9	648.4
Dividends declared on common and preferred stocks	63.7	1.1
Customer deposits	92.7	92.2
Taxes accrued	244.2	160.9
Interest accrued	79.7	84.1
Overrecovered gas and fuel costs	54.2	15.5
Price risk management liabilities	74.1	46.9
Exchange gas payable	254.0	325.1
Deferred revenue	29.1	31.5
Regulatory liabilities	29.1	30.2
Accrued liability for postretirement and pension benefits	89.7	85.5
Other accruals	341.7	478.2
Total Current Liabilities	3,003.2	3,607.1
Other Liabilities and Deferred Credits		
Price risk management liabilities	6.3	5.5
Deferred income taxes	1,624.6	1,665.9
Deferred investment tax credits	74.0	78.4
Deferred credits	65.0	74.0
Deferred revenue	76.9	86.9
Accrued liability for postretirement and pension benefits	423.9	413.0
Preferred stock liabilities with mandatory redemption provisions	0.6	0.6
Liabilities of discontinued operations	0.3	-
Regulatory liabilities and other removal costs	1,205.4	1,168.6
Other noncurrent liabilities	195.4	183.7
Total Other Liabilities and Deferred Credits	3,672.4	3,676.6
Commitments and Contingencies	-	-
Total Capitalization and Liabilities	$ 16,458.9	$ 16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Six Months Ended June 30, *(in millions)*	2005	2004
Operating Activities		
Net income	$ 245.3	$ 248.1
Adjustments to reconcile net income to net cash from continuing operations:		
Depreciation and amortization	271.5	252.4
Net changes in price risk management activities	(9.0)	2.7
Deferred income taxes and investment tax credits	(81.6)	(11.9)
Deferred revenue	(12.4)	(23.0)
Amortization of unearned compensation	4.7	4.4
Loss (Gain) on sale of assets	(1.4)	1.0
Loss on impairment of assets	21.8	-
Income from unconsolidated affiliates	(2.8)	(0.4)
Gain from sale of discontinued operations	(42.5)	-
Loss from discontinued operations	13.8	4.2
Amortization of discount/premium on debt	9.7	9.4
Other adjustments	(0.4)	1.2
Changes in assets and liabilities:		
Accounts receivable	405.2	377.7
Inventories	241.7	196.7
Accounts payable	(250.0)	(46.7)
Customer deposits	0.5	1.7
Taxes accrued	38.5	40.0
Interest accrued	(0.9)	(0.2)
(Under) Overrecovered gas and fuel costs	247.0	47.7
Exchange gas receivable/payable	(61.8)	25.5
Other accruals	(71.5)	(109.5)
Prepayment and other current assets	5.1	33.9
Regulatory assets/liabilities	(27.6)	2.9
Postretirement and postemployment benefits	15.8	19.5
Deferred credits	(8.3)	(13.1)
Deferred charges and other noncurrent assets	(3.1)	(1.5)
Other noncurrent liabilities	6.6	23.0
Net Cash Flows from Continuing Operations	953.9	1,085.7
Net Cash Flows used for Discontinued Operations	(16.2)	(0.2)
Net Cash Flows from Operating Activities	937.7	1,085.5
Investing Activities		
Capital expenditures	(243.1)	(237.7)
Proceeds from disposition of assets	7.4	1.6
Other investing activities	9.7	1.0
Net Cash Flows used for Investing Activities	(226.0)	(235.1)
Financing Activities		
Retirement of long-term debt	(81.0)	(202.5)
Change in short-term debt	(307.6)	(542.0)
Issuance of common stock and capital contributed	32.1	8.7
Acquisition of treasury stock	(1.6)	(3.7)
Dividends paid - common shares	(124.9)	(121.8)
Net Cash Flows used for Financing Activities	(483.0)	(861.3)
Increase (Decrease) in cash and cash equivalents	228.7	(10.9)
Cash and cash equivalents at beginning of year	29.5	27.1
Cash and cash equivalents at end of period	$ 258.2	$ 16.2
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	200.8	194.3
Interest capitalized	0.4	1.2
Cash paid for income taxes	92.8	96.4

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Comprehensive Income (Loss) (unaudited)

(in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Income	**$ 39.0**	$ 34.6	**$ 245.3**	$ 248.1
Other comprehensive income, net of taxes				
Foreign currency translation adjustment	**-**	-	**-**	0.7
Net unrealized gains (losses) on cash flow hedges	**(38.2)**	(1.5)	**16.2**	8.5
Net gain (loss) on available for sale securities	**(1.0)**	(1.0)	**0.5**	0.5
Total other comprehensive income (loss), net of taxes	**(39.2)**	(2.5)	**16.7**	9.7
Total Comprehensive Income (Loss)	**$ (0.2)**	$ 32.1	**$ 262.0**	$ 257.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation. In the Statements of Consolidated Cash Flows for the six months ended June 30, 2004, the classification of the activity in restricted cash balances has been reclassified to an investing activity within "Other investing activities." NiSource previously presented such changes as an operating activity. For the six months ended June 30, 2004, this resulted in a $7.5 million increase to investing cash flows and a corresponding decrease to operating cash flows from the amounts previously reported.

2. Recent Accounting Pronouncements

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005, and early adoption is encouraged. NiSource is currently reviewing the legal obligations surrounding future retirement of tangible long-lived assets with regards to this interpretation.

SFAS No. 123 (revised 2004) – Share-Based Payment. In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after December 15, 2005, as directed by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. NiSource plans to adopt this standard on January 1, 2006, using a modified version of the prospective application as described in the statement.

Accounting for Uncertain Tax Positions. On July 14, 2005, the FASB issued an Exposure Draft, "Accounting for Uncertain Tax Positions," that would interpret SFAS No. 109. This proposal seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement requirements related to accounting for income taxes. Specifically, the proposal would require that a tax position meet a "probable recognition threshold" for the benefit of an uncertain tax position to be recognized in the financial statements. The proposal would require recognition in the financial statements of the best estimate of the effects of a tax position only if that position is probable of being sustained on audit by the appropriate taxing authorities, based solely on the technical merits of the position. NiSource is currently reviewing the provisions of the Exposure Draft to determine the impact it may have on its Consolidated Financial Statements and Notes to Consolidated Financial Statements.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Basic average common shares outstanding increased from the comparative 2004 period due primarily to the issuance of approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts associated with the SAILS^{SM} on November 1, 2004. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

(in thousands)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Denominator				
Basic average common shares outstanding	**271,172**	262,543	**270,752**	262,414
Dilutive potential common shares				
Nonqualified stock options	**429**	118	**402**	166
Shares contingently issuable under employee stock plans	**884**	1,182	**884**	1,182
SAILS[SM]	**-**	40	**-**	187
Shares restricted under employee stock plans	**622**	581	**590**	636
Diluted Average Common Shares	**273,107**	264,464	**272,628**	264,585

4. Stock Options and Awards

FASB SFAS No. 123R encourages, but does not require at this time, entities to adopt the fair value method of accounting for stock-based compensation plans. NiSource plans to adopt SFAS No. 123R on January 1, 2006, as allowed for by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. The fair value method would require the amortization of the fair value of stock-based compensation at the date of grant over the related vesting period. NiSource continues to apply the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123R to stock-based employee compensation.

($ in millions, except per share data)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Income				
As reported	**39.0**	34.6	**245.3**	248.1
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**1.9**	1.5	**2.9**	2.8
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	**(1.9)**	(3.1)	**(9.1)**	(6.0)
Pro forma	**39.0**	33.0	**239.1**	244.9
Earnings per share				
Basic - as reported	**0.15**	0.13	**0.91**	0.95
- pro forma	**0.15**	0.13	**0.88**	0.93
Diluted - as reported	**0.14**	0.13	**0.90**	0.94
- pro forma	**0.14**	0.12	**0.88**	0.93

NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Due to the one-year vesting terms of the options awarded prior to 2005 and the immediate vesting of the options awarded in January 2005, the pro-forma expense shown for 2005 is weighted in the first quarter. This creates no additional pro-forma expense in the second quarter of 2005, and comparatively high pro-forma expense for the six months ended June 30, 2005 compared to the first half of 2004.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

5. Restructuring Activities

During the second quarter of 2005, NiSource Corporate Services reached a definitive agreement with IBM under which IBM will provide a broad range of business transformation and outsourcing services to NiSource. The service and outsourcing agreement is for ten years with a transition period to extend through December 31, 2006. In connection with the IBM agreement, a total of approximately 1,000 positions have been identified for elimination through the transition period. Over 570 of the impacted employees are expected to become employees of IBM or its subcontractors. As of June 30, 2005, no employees were terminated during the quarter as a result of the agreement with IBM. In June 2005, NiSource recorded a restructuring charge of $16.4 million for estimated severance payments expected to be made in connection with the IBM agreement. Of the $16.4 million restructuring charge recorded for the period, $11.2 million was recorded by the Gas Distribution Operations segment, $2.7 million was recorded by the Gas Transmission and Storage Operations segment, $1.8 million was recorded by the Electric Operations segment, $0.2 million was recorded by the Other Operations segment and $0.5 million was recorded by Corporate. NiSource expects to recognize approximately $20 million in restructuring charges in the third quarter of 2005 for non-cash pension and post-retirement benefit expense related to the severed employees. These restructuring charges are included in "Operation and maintenance" expense on the Statements of Consolidated Income.

In previous years, NiSource implemented restructuring initiatives to streamline its operations and realize efficiencies as a result of the acquisition of Columbia. In 2000, these restructuring initiatives included a severance program, a voluntary early retirement program, and a transition plan to implement operational efficiencies throughout the company. In 2001, NiSource's restructuring initiatives focused on creating operating efficiencies in the Gas Distribution and the Electric Operations segments and included the closure of the Mitchell Station in Gary, Indiana. During 2002, NiSource implemented a restructuring initiative which resulted in employee terminations throughout the organization mainly affecting executive and other management-level employees. In connection with these earlier restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions were identified for elimination. As of June 30, 2005, approximately 1,565 employees were terminated, of whom 3 were terminated during the quarter and six months ended June 30, 2005.

Restructuring reserve by restructuring initiative:

(in millions)	Balance at Dec. 31, 2004	Additions	Benefits Paid	Adjustments	Balance at Jun. 30, 2005
Outsourcing initiative	$ -	$ 16.4	$ -	$ -	$ 16.4
Columbia merger and related initiatives	14.6	-	(2.1)	(0.8)	11.7
Total	$ 14.6	$ 16.4	$ (2.1)	$ (0.8)	$ 28.1

NiSource recognized a $16.4 million restructuring liability in the second quarter of 2005 for estimated severance payments to be made as a result of the IBM outsourcing agreement. Adjustments to the restructuring liability were recorded mainly for reductions in estimated expenses related to previous restructuring initiatives. Of the $11.7 million remaining restructuring liability from the Columbia merger and related initiatives, $10.6 million is related to facility exit costs.

6. Discontinued Operations and Assets Held for Sale

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.2 million as of June 30, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.0 million, as assets held for sale. Based on discussion with the potential buyer, NiSource does not believe that it is likely to sell certain

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

assets formerly held by Transcom that were valued at $6.1 million. These assets were written down to zero in June 2005.

Results from discontinued operations from the golf course assets of Lake Erie Land, Transcom, and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

	Ended June 30,		Ended June 30,	
(in millions)	**2005**	2004	**2005**	2004
Revenues from discontinued operations	**$ 1.2**	$ 1.1	**$ 2.2**	$ 2.0
Loss from discontinued operations	**(17.5)**	(1.0)	**(21.2)**	(6.5)
Income tax benefit	**(5.9)**	(0.1)	**(7.4)**	(2.3)
Net Loss from discontinued operations	**$ (11.6)**	$ (0.9)	**$ (13.8)**	$ (4.2)

The loss from discontinued operations for the current quarter included changes to reserves for contingencies primarily related to CER and an impairment of assets related to Transcom.

The assets of discontinued operations and assets held for sale included net property, plant, and equipment of $34.8 million and $38.6 million at June 30, 2005 and December 31, 2004, respectively. Accrued liabilities for discontinued operations were $0.3 million as of June 30, 2005.

Second quarter 2005 results included a $42.7 million gain on disposition of discontinued operations, net of taxes, resulting from changes to reserves for contingencies related primarily to the previous sale of IWC and other dispositions.

7. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. Through the month of June 2005, approximately 670,000 of Gas Distribution Operations' residential, small commercial and industrial customers selected an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The program provides residential and small commercial customers the option to choose their natural gas supplier and avoids the stranded costs associated with the previous pilot. In addition, Columbia received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

Since November 1, 2004, Columbia of Ohio has been operating under a new regulatory stipulation approved by the PUCO that expires on October 31, 2008. This regulatory stipulation was contested by the OCC, and on June 9, 2004, the PUCO denied the OCC's Second Application for Rehearing. The OCC then filed an appeal with the Supreme Court of Ohio on July 29, 2004, contesting the PUCO's May 5, 2004 order on rehearing, which granted in part Columbia of Ohio's joint application for rehearing, and the PUCO's June 9, 2004 order, denying the OCC's Second Application for Rehearing. Columbia of Ohio intervened in the appellate proceeding. On December 8, 2004, the PUCO and Columbia of Ohio filed motions to dismiss the appeal, based upon the OCC's failure to comply with the Supreme Court of Ohio's procedural rules. On December 17, 2004, the OCC filed its Memoranda Contra. On March 23, 2005, the Supreme Court of Ohio issued a decision in which it granted the motions to dismiss and dismissed the appeal based upon the OCC's failure to comply with the Court's procedural rules. On April 1, 2005, the OCC filed a Motion for Reconsideration with the Supreme Court of Ohio. Columbia of Ohio and the PUCO

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

filed Memoranda Contra on April 8, 2005. On May 25, 2005, the Supreme Court of Ohio denied the OCC's Motion for Reconsideration.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad-debt recovery requirements in November 2004. As of June 30, 2005, Columbia of Ohio has $34.9 million of uncollected accounts receivable pending future recovery. On May 2, 2005, Columbia filed an application for approval to decrease its Uncollectible Expense Rider rate, effective June 2005. This request for reduction in its Uncollectible Expense Rider rate was based on projected annual recovery requirements of $26.3 million for the period ending March 31, 2006 – a reduction of $11.4 million from Columbia's currently effective rate. On June 1, 2005, the PUCO approved Columbia of Ohio, Inc.'s application to adjust its Uncollectible Expense Rider rate.

On December 2, 2004, Columbia of Ohio filed two applications with the OPSB, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On February 7, 2005, the OPSB notified Columbia that the applications were certified as complete. Columbia of Ohio also filed requests for waivers from certain OPSB requirements. The waivers were approved on February 4, 2005. On April 14, 2005, the OPSB issued an Order (i) finding that the effective date of the applications is April 15, 2005, (ii) granting Columbia's motion to consolidate the cases for hearing purposes, and (iii) establishing a public hearing date of June 20, 2005, and an adjudicatory hearing date of June 21, 2005. On July 7, 2005 a Stipulation and Recommendation was filed in which all parties recommended approval of Columbia's plans for the construction of the Northern Columbus Loop Natural Gas Pipeline. On August 3, 2005, the OPSB approved Columbia's construction of the Northern Columbus Loop Natural Gas Pipeline project.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. If approved, the increase could go into effect as early as November 1, 2005. The rate filing also includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. Northern Indiana expects the IURC's order in the third quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Settlement Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the current ARP to March 31, 2006. The IURC approved the settlement agreement on January 26, 2005. The agreement, as approved by the IURC, grandfathered the terms of existing contracts that marketers have with Choice customers and established a scope for negotiations. On May 2, 2005, Northern Indiana filed an unopposed motion that provided Parties more time to negotiate terms of the ARP and extend the expiration date of the current ARP to April 30, 2006. This action was approved by the IURC on May 25, 2005. A joint Stipulation and Settlement Agreement resolving all terms of the new ARP among Parties was filed with the IURC on July 13, 2005. The Settlement establishes a four year term that expires May 1, 2010, provides for the continuation of current products and services offered under the current ARP including the GCIM, spells out the terms of Northern Indiana's merchant role, establishes a risk and reward mechanism to mitigate cost allocations created through Northern Indiana's Choice program, and a rate moratorium with exceptions for the term of the Agreement. A procedural schedule including a prehearing conference and evidentiary hearing to review testimony explaining the terms of the settlement will be established in the third quarter of 2005. A final IURC decision is expected in the fourth quarter of 2005.

On December 14, 2004, the Maine PUC opened an investigation into the reasonable maintenance and replacement of cast iron facilities of Northern Utilities. The Maine PUC sought Northern Utilities' opinion regarding the merits of an accelerated cast iron replacement program that would result in the replacement of all cast iron mains and services in Northern Utilities' distribution system over ten years. Northern Utilities estimated that the incremental cost of such a program over ten years would be $35 million. Northern Utilities took the position that such a program was not necessary, but if the Maine PUC determined that such a program was required, Northern Utilities should be allowed to seek approval for an annual rate adjustment mechanism for the incremental investment associated with the accelerated cast iron replacement program. On March 28, 2005, the Maine PUC approved a settlement between Northern Utilities and the Maine OPA in which Northern Utilities agreed to replace approximately $15 million of cast iron facilities in a portion of its distribution system over a four-year period. The settlement, supported by the Maine PUC Staff Bench Analysis, also allows Northern Utilities to seek approval of an annual rate adjustment mechanism to recover the incremental cost of the accelerated cast iron replacement program. The Maine OPA has agreed not to oppose the request.

Electric Operations Related Matters

During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. Credits amounting to $29.2 million and $26.8 million were recognized for electric customers for the first half of 2005 and 2004, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003, also known as "Day 1." In April 2005, Northern Indiana, as well as the other two participants of the ITC, announced their withdrawal from the ITC and the ITC will cease operations effective November 1, 2005. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana incurs new categories of transmission charges based upon MISO's FERC-approved tariff. One of the new categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana appealed this decision to the Indiana Appellate Court, but on April 27, 2005, the Court affirmed the IURC's original decision. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. MISO Day 1 administrative fees were $1.4 million for the first six months of 2005. The Day 1 MISO Schedule 10 administrative fees are currently estimated to be $2.5 to $3.0 million annually.

The MISO has launched the MMI, also known as "Day 2," implementing structures and processes of an electricity market for the MISO region. The MMI provides non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO's MMI tariffs have been approved by the FERC. Financially binding activities began with the opening of the market for bids and offers on March 25, 2005, and the real-time market on April 1, 2005. Northern Indiana and TPC are actively participating in the MMI. Based on the first quarter of market operations, management expects a financial impact of approximately $3.3 million annually in operating expenses for MMI administrative costs. These are in

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addition to the MISO Day 1 Schedule 10 administrative costs for which Northern Indiana was denied deferral treatment in 2004. MMI energy costs are being accounted for in the same manner that energy costs were recorded prior to the implementation of the MMI, and are recovered through the FAC in accordance with the final IURC order issued on June 1, 2005. The detailed MMI tariff manages aspects of system reliability through the use of a market-based congestion management system. The FERC approved tariff includes a centralized dispatch platform, which dispatches the most economic resources to meet load requirements efficiently and reliably in the MISO region. The tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The MISO performs a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO also performs the real-time resource dispatch for resources under its control on a five-minute basis. The tariff also allows for the allocation, auction or sale of FTRs, which are instruments that protect against congestion costs occurring in the day-ahead market. Northern Indiana has not yet been a participant in the auction market for FTRs, but is allocated FTRs on a seasonal basis and at zero cost, for its use to protect against congestion costs. Northern Indiana retains its obligation for load following and other ancillary services.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. On June 15, 2005, Northern Indiana filed testimony and exhibits establishing a new basis for the cap. Northern Indiana received approval from the IURC of its request on July 20, 2005. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the demolition and environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for these costs.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and ITC. A hearing in this matter was held December 1 and 2, 2004. An IURC order is expected in the third quarter of 2005.

On March 31, 2005, Northern Indiana and the OUCC filed an MOU with the IURC that could have resulted in settlements of the City of Gary petition and Purchased Power and Transmission Tracker petition. The settlement agreement that was contemplated by the MOU would have provided, among other things, for the recovery of Northern Indiana's costs for intermediate dispatchable power purchased from TPC and would have required Northern Indiana to file a base rate case in 2007. The MOU provided that a settlement was contingent upon: 1) acceptable results of a third party evaluation study to be performed by an independent consultant relating to the use of Whiting Clean Energy and the Mitchell Station to meet the control performance standards required by the North American Electric Reliability Council and 2) affirmative consent to the other terms of the MOU by Northern Indiana's large industrial electric customers. The scope of the proposed settlement did not include MISO costs. The ability to recover or defer MISO costs was to be determined in another proceeding before the IURC, filed by several of the investor-owned electric utilities in Indiana (see the following paragraph). The evaluation study was completed on June 30, 2005 by the engineering firm, Burns and McDonnell. On July 14, 2005, the OUCC filed a notice disavowing the MOU. In addition to confirming the need for a solution to help Northern Indiana meet certain control performance standards, the evaluation study identified several potential, alternative solutions. Northern Indiana continues to work with the OUCC and some of the utility's industrial customers to explore the various options suggested by the independent study. Northern Indiana anticipates that the parties will collaborate to reach a mutually acceptable solution that will address electric reliability issues.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005, and an IURC order was issued on June 1, 2005. The order, applicable to Northern Indiana, authorized recovery or deferral of fuel related MISO Day 2 costs but denied recovery or deferral of non-fuel MISO Day 2 costs during Northern Indiana's rate moratorium.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition with the IURC for approval of an arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana ("Whiting Clean Energy Facility") which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the ultimate sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. The IURC is expected to issue a final order in late 2005 or early 2006 following an evidentiary hearing, which is scheduled for the fourth quarter of 2005. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. Northern Indiana currently anticipates a total capital investment amounting to approximately \$305 million. This amount was filed in Northern Indiana's latest compliance plan, which was approved by the IURC on January 19, 2005. The ECRM revenues amounted to \$12.8 million for the six months ended June 30, 2005, and \$36.8 million from inception to date, while EERM revenues were \$2.4 million for the first half of 2005. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures of \$235.6 million and depreciation and operating expenses of \$10.5 million through December 31, 2004. ECR-6 is expected to be filed in August 2005.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter \$2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the \$2.5 million in rates. Northern Indiana and Jupiter had both filed motions requesting the IURC to reconsider its order and were denied. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. On June 15, 2005, Northern Indiana filed a Motion to Stay with the Indiana Court of Appeals requesting a stay of the portions of the order that require Northern Indiana to pay \$2.5 million to Jupiter and install a backup line to serve Jupiter. On July 13, 2005, Northern Indiana's Motion to Stay the IURC's April 13, 2005 ruling was denied. Northern Indiana remitted the payment of \$2.5 million to Jupiter in July 2005, and is working to comply with the remainder of the IURC's order concerning the installation of a backup line.

8. Risk Management Activities and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments to manage certain risks in its business. NiSource accounts for its derivatives under SFAS No. 133.

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Hedging Activities. The activity for the second quarter and six months ended June 30, 2005 and 2004 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

(in millions, net of taxes)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 148.1**	$ 101.7	**$ 93.7**	$ 91.7
Unrealized hedging gains (losses) arising during the period on derivatives qualifying as cash flow hedges	**(26.7)**	7.3	**25.8**	28.6
Reclassification adjustment for net gain included in net income	**(11.5)**	(8.8)	**(9.6)**	(20.1)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 109.9**	$ 100.2	**$ 109.9**	$ 100.2

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $271.0 million and $200.0 million at June 30, 2005 and December 31, 2004, respectively, of which $80.8 million and $51.7 million were included in "Current Assets," and $190.2 million and $148.3 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $71.2 million and $26.7 million at June 30, 2005 and December 31, 2004, respectively, of which $64.9 million and $21.3 million were included in "Current Liabilities," and $6.3 million and $5.4 million were included in "Other Liabilities and Deferred Credits," respectively.

During the second quarter of 2005 and 2004, a loss of $0.1 million and zero, net of taxes respectively, were recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the second quarter of 2005 and 2004, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $46.0 million, net of taxes.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, Columbia of Pennsylvania, Columbia of Kentucky and Columbia of Maryland use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $11.6 million and $0.5 million of price risk management assets associated with these programs at June 30, 2005 and December 31, 2004, respectively. In addition, the Consolidated Balance Sheets reflected $0.1 million and $9.2 million of price risk management liabilities associated with these programs at June 30, 2005 and December 31, 2004, respectively.

Northern Indiana offers a Price Protection Service as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana Price Protection Service, which allows non-jurisdictional customers the opportunity to lock in their gas cost. The Consolidated Balance Sheets reflected $0.6 million and zero of price risk management assets

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and zero and $5.3 million of price risk management liabilities associated with these programs at June 30, 2005 and December 31, 2004, respectively.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases fixed priced gas, as well as options to call on additional volumes that match the anticipated delivery needs of the program and currently uses NYMEX futures and options contracts for these hedge transactions. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected $0.4 million and zero of price risk management assets and zero and $0.8 million of price risk management liabilities at June 30, 2005 and December 31, 2004, respectively, associated with the DependaBill program.

As part of the new MISO Day 2 initiative, Northern Indiana was allocated FTRs. These rights protect the company against congestion losses due to the new MISO Day 2 activity. The FTRs do not qualify for hedge accounting treatment, but since congestion costs are recoverable through the fuel cost recovery mechanism the related gains and losses associated with these transactions are recorded as a regulatory asset or liability, in accordance with SFAS No. 71.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, Columbia of Pennsylvania and Columbia of Maryland, (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $2.2 million and $4.6 million of price risk management liabilities associated with these programs at June 30, 2005 and December 31, 2004, respectively.

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases.

Interest Rate Risk Activities. Between October 27, 2004 and November 1, 2004, NiSource Finance entered into $900 million of forward starting interest rate swaps, hedging the future interest payments of long-term debt. The $900 million of forward starting swaps included $450 million notional value of 12-year forward starting swaps entered into with three counterparties and $450 million notional value of 15-year forward starting swaps entered into with three additional counterparties. Entering into these hedge transactions allows NiSource Finance to mitigate the risk from rising interest rates and uncertain interest expense cash flows in the future. Assuming prevailing credit spreads in effect at the time the forward starting swaps were put in place, the swaps would result in a net effective interest rate of approximately 5.55%-5.65% for the planned 12-year note issuance and approximately 5.70%-5.80% for the planned 15-year note issuance. These approximate interest rates assume the relationship between swap spreads embedded in the forward starting swaps and NiSource Finance's credit spread remain constant from execution date of the swaps through the planned notes issuance date anticipated in September 2005. Each of the forward starting swap transactions have both an effective date and a mandatory early termination date of September

7, 2005, which is the date NiSource Finance anticipates completing $900 million of new debt issuance, consisting of $450 million of 12-year notes and $450 million of 15-year notes.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on United States 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales and power trading.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges.

The fair market values of NiSource's power trading assets and liabilities were $7.9 million and $6.8 million, respectively, at June 30, 2005 and $8.8 million and $11.9 million, respectively, at December 31, 2004.

9. Goodwill Assets

In the quarter ended June 30, 2005, NiSource performed its annual impairment test of goodwill associated with the purchases of Columbia, Northern Indiana Fuel and Light and Kokomo Gas. NiSource's goodwill assets at June 30, 2005 were $3,677.3 million pertaining primarily to the acquisition of Columbia on November 1, 2000. The goodwill recorded for Northern Indiana Fuel and Light and Kokomo Gas was $13.3 million and $5.5 million, respectively. For the purpose of testing for impairment the goodwill recorded in the acquisition of Columbia, the related subsidiaries were aggregated into two distinct reporting units, one within the Gas Distribution Operations segment and one within the Gas Transmission and Storage Operations segment. NiSource uses the discounted cash flow method to estimate the fair value of its reporting units for the purposes of this test.

The results of the June 30, 2005 impairment test indicated that no impairment charge was required for the goodwill related to the purchase of Columbia or Northern Indiana Fuel and Light, and that an impairment charge of $10.9 million was required for goodwill related to the purchase of Kokomo Gas. This impairment charge was recorded in June 2005 and is reflected in operating expenses as a Loss on Sale or Impairment of Assets on the Statement of Consolidated Income. Factors contributing to this change were increased income that reduced the "regulatory earnings bank" and limitations on future operating income growth.

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10. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $3.6 million to its pension plans and $52.7 million to its other postretirement benefit plans in 2005. As of June 30, 2005, NiSource has contributed $0.1 million to its pension plans and $21.6 million to its other postretirement benefit plans.

The following tables provide the components of the plans' net periodic benefits cost for the second quarter and six months ended June 30, 2005 and June 30, 2004:

	Pension Benefits		Other Benefits	
Three months ended June 30, *(in millions)*	**2005**	2004	**2005**	2004
Net periodic cost				
Service cost	**$ 10.4**	$ 9.8	**$ 2.3**	$ 2.2
Interest cost	**32.0**	31.7	**10.5**	9.9
Expected return on assets	**(41.1)**	(39.3)	**(4.0)**	(3.5)
Amortization of transitional obligation	**-**	-	**2.5**	2.9
Amortization of prior service cost	**2.6**	2.4	**0.2**	0.2
Recognized actuarial loss	**4.3**	4.5	**1.0**	0.7
Net Periodic Benefits Cost	**$ 8.2**	$ 9.1	**$ 12.5**	$ 12.4

	Pension Benefits		Other Benefits	
Six months ended June 30, *(in millions)*	**2005**	2004	**2005**	2004
Net periodic cost				
Service cost	**$ 20.8**	$ 19.6	**$ 4.6**	$ 4.4
Interest cost	**64.0**	63.4	**20.9**	19.8
Expected return on assets	**(82.2)**	(78.6)	**(8.0)**	(7.0)
Amortization of transitional obligation	**-**	-	**4.9**	5.8
Amortization of prior service cost	**5.2**	4.8	**0.4**	0.4
Recognized actuarial loss	**8.6**	9.0	**1.9**	1.4
Settlement loss	**0.4**	-	**-**	-
Net Periodic Benefits Cost	**$ 16.8**	$ 18.2	**$ 24.7**	$ 24.8

11. Other Commitments and Contingencies

A. Guarantees and Indemnities. As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at June 30, 2005 and the years in which they expire were:

(in millions)	Total	2005	2006	2007	2008	2009	After
Guarantees of subsidaries debt	$ 4,010.1	$ 901.5	$ 293.1	$ 32.3	$ 8.7	$ 464.0	$ 2,310.5
Guarantees supporting commodity transactions of subsidiaries	1,153.7	152.7	713.9	26.0	46.4	49.5	165.2
Letters of credit	102.7	0.2	20.6	1.0	80.9	-	-
Other guarantees	303.9	-	-	-	8.0	7.4	288.5
Total commercial commitments	$ 5,570.4	$ 1,054.4	$ 1,027.6	$ 59.3	$ 144.0	$ 520.9	$ 2,764.2

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $4.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets. Other than debt associated with the former PEI subsidiaries that were sold, the debt is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

Lines and Letters of Credit. NiSource Finance maintains a revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. At June 30, 2005, NiSource had no guaranteed amounts outstanding under the revolving line of credit. Through this revolver and through other letter of credit facilities, NiSource has issued stand-by letters of credit of approximately $102.7 million for the benefit of third parties.

Other Guarantees. After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. The total of the outstanding debt guaranteed for Whiting Clean Energy at June 30, 2005 was $322.9 million, of which approximately $300.1 million of debt related to Whiting Clean Energy was included in NiSource's Consolidated Balance Sheets.

NiSource retains certain operational and financial guarantees with respect to the former PEI subsidiaries and CER. NiSource has retained guarantees of $140.6 million as of June 30, 2005 of debt outstanding related to three of the PEI projects. In addition, NiSource has retained several operational guarantees related to the former PEI subsidiaries. These operational guarantees are related to environmental compliance, inventory balances, employee relations, and a residual future purchase guarantee. The fair value of the guarantees was determined to be $11.1 million and a portion of the net proceeds in the sale amount were assumed allocated to the guarantees as prescribed by FIN 45.

Off Balance Sheet Items. NiSource has purchase and sales agreement guarantees totaling $85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued guarantees, which support up to approximately $1.2 billion of commodity-related payments for its current and former subsidiaries. Refer to the discussion above in this Note 11-A, "Guarantees and Indemnities - Guarantees Supporting Commodity Transactions of Subsidiaries" for additional information.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale and decline over time as volumes are delivered in satisfaction of the contractual obligations, ending in February 2006. As of June 30, 2005, approximately 17.8 Bcf remained to be delivered under the forward sales agreements. NiSource is indemnified by Triana, and MSCP will fund up to a maximum of $25.3 million of additional equity to Triana to support Triana's indemnity, for Triana's gas delivery and related obligations to Mahonia. The MSCP commitment declines over time in concert with the surety bonds and the guaranteed obligation to deliver gas to Mahonia.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, combined with the Triana indemnity and the $25.3 million of further commitments to Triana from MSCP, adequately offset any losses that may be incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource has not recognized a liability related to the retention of the Mahonia guarantees.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

As of June 30, 2005, a reserve of approximately $71.2 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations and Gas Transmission and Storage Operations.
There were no new environmental matters relating to Gas Distribution Operations or Gas Transmission and Storage Operations during the first six months of 2005.

Electric Operations.
Air. On June 28 and 29, 2004, the EPA responded to the states' initial recommendations for the EPA designation of areas meeting and not meeting the NAAQS for fine particles. (Fine particles are those less than or equal to 2.5 micrometers in diameter and are also referred to as PM2.5.) The EPA's PM2.5 nonattainment designations were announced on December 17, 2004, and published in the Federal Register on January 5, 2005. The designations became effective on April 5, 2005. Indiana has disputed some of the June 2004, EPA designation recommendations and submitted final 2004 monitoring data on February 17, 2005, for EPA re-evaluation of the disputed areas. On March 7, 2005, the Indiana Attorney General filed a legal action on behalf of the IDEM asking that all but three areas (none of these three areas are in Northern Indiana's service territory) be removed from the EPA's nonattainment list. The EPA is expected to finalize by early 2006, an implementation rule detailing state obligations to bring the nonattainment areas into attainment with the PM2.5 NAAQS. Indiana and other states will be required to finalize state rulemaking by April 2008 that specify emissions reductions consistent with the final EPA implementation rule to bring the designated areas into attainment by as early as April 2010. Northern Indiana will continue to closely monitor developments in this area.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. Phase I reductions would be required by January 2009 and January 2010 for NOx and SO2, respectively. Phase II reductions for both NOx and SO2 would be required by January 2015. Emission trading programs would be established to meet the emission caps. As an affected state, Indiana is required to initiate a state rule making, for submittal to the EPA by September 11, 2006, creating rules, or a SIP, detailing how it will implement the federal rule and meet the emission caps. In June 2005, Indiana initiated the process to develop a state rule to implement the EPA CAIR. The final form of the state rule will determine whether Northern Indiana and other utilities in the state will be able to participate in the EPA's emission trading programs and impact the level of control required for each unit. Northern Indiana will

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On March 15, 2005, the EPA issued the CAMR, that will require mercury emissions reductions from electric power generating stations. The rule establishes a two-phased reduction of mercury from Indiana electric utilities by establishing a cap-and-trade program with a state-wide annual cap on emissions. The first phase begins in 2010, a second phase in 2018, designed to achieve about a 70% reduction in utility emissions of mercury. Emission trading programs could be established to assist compliance with these emission caps. In June 2005, Indiana initiated the state process to develop a state rule to implement the EPA's CAMR. The final form of the state rule implementing the CAMR will determine Northern Indiana's ability to participate in the federal trading program and impact the level of control required for each unit. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

As an alternative to the regulatory approach defined in the CAIR and CAMR rules, as discussed above, the Bush Administration is attempting to pursue multi-pollutant legislation in 2005, the Clear Skies Act, which would require significant reductions of SO2, NOx and mercury emissions from electric power generating stations, including Northern Indiana's stations. The proposed legislation contains phased-in reductions for these three pollutants under alternative control approaches, including trading programs. The current proposal has not been passed out of its legislative committee and may still be revisited by Congress either later this year or at some point in the future. Until the legislation passes and/or the rulemaking is completed by the EPA and implemented by the states, the potential impact on Northern Indiana will be uncertain. Nonetheless, if implemented, these potential reduction requirements could impose substantial costs on affected utilities, including Northern Indiana.

On April 15, 2004, the EPA proposed amendments to its July 1999 Regional Haze Rule that requires states to set periodic goals for improving visibility in 156 natural areas across the United States by implementing state emission reduction rules. These amendments would apply to the BART for eligible industrial facilities emitting air pollutants that reduce visibility. States must develop implementation rules by January 2008. Resulting rules could require additional reductions of NOx, SO2 and particulate matter from coal-fired boilers including Northern Indiana's electric generating stations, depending upon the outcome of multi-pollutant regulations/legislation. On July 6, 2005, EPA finalized Regional Haze Regulations and Guidelines for BART Determinations that allow states that opt to participate in the CAIR cap-and-trade program to not require affected BART-eligible EGU's to install, operate and maintain BART. Until the state rules are promulgated, the potential impact on Northern Indiana is uncertain. Northern Indiana will continue to closely monitor developments in this area.

Water. On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems whose compliance is based on any of five options. To determine the impacts of the Bailly Station's intake on the aquatic organisms in Lake Michigan, a detailed background biological sampling program was initiated in April 2005 and will continue for at least one year. The results of this sampling program will be utilized to choose the appropriate compliance option, or combination of options, for the facility. Specific impacts and available compliance options of the final Phase II rule for the remaining two operating Northern Indiana generating stations are still in the process of being determined at this time.

Remediation. On March 31, 2005, the EPA and Northern Indiana entered into an Administrative Order on Consent under the authority of Section 3008(h) of the Resource Conservation and Recovery Act for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. A reserve has been established to fund the required investigations and conduct interim measures at the facility. The final costs of clean up have not yet been determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

12. Accumulated Other Comprehensive Loss

The following table displays the components of Accumulated Other Comprehensive Loss, which is included in "Common stock equity," on the Consolidated Balance Sheets.

(in millions)	**June 30, 2005**	December 31, 2004
Other comprehensive loss, before taxes:		
Unrealized gains (losses) on securities	**$ 0.4**	$ (0.4)
Unrealized gains on cash flow hedges	**165.7**	142.8
Minimum pension liability adjustment	**(243.6)**	(243.6)
Other comprehensive loss, before taxes:	**(77.5)**	(101.2)
Income tax benefit related to items of other comprehensive loss	**42.8**	49.8
Total Accumulated Other Comprehensive Loss, net of taxes	**$ (34.7)**	$ (51.4)

13. Income Taxes

For the six months ended June 30, 2005 and 2004, NiSource's provision for income taxes was calculated in accordance with APB. No 28. Accordingly, the interim effective tax rate reflects the estimated annual effective tax rate for 2005. The effective tax rate differs from the federal tax rate of 35% primarily due to the effects of tax credits, state income taxes, utility rate-making, and certain non-deductible expenses such as the goodwill impairment recorded in the second quarter of 2005.

14. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana and engages in wholesale and wheeling transactions. The Other Operations segment primarily includes gas marketing, power marketing and trading, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following table provides information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

(in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
REVENUES				
Gas Distribution Operations				
Unaffiliated	**$ 747.9**	$ 702.5	**$ 2,764.5**	$ 2,561.1
Intersegment	**0.5**	0.5	**(0.3)**	3.2
Total	**748.4**	703.0	**2,764.2**	2,564.3
Gas Transmission and Storage Operations				
Unaffiliated	**137.9**	133.3	**296.1**	300.2
Intersegment	**57.9**	61.4	**129.4**	131.3
Total	**195.8**	194.7	**425.5**	431.5
Electric Operations				
Unaffiliated	**281.6**	263.8	**563.1**	519.6
Intersegment	**0.4**	3.6	**1.3**	8.7
Total	**282.0**	267.4	**564.4**	528.3
Other Operations				
Unaffiliated	**187.7**	135.3	**412.2**	318.2
Intersegment	**4.8**	9.2	**9.8**	14.3
Total	**192.5**	144.5	**422.0**	332.5
Adjustments and eliminations	**(63.5)**	(65.7)	**(139.4)**	(140.4)
Consolidated Revenues	**$ 1,355.2**	$ 1,243.9	**$ 4,036.7**	$ 3,716.2

Operating Income (Loss)				
Gas Distribution Operations	**$ 5.7**	$ 15.1	**$ 280.6**	$ 300.1
Gas Transmission and Storage Operations	**76.8**	73.5	**186.3**	184.9
Electric Operations	**61.0**	82.0	**126.4**	140.8
Other Operations	**(8.9)**	(7.8)	**(14.1)**	(25.5)
Corporate	**(15.2)**	(5.0)	**(22.1)**	0.6
Consolidated Operating Income	**$ 119.4**	$ 157.8	**$ 557.1**	$ 600.9

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements

The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the effectiveness of NiSource's outsourcing initiative, actual operating experience of NiSource assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the second quarter of 2005, NiSource reported $7.9 million from continuing operations, or $0.03 per share, while for the six months ended June 30, 2005, NiSource reported income from continuing operations of $216.6 million, or $0.80 per share. This compares to income from continuing operations of $35.5 million, or $0.13 per share, for the year-ago quarter and income from continuing operations of $252.3 million, or $0.96 per share for the six months ended June 30, 2004. The quarterly difference was primarily due to $31.2 million of restructuring expenses, consulting fees, and charges for obsolete software systems recorded in connection with the outsourcing agreement with IBM and other business transformation activities. For the second half of 2005, NiSource expects to recognize an additional $40 million to $45 million of additional charges in connection with the outsourcing agreement and other business transformation activities. Second quarter 2005 results also include a $10.9 million impairment charge related to goodwill at Kokomo Gas which is currently under an earnings cap.

Also during the second quarter and first six months of 2005, costs increased in the electric business stemming from the implementation of the MISO and higher generation expenses. Revenues in the natural gas transmission and storage business continued to be affected by NiSource pipelines' new long-term contracts with their largest customers that were renegotiated over the past two years. Partially offsetting the declines were increased electric and gas sales due to favorable weather conditions compared with the year-ago period, and remarketing efforts within Gas Transmission and Storage Operations.

NISOURCE INC.

Contributing to the decline in EPS was an increase in the average number of shares outstanding at June 30, 2005, compared to the year earlier, due primarily to the issuance of approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts associated with the SAILS℠ on November 1, 2004.

NiSource has progressed towards its key initiatives in the first half of 2005 to build a platform for long-term sustainable growth in 2006 and beyond. As discussed in NiSource's annual report on Form 10-K, NiSource expects that its financial results for 2005 will continue to be negatively impacted by regulatory proceedings and pipeline re-contracting that took place in 2004 and several operational and financial initiatives underway.

NiSource Corporate Services and IBM signed a definitive agreement for IBM to provide a broad range of business transformation and outsourcing services to NiSource. The 10-year agreement is expected to deliver upwards of $530 million in gross savings in operating and capital costs across NiSource's 15 primary operating subsidiaries over the course of the contract, as well as provide technology advances and enhanced service capabilities. This does not include savings from other transformation projects such as a work management system or additional opportunities in supply chain. IBM began providing service to NiSource on July 1, 2005.

As a regulated company, NiSource is exposed to regulatory risk and manages this risk by monitoring its operations and working with various regulatory bodies to maintain a business that continues to provide value for its customers and stockholders in this changing environment. During the first six months of 2005, NiSource continued to make progress with regulatory and commercial initiatives that began in 2004. Northern Indiana continues to work with the OUCC and some of the utility's industrial customers to explore various options to address Northern Indiana's need for additional power to meet its unique customer load. Northern Indiana continues to be optimistic that the parties can collaborate to reach a mutually acceptable solution that will address electric reliability issues. Whiting Clean Energy, another NiSource subsidiary, offers an immediate, economic and dependable solution to the reliability concerns for Northern Indiana customers. The IURC on July 1, 2005 issued an interim order approving Northern Indiana purchases of Whiting Clean Energy power necessary to meet those reliability concerns. The order allows Northern Indiana to recover only the fuel costs associated with such purchases through the normal fuel cost adjustment process.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. If approved, the increase could go into effect as early as November 1, 2005. The rate filing also includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program.

Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time.

NiSource's Gas Transmission and Storage Operations segment, under the leadership of Chris Helms, Pipeline Group President, who joined NiSource in April 2005, is well positioned to identify and capture long-term growth opportunities by helping meet increasing market demand for natural gas in the eastern United States. NiSource's Columbia Transmission recently launched an open season for a proposed expansion of its natural gas transmission system in the Tidewater, Virginia area. An open season was held recently for Millennium Pipeline, which is targeting a November 1, 2007, in-service date, pending the receipt of necessary approvals. Hardy Storage is on track to develop a natural gas storage field from a depleted natural gas production field in Hardy and Hampshire Counties, West Virginia. Hardy Storage, which is being jointly developed by Columbia Transmission and a subsidiary of Piedmont, filed its formal project application with the FERC in April 2005.

NiSource also continued to strengthen its financial position through management of the balance sheet and expenses. In March 2005, NiSource entered into a $1.25 billion revolving credit agreement to fund future working capital requirements and other corporate needs. The new five-year agreement replaces existing agreements and is expected to reduce interest expense by approximately $0.9 during the calendar year and by about $1.2 million annually thereafter.

NiSource will continue to focus on its 2005 strategic platform for growth. This plan is centered on four key initiatives: pipeline growth and expansion; broad regulatory and commercial initiatives premised on existing assets;

ongoing financial management of our balance sheet; and expense management.

Results of Operations
The Quarter Ended June 30, 2005

Net Income
NiSource reported net income of $39.0 million, or $0.15 per share, for the three months ended June 30, 2005, compared to net income of $34.6 million, or $0.13 per share, for the second quarter of 2004. NiSource's net income reflects the $31.1 million impact of discontinued operations recorded in the second quarter of 2005, the result of changes to reserves for contingencies related to the previous sale of discontinued assets and an impairment charge for certain discontinued assets. All per share amounts are basic earnings per share. Operating income was $119.4 million, a decrease of $38.4 million from the same period in 2004.

Basic average shares of common stock outstanding for the three months ended June 30, 2005 were 271.2 million compared to 262.5 million at June 30, 2004. The increase was primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{SM}.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. These trackers increase both operating expenses and net revenues and have essentially no impact on total operating income results. Approximately $6 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the three months ended June 30, 2005, were $654.7 million, a $39.7 million increase from the same period last year. The increased net revenues resulted from increased gas and electric sales of approximately $13 million due to favorable weather conditions, $8.9 million from a third party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, approximately $14 million from regulatory initiatives, including the expiration of the 1999 stipulation for Columbia of Ohio and the impact of trackers discussed above, partially offset by the impact of the re-contracting of firm transportation and storage contracts that expired October 31, 2004, net of remarketing activities.

Expenses
Operating expenses for the second quarter of 2005 were $535.3 million, an increase of $78.1 million from the 2004 period. The increase was primarily due to $31.2 million of expenses recognized in the current quarter for the outsourcing agreement with IBM and other associated business transformation activities. These expenses included a restructuring charge of $16.4 million, $3.9 million of consulting fees and a $10.9 million charge for obsolete software systems. In addition, second-quarter 2005 results include a $10.9 million impairment charge related to goodwill at Kokomo Gas, higher other tax expense of $14.2 million due primarily to a favorable accrual adjustment to estimated property taxes recorded in the second quarter of 2004, and $9.1 million higher depreciation primarily the result of the expiration of the 1999 stipulation for Columbia of Ohio.

Other Income (Deductions)
Interest expense, net was $101.7 million for the quarter, an increase of $2.6 million compared to the second quarter of 2004, due primarily to higher short-term interest rates. Other, net was $3.6 million for the current quarter compared to $0.1 million of income for the comparable 2004 period due to increased interest income.

Income Taxes
Income tax expense for the second quarter of 2005 was $12.3 million, a decrease of $9.9 million compared to the 2004 period, due primarily to lower pre-tax income. The income tax expense represented a 60.9% effective tax rate for the second quarter of 2005. This resulted because no tax benefit was recorded for the goodwill impairment charge that is not deductible for tax purposes and additional taxes from Ohio income tax law changes enacted on June 30, 2005.

NISOURCE INC.

Results of Operations
Six Months Ended June 30, 2005

Net Income
NiSource reported net income of $245.3 million, or $0.91 per share, for the six months ended June 30, 2005, compared to $248.1 million, or $0.95 per share, for the first six month of 2004. Operating income was $557.1 million, a decrease of $43.8 million from the same period in 2004. NiSource's net income reflects the $28.7 million impact of discontinued operations recorded in the first half of 2005, the result of changes to reserves for contingencies related to the previous sale of discontinued assets and an impairment charge for certain discontinued assets.

Basic average shares of common stock outstanding for the six months ended June 30, 2005 were 270.8 million compared to 262.4 million at June 30, 2004. The increase was primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS℠.

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. These trackers increase both operating expenses and net revenues and have essentially no impact on total operating income results. Approximately $23 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

Net Revenues
Total consolidated net revenues (gross revenues less cost of sales) for the six months ended June 30, 2005, were $1,667.7 million, a $61.4 million increase from the same period last year. The increased revenues resulted from approximately $44 million from regulatory initiatives, including the expiration of the 1999 stipulation for Columbia of Ohio and the impact of trackers discussed above, approximately $11 million in increased gas and electric sales due to favorable weather conditions, $8.9 million from a third party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, partially offset by the $11.1 million impact of the re-contracting of firm transportation and storage contracts that expired October 31, 2004, net of remarketing activities.

Expenses
Operating expenses for the first six months of 2005 were $1,110.6 million, an increase of $105.2 million from the 2004 period. The increase was primarily the result of $32.5 million of expenses recognized in the current quarter for the outsourcing agreement with IBM and other associated business transformation activities. These expenses included a restructuring charge of $16.4 million, $5.2 million of consulting fees and a $10.9 million charge for obsolete software systems. In addition, 2005 results include a $10.9 million impairment charge related to goodwill at Kokomo Gas, higher other tax expense of $17.3 million due primarily to a favorable accrual adjustment to estimated property taxes recorded in the second quarter of 2004, higher depreciation of $19.1 million primarily the result of the expiration of the 1999 stipulation for Columbia of Ohio, and the impact of trackers discussed above.

Other Income (Deductions)
Interest expense, net was $205.7 million for the first six months of 2005 compared to $201.3 million for the first six months of last year. This increase of $4.4 million was mainly due to higher short-term interest rates.

Income Taxes
Income tax expense for the first six months of 2005 was $135.7 million, a decrease of $12.3 million compared to the 2004 period, due primarily to lower pre-tax income. The effective tax rate of 38.5% reflects the impact of the non-deductible goodwill impairment charge and increased taxes related to Ohio income tax law changes enacted on June 30, 2005, offset by an income tax benefit from an electric production deduction (discussed below).

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana and Whiting Clean Energy's electric production activities qualify for this deduction. The deduction is equal to 3% of QPAI for the taxable year, with certain limitations. This deduction increases to 6% of QPAI beginning in 2007 and 9% of QPAI beginning in 2010 and thereafter. The 2005 tax benefit associated with the Section 199 domestic production deduction is estimated to be $2 million. The United States Treasury Department has issued guidance for calculating this deduction in Notice 2005-14, but there are many issues still to be addressed in forthcoming proposed regulations. As such, the estimated $2 million tax benefit is subject to revision based on subsequently released Treasury guidance.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas.

Operating Activities. Net cash from operating activities for the six months ended June 30, 2005 was $937.7 million, a decrease of $147.8 million from the comparable 2004 period. This decrease was due primarily to the impact of deferred taxes, which changed due to the timing of gas purchase expense. Cash from working capital decreased $13.0 million from the comparable period mainly due to an increased use of cash for accounts payable as compared to the first half of 2004, partly offset by an increase in the collection of underrecovered gas and fuel cost.

Investing Activities. Capital expenditures of $243.1 million in the first six months of 2005 were $5.4 million higher than the comparable 2004 period. The spending for the first six months primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in the remaining 2005 periods as compared to last year, mainly to support increased pipeline integrity related work and growth initiatives within Gas Transmission and Storage Operations.

Financing Activities. At June 30, 2005, NiSource had no borrowings under the company's line of credit and NiSource's shelf capacity was $1.85 billion.

Long-term Debt

NiSource is moving forward on an opportunity, announced earlier this year, to refinance $1.1 billion of Columbia debentures that become callable on November 28, 2005. The company has received offers to purchase an aggregate of $900 million of unregistered senior notes issuable in 7-, 10-, 11- and 20-year tranches at a weighted average interest rate of 5.52%, with settlement scheduled for November 28, 2005. The transaction is subject to the purchasers' due diligence and negotiation of definitive agreements. NiSource expects to finalize the documentation by mid-August and will announce specific details after definitive agreements are executed.

During July 2005, Northern Indiana redeemed $34.0 million of its medium-term notes with an average interest rate of 6.62%

During June 2005, Northern Indiana redeemed $39.3 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes with an average interest rate of 6.79% and 6.58%, respectively.

During April 2005, NiSource redeemed $30.0 million of Capital Markets medium-term notes, with an average interest rate of 7.67%.

On November 23, 2004, NiSource Finance issued $450 million of five-year floating rate unsecured notes that mature November 23, 2009. The notes are callable, at par, on or after November 23, 2006. Subsequently, on December 10, 2004, NiSource Finance used $250 million of the proceeds from the $450 million floating rate note offering to redeem $250 million of existing floating rate notes that were due May 2005. The remaining proceeds were used to repay a portion of NiSource Finance short-term borrowings.

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On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{SM}. NiSource received approximately $144.4 million in satisfaction of the SAILS^{SM} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the debt component of the SAILS^{SM} was reset to 3.628% per annum. The debentures mature November 1, 2006.

During February 2004, Northern Indiana redeemed $111.1 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes, with an average interest rate of 7.49% and 7.63%, respectively. The associated redemption premium was $4.6 million, of which $4.2 million was charged to operating expense and $0.4 million was recorded as a regulatory asset.

Credit Facilities

During March 2005, NiSource Finance obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007. NiSource had no outstanding credit facility advances at June 30, 2005 and $307.6 million at December 31, 2004, at a weighted average interest rate of 3.04%. NiSource had $237.3 million of short-term investment balances at June 30, 2005. As of June 30, 2005 and December 31, 2004, NiSource had $102.7 million and $111.6 million of stand-by letters of credit outstanding, respectively. At June 30, 2005, $80.9 million of the $102.7 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource obtained during February 2004. Of the remaining $21.8 million of stand-by letters of credit outstanding at June 30, 2005, $18.2 million resided under NiSource's five-year revolving credit facility and $3.6 million resided under an uncommitted arrangement with another financial institution. As of June 30, 2005, $1,231.8 million of credit was available under the credit facility.

Sale of Trade Accounts Receivables

On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly-owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit sponsored by Dresdner Kleinwort Wasserstein. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement, which originally expired in May 2005 was extended for another year on May 13, 2005, and now has a scheduled expiration date of May 12, 2006, and can be renewed again if mutually agreed to by both parties. As of June 30, 2005, $175 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. The agreement will expire on December 26, 2005, but can be renewed if mutually agreed to by both parties. As of June 30, 2005, NRC had sold $140.4 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by NRC. Northern Indiana receives a fee, which provides adequate compensation, for such services.

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Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

Non-Trading Risks

Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional rate-making process and may be more exposed to commodity price risk.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during the second quarter of 2005, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $4.8 million and $9.6 million for the quarter and six months ended June 30, 2005, respectively.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, stand-by letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks

The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

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The fair values of the contracts related to NiSource's trading operations, the activity affecting the changes in the fair values during the second quarter of 2005, the sources of the valuations of the contracts during 2005 and the years in which the remaining contracts (all power trading) mature are:

(in millions)	Three Months Ended June 30, 2005	Six Months Ended June 30, 2005
Fair value of contracts outstanding at the beginning of the period	**$ 0.8**	$ (3.0)
Contracts realized or otherwise settled during the period (including net option premiums received)	**-**	(0.8)
Fair value of new contracts entered into during the period	**(3.8)**	(1.3)
Other changes in fair values during the period	**4.0**	6.1
Fair value of contracts outstanding at the end of the period	**$ 1.0**	$ 1.0

(in millions)	2005	2006	2007	2008	2009	After
Prices from other external sources	$ 1.0	$ -	$ -	$ -	$ -	$ -
Prices based on models/other method	-	-	-	-	-	-
Total fair values	$ 1.0	$ -	$ -	$ -	$ -	$ -

The caption "Prices from other external sources" generally includes contracts traded on electronic exchanges and over-the-counter contracts whose value is based on published indices or other publicly available pricing information. Contracts shown within "Prices based on models/other method" are generally valued employing the widely used Black-Scholes option-pricing model.

Market Risk Measurement
Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was effectively zero, during the second quarter of 2005 and will likely remain that way going forward. The daily market exposure for the gas marketing portfolio on an average, high and low basis was $0.1 million, $0.2 million and $0.1 million during the second quarter of 2005, respectively. Prospectively, management has set the VaR limits at $2.5 million for power trading and $0.5 million for gas marketing. Exceeding the VaR limits would result in management actions to reduce portfolio risk.

Refer to Note 8, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $85.0 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 8, "Risk Management and Energy Trading Activities," and Note 11-A, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale and decline over time as volumes are delivered in satisfaction of the contractual obligations, ending in February 2006. As of June 30, 2005, approximately 17.8 Bcf remained to be delivered under the forward sales agreements. NiSource is indemnified by Triana, and MSCP will fund up to a maximum of $25.3 million of additional equity to Triana to support Triana's indemnity, for Triana's gas delivery and related obligations to Mahonia. The MSCP commitment declines over time in concert with the surety bonds and the guaranteed obligation to deliver gas to Mahonia.

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, combined with the Triana indemnity and the $25.3 million of further commitments to Triana from MSCP, adequately offset any losses that may be incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource has not recognized a liability related to the retention of the Mahonia guarantees.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

(in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Revenues				
Sales Revenues	$ **669.8**	$ 627.8	$ **2,508.8**	$ 2,307.3
Less: Cost of gas sold	**479.3**	462.0	**1,897.0**	1,742.8
Net Sales Revenues	**190.5**	165.8	**611.8**	564.5
Transportation Revenues	**78.6**	75.2	**255.4**	257.0
Net Revenues	**269.1**	241.0	**867.2**	821.5
Operating Expenses				
Operation and maintenance	**169.3**	145.7	**368.0**	329.0
Depreciation and amortization	**56.3**	48.6	**112.1**	96.3
Loss on sale or impairment of assets	**10.5**	-	**10.5**	-
Other taxes	**27.3**	31.6	**96.0**	96.1
Total Operating Expenses	**263.4**	225.9	**586.6**	521.4
Operating Income	$ **5.7**	$ 15.1	$ **280.6**	$ 300.1
Revenues ($ in Millions)				
Residential	**424.7**	335.8	**1,686.4**	1,450.9
Commercial	**138.2**	116.8	**569.5**	512.7
Industrial	**40.4**	38.0	**115.0**	118.7
Transportation	**78.6**	75.2	**255.4**	257.0
Off System Sales	**69.1**	114.5	**120.3**	155.3
Other	**(2.6)**	22.7	**17.6**	69.7
Total	**748.4**	703.0	**2,764.2**	2,564.3
Sales and Transportation (MMDth)				
Residential sales	**29.6**	27.6	**138.7**	137.4
Commercial sales	**10.9**	11.6	**50.4**	53.0
Industrial sales	**4.0**	4.3	**11.8**	12.4
Transportation	**108.3**	112.8	**283.0**	300.0
Off System Sales	**9.1**	19.0	**16.3**	26.0
Other	**0.1**	0.1	**0.3**	0.4
Total	**162.0**	175.4	**500.5**	529.2
Heating Degree Days	**486**	434	**3,159**	3,158
Normal Heating Degree Days	**483**	483	**3,110**	3,138
% Colder (Warmer) than Normal	**1%**	(10%)	**2%**	1%
Customers				
Residential			**2,411,482**	2,303,083
Commercial			**213,298**	211,704
Industrial			**5,405**	5,863
Transportation			**673,471**	753,654
Other			**61**	61
Total			**3,303,717**	3,274,365

NiSource's natural gas distribution operations serve approximately 3.3 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with

NISOURCE INC.
Gas Distribution Operations (continued)

over 71% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

Restructuring
In connection with the IBM agreement mentioned previously, Gas Distribution Operations recorded a restructuring charge of $11.2 million, of which $7.4 million was allocated from NiSource Corporate Services. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Distribution Operations segment.

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. Through the month of June 2005, approximately 670,000 of Gas Distribution Operations' residential, small commercial and industrial customers selected an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The program provides residential and small commercial customers the option to choose their natural gas supplier and avoids the stranded costs associated with the previous pilot. In addition, Columbia received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

Since November 1, 2004, Columbia of Ohio has been operating under a new regulatory stipulation approved by the PUCO that expires on October 31, 2008. This regulatory stipulation was contested by the OCC, and on June 9, 2004, the PUCO denied the OCC's Second Application for Rehearing. The OCC then filed an appeal with the Supreme Court of Ohio on July 29, 2004, contesting the PUCO's May 5, 2004 order on rehearing, which granted in part Columbia of Ohio's joint application for rehearing, and the PUCO's June 9, 2004 order, denying the OCC's Second Application for Rehearing. Columbia of Ohio intervened in the appellate proceeding. On December 8, 2004, the PUCO and Columbia of Ohio filed motions to dismiss the appeal, based upon the OCC's failure to comply with the Supreme Court of Ohio's procedural rules. On December 17, 2004, the OCC filed its Memoranda Contra. On March 23, 2005, the Supreme Court of Ohio issued a decision in which it granted the motions to dismiss and dismissed the appeal based upon the OCC's failure to comply with the Court's procedural rules. On April 1, 2005, the OCC filed a Motion for Reconsideration with the Supreme Court of Ohio. Columbia of Ohio and the PUCO filed Memoranda Contra on April 8, 2005. On May 25, 2005, the Supreme Court of Ohio denied the OCC's Motion for Reconsideration.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad-debt recovery requirements in November 2004. As of June 30, 2005, Columbia of Ohio has $34.9 million of uncollected accounts receivable pending future recovery. On May 2, 2005, Columbia filed an application for approval to decrease its Uncollectible Expense Rider rate, effective June 2005. This request for reduction in its Uncollectible Expense Rider rate was based on projected annual recovery requirements of $26.3 million for the period ending March 31, 2006 – a reduction of $11.4 million from Columbia's currently effective rate. On June 1, 2005, the PUCO approved Columbia of Ohio, Inc.'s application to adjust its Uncollectible Expense Rider rate.

On December 2, 2004, Columbia of Ohio filed two applications with the OPSB, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On February 7, 2005,

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Gas Distribution Operations (continued)

the OPSB notified Columbia that the applications were certified as complete. Columbia of Ohio also filed requests for waivers from certain OPSB requirements. The waivers were approved on February 4, 2005. On April 14, 2005, the OPSB issued an Order (i) finding that the effective date of the applications is April 15, 2005, (ii) granting Columbia's motion to consolidate the cases for hearing purposes, and (iii) establishing a public hearing date of June 20, 2005, and an adjudicatory hearing date of June 21, 2005. On July 7, 2005 a Stipulation and Recommendation was filed in which all parties recommended approval of Columbia's plans for the construction of the Northern Columbus Loop Natural Gas Pipeline. On August 3, 2005, the OPSB approved Columbia's construction of the Northern Columbus Loop Natural Gas Pipeline project.

On April 27, 2005, Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. If approved, the increase could go into effect as early as November 1, 2005. The rate filing also includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. Northern Indiana expects the IURC's order in the third quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Settlement Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the current ARP to March 31, 2006. The IURC approved the settlement agreement on January 26, 2005. The agreement, as approved by the IURC, grandfathered the terms of existing contracts that marketers have with Choice customers and established a scope for negotiations. On May 2, 2005, Northern Indiana filed an unopposed motion that provided Parties more time to negotiate terms of the ARP and extend the expiration date of the current ARP to April 30, 2006. This action was approved by the IURC on May 25, 2005. A joint Stipulation and Settlement Agreement resolving all terms of the new ARP among Parties was filed with the IURC on July 13, 2005. The Settlement establishes a four year term that expires May 1, 2010, provides for the continuation of current products and services offered under the current ARP including the GCIM, spells out the terms of Northern Indiana's merchant role, establishes a risk and reward mechanism to mitigate cost allocations created through Northern Indiana's Choice program, and a rate moratorium with exceptions for the term of the Agreement. A procedural schedule including a prehearing conference and evidentiary hearing to review testimony explaining the terms of the settlement will be established in the third quarter of 2005. A final IURC decision is expected in the fourth quarter of 2005.

On December 14, 2004, the Maine PUC opened an investigation into the reasonable maintenance and replacement of cast iron facilities of Northern Utilities. The Maine PUC sought Northern Utilities' opinion regarding the merits of an accelerated cast iron replacement program that would result in the replacement of all cast iron mains and services in Northern Utilities' distribution system over ten years. Northern Utilities estimated that the incremental cost of such a program over ten years would be $35 million. Northern Utilities took the position that such a program was not necessary, but if the Maine PUC determined that such a program was required, Northern Utilities should be allowed to seek approval for an annual rate adjustment mechanism for the incremental investment associated with the accelerated cast iron replacement program. On March 28, 2005, the Maine PUC approved a settlement between Northern Utilities and the Maine OPA in which Northern Utilities agreed to replace approximately $15 million of cast iron facilities in a portion of its distribution system over a four-year period. The settlement, supported by the Maine PUC Staff Bench Analysis, also allows Northern Utilities to seek approval of an annual rate adjustment

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Gas Distribution Operations (continued)

mechanism to recover the incremental cost of the accelerated cast iron replacement program. The Maine OPA has agreed not to oppose the request.

Environmental Matters
Currently, various environmental matters impact the Gas Distribution Operations segment. As of June 30, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 11-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation's territories for the second quarter of 2005 was 12% colder than the comparable quarter in 2004, and 1% colder than normal.

For the first six months of 2005, weather was 2% colder than normal and slightly colder than the first six months of 2004.

Throughput
Total volumes sold and transported of 162.0 MMDth for the second quarter of 2005 decreased 13.4 MMDth from the same period last year. This decrease in volume is mainly attributed to lower off-system sales.

For the six month period ended June 30, 2005, total volumes sold and transported were 500.5 MMDth, a decrease of 28.7 MMDth from the same period in 2004 primarily reflecting decreased off-system sales and transportation sales in the first half of 2005 compared to the first half of 2004.

Net Revenues
Net revenues for the three months ended June 30, 2005 were $269.1 million, an increase of $28.1 million from the same period in 2004. This was primarily the result of an increase in revenues recognized for trackers of $7.7 million, which are offset in operating expense, $6.0 million in increased revenue due to the impact of favorable weather conditions as compared to the comparable period in 2004, $5.9 million gas cost adjustment and $3.5 million in increased revenues from regulatory sharing mechanisms.

For the six month period ended June 30, 2005, net revenues were $867.2 million, a $45.7 million increase from the same period in 2004, largely due to increased revenues recognized for trackers of $26.5 million, which are offset in operating expense. Revenues also increased due to the expiration of the 1999 stipulation for Columbia of Ohio, which resulted in $9.1 million of additional revenue, $5.8 million in increased revenue from regulatory sharing mechanisms and a favorable weather impact of $4.3 million from the comparable period last year.

Operating Income
For the second quarter of 2005, Gas Distribution Operations reported operating income of $5.7 million, a decrease of $9.4 million from the same period in 2004. The decrease in operating income was mainly attributable to a restructuring charge of $11.2 million associated with the IBM agreement, a $10.9 million impairment loss recognized for goodwill at Kokomo Gas and increased depreciation expense associated with the expiration of the 1999 stipulation for Columbia of Ohio. These increases in expenses were partially offset by the increase in net revenues described above and lower sales tax accruals.

Operating income for the first six months of 2005 totaled $280.6 million, a $19.5 million decrease compared to the same period in 2004 largely due to the restructuring charge of $11.2 million associated with the IBM agreement and the $10.9 million goodwill impairment loss for Kokomo Gas that was recognized in the second quarter of 2005 and increased depreciation expense associated with the expiration of the 1999 stipulation for Columbia of Ohio.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (continued)

NiSource Inc.
Gas Transmission and Storage Operations

(in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Operating Revenues				
Transportation revenues	**$ 150.2**	$ 148.4	**$ 328.6**	$ 336.7
Storage revenues	**44.0**	44.5	**89.2**	89.7
Other revenues	**1.6**	1.8	**7.7**	5.1
Total Operating Revenues	**195.8**	194.7	**425.5**	431.5
Less: Cost of gas sold	**6.4**	6.5	**11.9**	10.4
Net Revenues	**189.4**	188.2	**413.6**	421.1
Operating Expenses				
Operation and maintenance	**69.8**	71.1	**141.2**	149.4
Depreciation and amortization	**28.6**	29.4	**56.7**	57.7
Loss on sale or impairment of assets	**-**	0.3	**-**	0.3
Other taxes	**14.2**	13.9	**29.4**	28.8
Total Operating Expenses	**112.6**	114.7	**227.3**	236.2
Operating Income	**$ 76.8**	$ 73.5	**$ 186.3**	$ 184.9

	Three Months 2005	Three Months 2004	Six Months 2005	Six Months 2004
Throughput (MMDth)				
Columbia Transmission				
Market Area	**168.5**	168.4	**564.1**	575.3
Columbia Gulf				
Mainline	**143.0**	140.6	**281.7**	300.6
Short-haul	**23.4**	20.9	**41.6**	47.9
Columbia Pipeline Deep Water	**3.2**	4.3	**6.7**	8.7
Crossroads Gas Pipeline	**10.0**	9.8	**22.0**	20.5
Granite State Pipeline	**5.7**	5.7	**19.6**	19.6
Intrasegment eliminations	**(141.6)**	(144.5)	**(280.2)**	(298.7)
Total	**212.2**	205.2	**655.5**	673.9

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline and Granite State Gas. In total NiSource owns a pipeline network of approximately 16 thousand miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in nineteen northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource Gas Transmission and Storage Operations segment operates one of the nation's largest underground natural gas storage systems.

Restructuring
In connection with the IBM agreement mentioned previously, Gas Transmission and Storage Operations recorded a restructuring charge of $2.7 million, which was allocated from NiSource Corporate Services. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Gas Transmission and Storage Operations segment.

Regulatory Matters
On June 30, 2005, the FERC issued the "Order On Accounting for Pipeline Assessment Costs." This guidance was issued by the FERC to address consistent application across the industry for accounting of the DOT's Integrity Management Rule. The effective date of the guidance is January 1, 2006 at which time all assessment costs will be expensed (assuming no change on rehearing). Importantly, the rule specifically provides that amounts capitalized in periods prior to January 1, 2006 will be permitted to remain as recorded. There is no material impact on 2005 for this order, but it is anticipated that operating expenses may increase approximately $8 to $12 million in 2006 related to this guidance and the expenditures NiSource expects to incur for the DOT's Integrity Management Rule.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

On March 31, 2005, the FERC issued an order regarding Columbia Transmission's annual EPCA filing. The FERC's order accepted the filing, subject to refund, and established a hearing to address issues related to the appropriate methodology for allocating costs associated with the new electric Downingtown Compressor units. The order does not inhibit Columbia's ability to fully recover its electric costs; as such, management does not believe this order will have a material financial impact.

On March 29, 2005, the FERC issued an unconditional order accepting Columbia Transmission's March 1, 2005 RAM filing. Columbia Transmission's March 1, 2004 RAM is still pending before the FERC, with no statutory time requirement for future action; however, with the approval of the 2005 RAM filing, management does not anticipate a material adverse order.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of June 30, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 11-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

Proposed Millennium Pipeline Project
The proposed Millennium Project, in which Columbia Transmission is participating and will serve as developer and operator, will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is now being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, New York. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, New York. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

On September 19, 2002, the FERC issued its order granting final certificate authority for the original Millennium project and specified that Millennium may not begin construction until certain environmental and other conditions are met. One such condition, impacting what is now being marketed as Phase 2 of the project, is compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS has determined that the Hudson River crossing plan is not consistent with the Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. The procedural schedule calls for all briefings to be completed by the end of 2005.

On August 1, 2005, the Millennium natural gas pipeline submitted a certificate amendment filing to the FERC. This filing requests authorization from the Commission to construct the project in phases, details construction and development plans for Phase 1 of the project, and includes executed precedent agreements for service on Phase I of the project. Pending receipt of necessary approvals, Millennium expects to begin construction in mid-2006, targeting a November 1, 2007, in-service date.

During the second quarter of 2004, a NiSource affiliate purchased an additional interest in the project. NiSource is finalizing plans to transfer this interest to other sponsors in 2005. The other sponsors are Columbia Transmission, MCNIC Millennium Company (subsidiary of DTE Energy Company), and KeySpan Millennium, L.L.C. (subsidiary of KeySpan Corporation).

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States.

Columbia Transmission and Piedmont have formed Hardy Storage, to develop a natural gas storage field from a depleted natural gas production field in West Virginia. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

An open season for Hardy Storage conducted in early 2004 resulted in full subscription of the project's storage capacity under long-term firm contracts. The field, which will have the capacity to store approximately 12 Bcf of natural gas, is planned to begin service in November 2007, and will ultimately be able to deliver 176 MMDth per day of firm storage service on behalf of the four customers subscribing to capacity in Hardy Storage. These customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, with plans to begin construction later this year. Service from both projects is expected to be available in 2007.

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 212.2 MMDth for the second quarter 2005, compared to 205.2 MMDth for the same period in 2004. The increase of 7.0 MMDth is due mainly to colder than normal weather in the second quarter of 2005 compared to the second quarter of 2004.

Throughput for the six months ended June 30, 2005 was 655.5 MMDth, a decrease of 18.4 MMDth from the same period in 2004 due to warmer weather in the first six months of 2005 than for the comparable period in 2004, and a continued overall decline of offshore natural gas production, and other non-weather factors.

Net Revenues
Net revenues were $189.4 million for the second quarter 2005, an increase of $1.2 million from the same period in 2004, due to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, amounting to $8.9 million. This increase was partially offset by the re-contracting of firm transportation and storage agreements that expired October 31, 2004, which reduced net revenues by $4.3 million, net of remarketing activities, and decreased revenues from trackers, which are offset in operating expense.

Net revenues were $413.6 for the first six months of 2005 compared to $421.1 million for the first six months of 2004. The decrease in net revenues was mainly due to the re-contracting of firm transportation and storage agreements that expired October 31, 2004, which amounted to $11.1 million, net of remarketing activities, and decreased revenues from trackers, which are offset in operating expense. These decreases in net revenues were partially offset by a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, amounting to $8.9 million in the second quarter of 2005.

Operating Income
Operating income was $76.8 million for the second quarter 2005 compared to $73.5 million in the second quarter 2004. Operating income increased as a result of a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, amounting to $8.9 million. This increase was partially offset by continued lower revenues due to pipeline re-contracting, net of remarketing, discussed in net revenues above and restructuring charges of $2.7 million in the period.

For the first six months of 2005, operating income was $186.3 million, a $1.4 million increase from the first six months of 2004. The increase was due to a third-party buyout of a bankruptcy claim relating to the rejection of a shipper's long-term contract, amounting to $8.9 million, a $1.4 million reduction in employee and administrative expenses and other reduction of operation and maintenance expenses as well as the impact of a $2.5 million settlement in the comparable 2004 period. These benefits to operating income were partially offset by the pipeline re-contracting, net of remarketing, and the restructuring charges relating to the outsourcing agreement with IBM mentioned above.

NiSource Inc.
Electric Operations

(in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Revenues				
Sales revenues	$ **282.0**	$ 267.4	$ **564.4**	$ 528.3
Less: Cost of sales	**92.4**	84.9	**188.1**	166.3
Net Revenues	**189.6**	182.5	**376.3**	362.0
Operating Expenses				
Operation and maintenance	**69.0**	58.8	**130.1**	119.1
Depreciation and amortization	**46.2**	44.4	**91.7**	88.5
Gain on sale of assets	**(0.4)**	-	**(0.4)**	-
Other taxes	**13.8**	(2.7)	**28.5**	13.6
Total Operating Expenses	**128.6**	100.5	**249.9**	221.2
Operating Income	$ **61.0**	$ 82.0	$ **126.4**	$ 140.8
Revenues ($ in millions)				
Residential	**77.3**	66.7	**150.7**	137.9
Commercial	**85.7**	73.2	**158.9**	143.6
Industrial	**104.6**	102.5	**217.0**	203.8
Wholesale	**6.3**	11.4	**13.8**	22.8
Other	**8.1**	13.6	**24.0**	20.2
Total	**282.0**	267.4	**564.4**	528.3
Sales (Gigawatt Hours)				
Residential	**768.0**	694.2	**1,535.0**	1,448.7
Commercial	**988.1**	899.3	**1,882.3**	1,759.5
Industrial	**2,185.2**	2,327.3	**4,513.5**	4,665.4
Wholesale	**195.9**	289.5	**357.1**	559.4
Other	**15.9**	33.8	**48.5**	66.2
Total	**4,153.1**	4,244.1	**8,336.4**	8,499.2
Cooling Degree Days	**280**	205	**280**	205
Normal Cooling Degree Days	**227**	227	**227**	227
% Warmer (Colder) than Normal	**23%**	(10%)	**23%**	(10%)
Electric Customers				
Residential			**392,788**	388,824
Commercial			**50,697**	49,635
Industrial			**2,519**	2,516
Wholesale			**15**	25
Other			**769**	776
Total			**446,788**	441,776

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 447,000 customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

NISOURCE INC.
Electric Operations (continued)

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

Northern Indiana coal deliveries from the PRB area have been limited to 80% - 85% of contracted amounts as a result of recent rail track problems experienced by the Union Pacific Railroad. Northern Indiana anticipates being able to meet the expected electricity demand through the end of the year by relying more on non-PRB fueled units and changing the fuel blend, which will reduce its need for PRB coal. Northern Indiana has been blending the fuel for a number of years.

Restructuring
In connection with the IBM agreement previously discussed, Electric Operations recorded a restructuring charge of $1.8 million, which was allocated from NiSource Corporate Services. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Electric Operations segment.

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. Credits amounting to $29.2 million and $26.8 million were recognized for electric customers for the first half of 2005 and 2004, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003, also known as "Day 1." In April 2005, Northern Indiana, as well as the other two participants of the ITC, announced their withdrawal from the ITC and the ITC will cease operations effective November 1, 2005. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana incurs new categories of transmission charges based upon MISO's FERC-approved tariff. One of the new categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana appealed this decision to the Indiana Appellate Court, but on April 27, 2005, the Court affirmed the IURC's original decision. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. MISO Day 1 administrative fees were $1.4 million for the first six months of 2005. The Day 1 MISO Schedule 10 administrative fees are currently estimated to be $2.5 to $3.0 million annually.

The MISO has launched the MMI, also known as "Day 2," implementing structures and processes of an electricity market for the MISO region. The MMI provides non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO's MMI tariffs have been approved by the FERC. Financially binding activities began with the opening of the market for bids and offers on March 25, 2005, and the real-time market on April 1, 2005. Northern Indiana and TPC are actively participating in the MMI. Based on the first quarter of market operations, management expects a financial impact of approximately $3.3 million annually in operating expenses for MMI administrative costs. These are in addition to the MISO Day 1 Schedule 10 administrative costs for which Northern Indiana was denied deferral treatment in 2004. MMI energy costs are being accounted for in the same manner that energy costs were recorded prior to the implementation of the MMI, and are recovered through the FAC in accordance with the final IURC

NISOURCE INC.
Electric Operations (continued)

order issued on June 1, 2005. The detailed MMI tariff manages aspects of system reliability through the use of a market-based congestion management system. The FERC approved tariff includes a centralized dispatch platform, which dispatches the most economic resources to meet load requirements efficiently and reliably in the MISO region. The tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The MISO performs a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO also performs the real-time resource dispatch for resources under its control on a five-minute basis. The tariff also allows for the allocation, auction or sale of FTRs, which are instruments that protect against congestion costs occurring in the day-ahead market. Northern Indiana has not yet been a participant in the auction market for FTRs, but is allocated FTRs on a seasonal basis and at zero cost, for its use to protect against congestion costs. Northern Indiana retains its obligation for load following and other ancillary services.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. On June 15, 2005, Northern Indiana filed testimony and exhibits establishing a new basis for the cap. Northern Indiana received approval from the IURC of its request on July 20, 2005. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the demolition and environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for these costs. The associated demolition and environmental cleanup costs are estimated to be between $38 million to $53 million.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and ITC. A hearing in this matter was held December 1 and 2, 2004. An IURC order is expected in the third quarter of 2005.

On March 31, 2005, Northern Indiana and the OUCC filed an MOU with the IURC that could have resulted in settlements of the City of Gary petition and Purchased Power and Transmission Tracker petition. The settlement agreement that was contemplated by the MOU would have provided, among other things, for the recovery of Northern Indiana's costs for intermediate dispatchable power purchased from TPC and would have required Northern Indiana to file a base rate case in 2007. The MOU provided that a settlement was contingent upon: 1) acceptable results of a third party evaluation study to be performed by an independent consultant relating to the use of Whiting Clean Energy and the Mitchell Station to meet the control performance standards required by the North American Electric Reliability Council and 2) affirmative consent to the other terms of the MOU by Northern Indiana's large industrial electric customers. The scope of the proposed settlement did not include MISO costs. The ability to recover or defer MISO costs was to be determined in another proceeding before the IURC, filed by several of the investor-owned electric utilities in Indiana (see the following paragraph). The evaluation study was completed on June 30, 2005 by the engineering firm, Burns and McDonnell. On July 14, 2005, the OUCC filed a notice disavowing the MOU. In addition to confirming the need for a solution to help Northern Indiana meet certain control performance standards, the evaluation study identified several potential, alternative solutions. Northern Indiana continues to work with the OUCC and some of the utility's industrial customers to explore the various

NISOURCE INC.
Electric Operations (continued)

options suggested by the independent study. Northern Indiana anticipates that the parties will collaborate to reach a mutually acceptable solution that will address electric reliability issues.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005, and an IURC order was issued on June 1, 2005. The order, applicable to Northern Indiana, authorized recovery or deferral of fuel related MISO Day 2 costs but denied recovery or deferral of non-fuel MISO Day 2 costs during Northern Indiana's rate moratorium.

On April 11, 2005, Whiting Clean Energy, TPC and Northern Indiana, each a subsidiary of NiSource, filed their petition with the IURC for approval of an arrangement pursuant to which Whiting Clean Energy would sell to TPC electric power generated at Whiting Clean Energy's generating facility in Whiting, Indiana ("Whiting Clean Energy Facility") which power would then be sold by TPC to Northern Indiana. On July 1, 2005, the IURC issued an interim order approving the ultimate sales of the necessary capacity and energy produced by the Whiting Clean Energy Facility to Northern Indiana through TPC under the Power Sales Tariff on an interim basis until December 31, 2005, or until a subsequent order is issued by the IURC, and authorized Northern Indiana recovery of fuel costs associated with interim purchases made under the Power Sales Tariff as part of its normal FAC proceedings. The IURC is expected to issue a final order in late 2005 or early 2006 following an evidentiary hearing, which is scheduled for the fourth quarter of 2005. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT, Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement IDEM's NOx State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. Northern Indiana currently anticipates a total capital investment amounting to approximately $305 million. This amount was filed in Northern Indiana's latest compliance plan, which was approved by the IURC on January 19, 2005. The ECRM revenues amounted to $12.8 million for the six months ended June 30, 2005, and $36.8 million from inception to date, while EERM revenues were $2.4 million for the first half of 2005. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004. ECR-6 is expected to be filed in August 2005.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While concluding that Northern Indiana's service was reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter had both filed motions requesting the IURC to reconsider its order and were denied. Northern Indiana and Jupiter both have appealed the IURC's order in this matter to the Indiana Court of Appeals. These appeals are currently pending. On June 15, 2005, Northern Indiana filed a Motion to Stay with the Indiana Court of Appeals requesting a stay of the portions of the order that require Northern Indiana to pay $2.5 million to Jupiter and install a backup line to serve Jupiter. On July 13, 2005, Northern Indiana's Motion to Stay the IURC's April 13, 2005 ruling was denied. Northern Indiana remitted the payment of $2.5 million to Jupiter in July 2005, and is working to comply with the remainder of the IURC's order concerning the installation of a backup line.

NISOURCE INC.
Electric Operations (continued)

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of June 30, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 11-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Electric Operations.

Sales
Electric sales quantities for the second quarter of 2005 were 4,153.1 gwh, a decrease of 91.0 gwh compared to the 2004 period, as a result of decreased wholesale transaction sales and decreased industrial sales due to steel customers running at lower levels. Residential and commercial sales quantities improved due to increases in the number of customers and warmer weather in the current period.

Electric sales for the first six months of 2005 was 8,336.4 gwh, a decrease of 162.8 gwh compared to the 2004 period, as a result of decreased wholesale transaction sales and decreased industrial sales due to steel customers running at lower levels. Residential and commercial sales quantities increased due to increases in the number of customers and warmer weather.

Net Revenues
In the second quarter of 2005, electric net revenues of $189.6 million increased by $7.1 million from the comparable 2004 period. This improvement was primarily a result of warmer weather compared to the second quarter of last year.

In the first six months of 2005, electric net revenues were $376.3 million, an increase of $14.3 million from the comparable 2004 period as a result of an increase in sales of approximately $6 million due to favorable weather conditions, an increase of $7.5 million in environmental cost tracker revenues, and increases in revenues from growth in residential and commercial customers. These increases in Electric Operations net revenues for the first half of 2005 were partially offset by $4.1 million in increased costs associated with MISO.

Operating Income
Operating income for the second quarter of 2005 was $61.0 million, a decrease of $21.0 million from the same period in 2004. The decrease was primarily due to the comparable 2004 period benefiting from a property tax accrual reduction of $18.1 million. Incremental MISO costs and fees of $5.6 million, restructuring charges of $1.8 million and increased electric production expense of $3.0 million in the current quarter were partially offset by increased net revenues discussed above.

Operating income for the first six months of 2005 was $126.4 million, a decrease of $14.4 million from the same period in 2004. This reduction in operating income was primarily due to the impact of a property tax accrual reduction of $18.1 million in the comparable 2004 period. Incremental MISO costs and fees of $6.3 million, increased electric production expense of $5.4 million and restructuring charges of $1.8 million in the current period were partially offset by an increase in net revenues discussed above. The 2004 period was negatively impacted by a $3.3 million expense for Electric Operations' portion of a redemption premium paid for the early extinguishment of certain medium-term notes at Northern Indiana.

NiSource Inc.
Other Operations

(in millions)	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
Net Revenues				
Products and services revenue	**$ 192.5**	$ 144.5	**$ 422.0**	$ 332.5
Less: Cost of products purchased	**185.3**	139.7	**409.4**	328.2
Net Revenues	**7.2**	4.8	**12.6**	4.3
Operating Expenses				
Operation and maintenance	**10.7**	8.8	**17.1**	20.9
Depreciation and amortization	**3.0**	2.6	**5.9**	5.3
Loss (gain) on sale of assets	**-**	-	**(0.5)**	0.7
Other taxes	**2.4**	1.2	**4.2**	2.9
Total Operating Expenses	**16.1**	12.6	**26.7**	29.8
Operating Loss	**$ (8.9)**	$ (7.8)	**$ (14.1)**	$ (25.5)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Restructuring
In connection with the IBM agreement previously discussed, Other Operations recorded a restructuring charge of $0.2 million, which was allocated from NiSource Corporate Services. Refer to Note 5, "Restructuring Activities," in the Notes to Consolidated Financial Statements for additional information regarding restructuring initiatives for the Other Operations segment.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.2 million at June 30, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first half of 2005, the PEI holding companies' consolidated after-tax loss was approximately $17.9 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, approval of the electric sales agreement discussed in the following paragraph, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time.

NISOURCE INC.
Other Operations (continued)

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide, pending regulatory approval, 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy. Whiting Clean Energy has filed and the FERC accepted a tariff covering the sale of such intermediate dispatchable power. TPC has similarly filed and the FERC accepted a petition seeking approval of its proposed contract with Northern Indiana. TPC and Whiting Clean Energy, along with Northern Indiana, have also filed a separate petition with the IURC in which they have requested expedited approval for the sale of intermediate dispatchable power this summer from Whiting Clean Energy through TPC to Northern Indiana. Northern Indiana and the OUCC signed an MOU in the first quarter of 2005 that had the potential to result in a settlement agreement that would allow Northern Indiana to recover the costs of such purchases if certain conditions were met. In July 2005, the OUCC filed notice disavowing the MOU. Northern Indiana continues to work with the OUCC to reach an acceptable solution that will address electric reliability issues. In its July 1, 2005 order, the IURC approved Northern Indiana purchases from Whiting Clean Energy, on an interim basis, to ensure that it is meeting the electric needs of its customers. On July 21, 2005, Intervenor LaPorte County filed a Petition for Reconsideration of the interim order with the IURC.

Net Revenues

Net revenues of $7.2 million for the second quarter of 2005 increased by $2.4 million from the second quarter of 2004, due to increased net revenue from the Whiting Clean Energy facility and increased gas marketing revenues.

For the first six months of 2005, net revenues were $12.6 million, an $8.3 million increase compared to the same period in 2004. The increase was mainly due to higher revenues from the Whiting Clean Energy facility of $3.4 million and increased gas marketing revenues of $1.9 million.

Operating Income

Other Operations reported an operating loss of $8.9 million for the second quarter of 2005, versus an operating loss of $7.8 million for the comparable 2004 period. The increase in the operating loss resulted primarily from a change in the 2004 property tax accrual of $1.4 million and the impact of restructuring charges amounting to 0.2 million.

For the first six months of 2005, operating loss was $14.1 million compared to an operating loss of $25.5 million for the comparable 2004. This improvement was primarily due to the increase in net revenues discussed above and a legal reserve reduction.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report. NiSource's disclosure controls and procedures were adequate and effective to ensure that material information relating to NiSource and its consolidated subsidiaries would be made known to them by others within those entities.

Changes in Internal Controls

The MISO Day 2 market became effective on April 1, 2005, which impacted Northern Indiana's regulated electric generation and purchase power operations. In connection with the implementation of MISO Day 2, NiSource has implemented new processes and modified existing processes to facilitate participation in, and resultant settlements within the MISO market. Besides this change, there have been no other changes in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. **Stand Energy Corporation, et al. v. Columbia Gas Transmission Corporation, et al., Kanawha County Court, West Virginia**

On July 14, 2004, Stand Energy Corporation filed a complaint in Kanawha County Court in West Virginia. The complaint contains allegations against various NiSource companies, including Columbia Transmission and Columbia Gulf, and asserts that those companies and certain "select shippers" engaged in an "illegal gas scheme" that constituted a breach of contract and violated state law. The "illegal gas scheme" complained of by the plaintiffs relates to the Columbia Transmission and Columbia Gulf gas imbalance transactions that were the subject of the FERC enforcement staff investigation and subsequent settlement approved in October 2000. Columbia Transmission and Columbia Gulf filed a Notice of Removal with the Federal Court in West Virginia on August 13, 2004 and a Motion to Dismiss on September 10, 2004. In October 2004, however, the plaintiffs filed their Second Amended Complaint, which clarified the identity of some of the "select shipper" defendants and added a federal antitrust cause of action. On January 6, 2005, the Court denied the Columbia companies' motion to strike the Second Amended Complaint and granted the plaintiffs leave to amend. To address the issues raised in the Second Amended Complaint, the Columbia companies revised their briefs in support of the previously filed motions to dismiss. In June 2005, the Court granted in part and denied in part the Columbia companies' motion to dismiss the Second Amended Complaint. The Columbia companies have filed an answer to the Second Amended Complaint.

2. **United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana**

The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia and thirteen affiliated entities (collectively, the "Columbia defendants").

Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. On May 13, 2005, the Special Master issued his report and recommendations and recommended dismissal of the action against the Columbia defendants. The recommendations of the Special Master still must be adopted by the court.

3. **Tawney, et al. v. Columbia Natural Resources, Inc., Roane County, WV Circuit Court**

The Plaintiffs, who are royalty owners, filed a lawsuit in early 2003 against Columbia Natural Resources alleging that Columbia Natural Resources underpaid royalties by improperly deducting post-production costs and not paying a fair value for the gas produced from their leases. Plaintiffs seek the alleged royalty underpayment and punitive damages claiming that Columbia Natural Resources fraudulently concealed the deduction of post-production charges. The court has certified the case as a class action that includes any person who, after July 31, 1990, received or is due royalties from Columbia Natural Resources (and its predecessors or successors) on lands lying within the boundary of the State of West Virginia. All individuals, corporations, agencies, departments or instrumentalities of the United States of America are excluded from the class. Columbia Natural Resources appealed the decision certifying the class and the Supreme Court of West Virginia denied the appeal. Although NiSource sold Columbia Natural Resources in 2003, it remains obligated to

ITEM 1. LEGAL PROCEEDINGS (continued)

NISOURCE INC.

manage this litigation and also remains at least partly liable for any damages awarded to the plaintiffs. In December 2004, the court granted plaintiffs' motion to add NiSource and Columbia as defendants. The trial has been rescheduled from the third quarter of 2005 to the first quarter of 2006.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 10, 2005, NiSource held its annual meeting of stockholders. As of April 5, 2005, the record date for the meeting, there were 271,567,847 shares of common stock outstanding and entitled to vote in person or by proxy at the meeting.

The number of votes received by and the number of votes withheld from each nominee for Director are set forth in the report below:

	Number of votes FOR	Number of votes WITHHELD
Steven R. McCracken	229,611,335	3,616,014
Ian R. Rolland	228,999,321	4,228,028
Robert C. Skaggs, Jr.	229,286,756	3,940,593
John W. Thompson	227,183,076	6,044,273

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the ratification of Deloitte & Touche LLP as the Corporation's independent public accountants for the year 2005, are set forth in the report below:

Number of votes FOR	Number of votes Against	Number of votes ABSTAINED
230,306,814	969,887	1,950,648

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the amendments to the Corporation's Long Term Incentive Plan, are set forth in the report below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
172,572,990	26,875,156	2,967,379

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the amendment to the Corporation's Employee Stock Purchase Plan, are set forth in the report below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
191,758,872	7,689,100	2,967,553

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the stockholder proposal relating to the annual election of directors, are set forth in the report below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
147,968,071	51,355,923	3,091,531

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS (continued)

NiSource Inc.

The number of votes received for, the number of votes against and the number of votes abstained in conjunction with the stockholder proposal relating to the election of directors by a majority vote, are set forth in the report below:

Number of votes FOR	Number of votes AGAINST	Number of votes ABSTAINED
112,604,933	86,637,394	3,171,503

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(10.1) Agreement for Business Process and Support Services between NiSource Corporate Services and IBM, effective June 20, 2005.*

(10.2) Letter Agreement between NiSource Corporate Services and Christopher A. Helms dated March 15, 2005. * **

(10.3) Letter Agreement between NiSource and Gary L. Neale dated May 23, 2005. * **

(31.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Robert C. Skaggs, Jr., Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

* Exhibit filed herewith.
** Management contract or compensatory plan or arrangement of NiSource.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: August 4, 2005

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

NiSource Inc.
801 E. 86th Avenue
Merrillville, Indiana 46410-6272

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2005

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number 001-16189

NiSource Inc.

(Exact name of registrant as specified in its charter)

Delaware	35-2108964
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
801 East 86th Avenue Merrillville, Indiana	46410
(Address of principal executive offices)	(Zip Code)

(877) 647-5990
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☑ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☑ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: Common Stock, $0.01 Par Value: 271,846,565 shares outstanding at April 29, 2005.

NISOURCE INC.
FORM 10-Q QUARTERLY REPORT
FOR THE QUARTER ENDED MARCH 31, 2005

Table of Contents

DEFINED TERMS

The following is a list of frequently used abbreviations or acronyms that are found in this report:

NiSource Subsidiaries and Affiliates

Bay State	Bay State Gas Company
Capital Markets	NiSource Capital Markets, Inc.
CER	Columbia Energy Resources, Inc.
Columbia Deep Water	Columbia Deep Water Service Company
Columbia Energy Services	Columbia Energy Services Corporation
Columbia Gulf	Columbia Gulf Transmission Company
Columbia of Kentucky	Columbia Gas of Kentucky, Inc.
Columbia of Ohio	Columbia Gas of Ohio, Inc.
Columbia of Pennsylvania	Columbia Gas of Pennsylvania, Inc.
Columbia of Virginia	Columbia Gas of Virginia, Inc.
Columbia Transmission	Columbia Gas Transmission Corporation
Columbia	Columbia Energy Group
CORC	Columbia of Ohio Receivables Corporation
Crossroads Pipeline	Crossroads Pipeline Company
Granite State Gas	Granite State Gas Transmission, Inc.
Hardy Storage	Hardy Storage Company, L.L.C.
Kokomo Gas	Kokomo Gas and Fuel Company
Lake Erie Land	Lake Erie Land Company
Millennium	Millennium Pipeline Company, L.P.
NiSource Finance	NiSource Finance Corp.
NiSource	NiSource Inc.
Northern Indiana Fuel and Light	Northern Indiana Fuel and Light Company
Northern Indiana	Northern Indiana Public Service Company
Northern Utilities	Northern Utilities, Inc.
NRC	NIPSCO Receivables Corporation
PEI	PEI Holdings, Inc.
TPC	EnergyUSA-TPC Corp.
Transcom	Columbia Transmission Communications Corporation
Whiting Clean Energy	Whiting Clean Energy, Inc.
Whiting Leasing	Whiting Leasing LLC

Abbreviations

APB No. 25	Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees"
ARP	Alternative Regulatory Plan
BBA	British Banker Association
Bcf	Billion cubic feet
BP	BP Amoco p.l.c.
CAIR	Clean Air Interstate Rule
CAMR	Clean Air Mercury Rule
ECRM	Environmental Cost Recovery Mechanism
ECT	Environmental cost tracker
EERM	Environmental Expense Recovery Mechanism
Empire	Empire State Pipeline
EPA	United States Environmental Protection Agency
EPCA	Electric Power Cost Adjustment
EPS	Earnings per share
FAC	Fuel adjustment clause
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
FIN 45	FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others"
FIN 47	FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations"

DEFINED TERMS (continued)

FTRs	Financial Transmission Rights
GCA	Gas cost adjustment
GCIM	Gas Cost Incentive Mechanism
gwh	Gigawatt hours
IBM	International Business Machines Corp.
IDEM	Indiana Department of Environmental Management
ITC	Independent Transmission Company (Grid America)
IURC	Indiana Utility Regulatory Commission
Joint Petitioners	Columbia Gas of Ohio and other signatory parties to the stipulation
Jupiter	Jupiter Aluminum Corporation
LDCs	Local distribution companies
LIBOR	London InterBank Offered Rate
Mahonia	Mahonia II Limited
Maine OPA	Maine Office of Public Advocate
Maine PUC	Maine Public Utility Commission
Massachusetts DTE	Massachusetts Department of Telecommunications and Energy
MISO	Midwest Independent System Operator
Mitchell Station	Dean H. Mitchell Generating Station
MMDth	Million dekatherms
MMI	Midwest Market Initiative
MOU	Memorandum of Understanding
MSCP	Morgan Stanley Dean Witter Capital Partners IV, L.P.
mw	Megawatts
NAAQS	National Ambient Air Quality Standards
NOx	Nitrogen oxide
NYDOS	New York's Department of State
NYMEX	New York Mercantile Exchange
OCC	Office of the Ohio Consumers' Counsel
OUCC	Indiana Office of Utility Consumer Counselor
Piedmont	Piedmont Natural Gas Company, Inc.
PSC	Kentucky Public Service Commission
PUCO	Public Utilities Commission of Ohio
QPAI	Qualified production activities income
RAM	Retainage Adjustment Mechanism
RFP	Request for proposals
SAILS^{SM}	Stock Appreciation Income Linked Securities^{SM}
SEC	Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
SFAS No. 71	Statement of Financial Accounting Standards No. 71, "Accounting for the Effects of Certain Types of Regulation"
SFAS No. 123R	Statement of Financial Accounting Standards No. 123R, "Share-Based Payment"
SFAS No. 133	Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended
SFAS No. 140	Statement of Financial Accounting Standards No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"
SFAS No. 143	Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations"
SIP	State Implementation Plan
SO2	Sulfur dioxide
Tcf	Trillion cubic feet
Triana	Triana Energy Holdings
VaR	Value-at-risk and instrument sensitivity to market factors

PART I

ITEM 1. FINANCIAL STATEMENTS

NISOURCE INC.
Statements of Consolidated Income (unaudited)

Three Months Ended March 31, *(in millions,* except per share amounts*)*	2005	2004
Net Revenues		
Gas Distribution	$ **1,826.8**	$ 1,658.4
Gas Transportation and Storage	**328.9**	345.3
Electric	**282.3**	263.5
Other	**243.5**	205.1
Gross Revenues	**2,681.5**	2,472.3
Cost of Sales	**1,668.5**	1,481.0
Total Net Revenues	**1,013.0**	991.3
Operating Expenses		
Operation and maintenance	**337.6**	322.4
Depreciation and amortization	**135.1**	125.4
Loss (Gain) on sale of assets	**(0.5)**	0.7
Other taxes	**103.1**	100.0
Total Operating Expenses	**575.3**	548.5
Operating Income	**437.7**	442.8
Other Income (Deductions)		
Interest expense, net	**(104.0)**	(102.2)
Dividend requirements on preferred stock of subsidiaries	**(1.1)**	(1.1)
Other, net	**(0.5)**	2.8
Total Other Income (Deductions)	**(105.6)**	(100.5)
Income From Continuing Operations Before Income Taxes	**332.1**	342.3
Income Taxes	**123.4**	125.7
Income from Continuing Operations	**208.7**	216.6
Loss from Discontinued Operations - net of taxes	**(2.2)**	(3.1)
Loss on Disposition of Discontinued Operations - net of taxes	**(0.2)**	-
Net Income	$ **206.3**	$ 213.5
Basic Earnings Per Share ($)		
Continuing operations	**0.77**	0.83
Discontinued operations	**(0.01)**	(0.02)
Basic Earnings Per Share	**0.76**	0.81
Diluted Earnings Per Share ($)		
Continuing operations	**0.77**	0.82
Discontinued operations	**(0.01)**	(0.01)
Diluted Earnings Per Share	**0.76**	0.81
Dividends Declared Per Common Share	**0.23**	0.23
Basic Average Common Shares Outstanding (millions)	**270.3**	262.3
Diluted Average Common Shares (millions)	**272.1**	264.3

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Consolidated Balance Sheets

(in millions)		**March 31, 2005** (unaudited)		December 31, 2004
ASSETS				
Property, Plant and Equipment				
Utility Plant	$	**16,270.9**	$	16,194.1
Accumulated depreciation and amortization		**(7,340.9)**		(7,247.7)
Net utility plant		**8,930.0**		8,946.4
Other property, at cost, less accumulated depreciation		**427.5**		427.5
Net Property, Plant and Equipment		**9,357.5**		9,373.9
Investments and Other Assets				
Assets of discontinued operations and assets held for sale		**40.8**		38.6
Unconsolidated affiliates		**97.8**		104.8
Other investments		**82.8**		72.4
Total Investments		**221.4**		215.8
Current Assets				
Cash and cash equivalents		**588.0**		29.5
Restricted cash		**30.1**		56.3
Accounts receivable (less reserve of $71.4 and $44.7, respectively)		**610.0**		536.4
Unbilled revenue (less reserve of $7.1 and $10.9, respectively)		**282.8**		352.7
Gas inventory		**70.1**		452.9
Underrecovered gas and fuel costs		**183.5**		293.8
Materials and supplies, at average cost		**72.5**		70.6
Electric production fuel, at average cost		**31.2**		29.2
Price risk management assets		**125.2**		61.1
Exchange gas receivable		**182.4**		169.6
Regulatory Assets		**143.8**		136.2
Prepayments and other		**84.7**		96.1
Total Current Assets		**2,404.3**		2,284.4
Other Assets				
Price risk management assets		**149.3**		148.3
Regulatory assets		**582.2**		568.4
Goodwill		**3,687.2**		3,687.2
Intangible assets		**516.2**		520.3
Deferred charges and other		**185.6**		189.5
Total Other Assets		**5,120.5**		5,113.7
Total Assets	**$**	**17,103.7**	$	16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Consolidated Balance Sheets (continued)

(in millions)	March 31, 2005 (unaudited)	December 31, 2004
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common stock equity		
Common stock - $0.01 par value - 400,000,000 shares authorized, 271,665,136 and 270,625,370 shares issued and outstanding, respectively	$ **2.7**	$ 2.7
Additional paid-in-capital	**3,943.9**	3,924.0
Retained earnings	**1,006.8**	925.4
Accumulated other comprehensive loss and other common stock equity	**(10.4)**	(65.0)
Total common stock equity	**4,943.0**	4,787.1
Preferred stocks---Series without mandatory redemption provisions	**81.1**	81.1
Long-term debt, excluding amounts due within one year	**4,809.7**	4,835.9
Total Capitalization	**9,833.8**	9,704.1
Current Liabilities		
Current portion of long-term debt	**1,299.6**	1,299.9
Short-term borrowings	**-**	307.6
Accounts payable	**502.3**	648.4
Dividends declared on common and preferred stocks	**63.6**	1.1
Customer deposits	**95.3**	92.2
Taxes accrued	**376.8**	160.9
Interest accrued	**146.7**	84.1
Overrecovered gas and fuel costs	**44.5**	15.5
Price risk management liabilities	**28.4**	46.9
Exchange gas payable	**237.0**	325.1
Deferred revenue	**26.8**	31.5
Regulatory liabilities	**40.5**	30.2
Accrued liability for postretirement and pension benefits	**86.7**	85.5
Other accruals	**597.1**	478.2
Total Current Liabilities	**3,545.3**	3,607.1
Other Liabilities and Deferred Credits		
Price risk management liabilities	**8.6**	5.5
Deferred income taxes	**1,695.7**	1,665.9
Deferred investment tax credits	**76.2**	78.4
Deferred credits	**63.3**	74.0
Deferred revenue	**83.0**	86.9
Accrued liability for postretirement and pension benefits	**420.3**	413.0
Preferred stock liabilities with mandatory redemption provisions	**0.6**	0.6
Regulatory liabilities and other removal costs	**1,189.0**	1,168.6
Other noncurrent liabilities	**187.9**	183.7
Total Other Liabilities and Deferred Credits	**3,724.6**	3,676.6
Commitments and Contingencies	**-**	-
Total Capitalization and Liabilities	$ **17,103.7**	$ 16,987.8

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

ITEM 1. FINANCIAL STATEMENTS (continued)

NISOURCE INC.
Statements of Consolidated Cash Flows (unaudited)

Three Months Ended March 31, *(in millions)*	2005	2004
Operating Activities		
Net income	$ 206.3	$ 213.5
Adjustments to reconcile net income to net cash from continuing operations:		
Depreciation and amortization	135.1	125.4
Net changes in price risk management activities	(31.2)	(6.4)
Deferred income taxes and investment tax credits	(29.8)	(13.4)
Deferred revenue	(8.6)	(8.5)
Amortization of unearned compensation	1.5	2.0
Loss (Gain) on sale of assets	(0.5)	0.7
Gain from unconsolidated affiliates	(2.0)	(1.1)
Loss from sale of discontinued operations	0.2	-
Loss from discontinued operations	2.2	3.1
Amortization of discount/premium on debt	4.8	5.0
Other adjustments	0.2	(0.7)
Changes in assets and liabilities, net of effect from acquisitions of businesses:		
Restricted cash	26.2	7.8
Accounts receivable and unbilled revenue	0.1	(177.8)
Inventories	615.5	498.6
Accounts payable	(141.4)	(67.4)
Customer deposits	3.1	2.8
Taxes accrued	218.0	177.2
Interest accrued	61.7	56.0
(Under) Overrecovered gas and fuel costs	139.4	61.1
Exchange gas receivable/payable	(80.7)	(5.6)
Other accruals	(102.9)	(125.2)
Prepayment and other current assets	11.4	3.6
Regulatory assets/liabilities	(4.1)	(6.2)
Postretirement and postemployment benefits	8.9	12.0
Deferred credits	(10.7)	(14.8)
Deferred charges and other noncurrent assets	1.4	3.0
Other noncurrent liabilities	(2.6)	27.8
Net Cash Flows from Continuing Operations	1,021.5	772.5
Net Cash Flows from Discontinued Operations	0.1	(0.1)
Net Cash Flows from Operating Activities	1,021.6	772.4
Investing Activities		
Capital expenditures	(104.1)	(110.3)
Proceeds from disposition of assets	5.8	-
Other investing activities	(11.9)	(3.2)
Net Cash Flows used for Investing Activities	(110.2)	(113.5)
Financing Activities		
Retirement of long-term debt	(0.3)	(121.2)
Change in short-term debt	(307.6)	(462.9)
Issuance of common stock and capital contributed	18.7	7.3
Acquisition of treasury stock	(1.4)	(3.7)
Dividends paid - common shares	(62.3)	(61.2)
Net Cash Flows used for Financing Activities	(352.9)	(641.7)
Increase in cash and cash equivalents	558.5	17.2
Cash and cash equivalents at beginning of year	29.5	27.3
Cash and cash equivalents at end of period	$ 588.0	$ 44.5
Supplemental Disclosures of Cash Flow Information		
Cash paid for interest	36.4	42.5
Interest capitalized	(0.2)	0.7
Cash paid (refunded) for income taxes	(25.3)	3.3

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Statements of Consolidated Comprehensive Income (unaudited)

Three Months Ended March 31, *(in millions)*		**2005**		2004
Net Income	$	**206.3**	$	213.5
Other comprehensive income, net of tax				
Foreign currency translation adjustment		**-**		0.8
Net unrealized gains on cash flow hedges		**54.4**		10.0
Net gain on available for sale securities		**1.5**		1.4
Total other comprehensive income, net of tax		**55.9**		12.2
Total Comprehensive Income	$	**262.2**	$	225.7

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NISOURCE INC.
Notes to Consolidated Financial Statements (unaudited)

1. Basis of Accounting Presentation

The accompanying unaudited consolidated financial statements for NiSource reflect all normal recurring adjustments that are necessary, in the opinion of management, to present fairly the results of operations in accordance with accounting principles generally accepted in the United States of America.

The accompanying financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. Income for interim periods may not be indicative of results for the calendar year due to weather variations and other factors. Certain reclassifications have been made to the 2004 financial statements to conform to the 2005 presentation.

2. Recent Accounting Pronouncements

FASB Interpretation No. 47 – Accounting for Conditional Asset Retirement Obligations. In March 2005, the FASB issued FIN 47 to clarify the accounting for conditional asset retirement obligations and to provide additional guidance for when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation, as used in SFAS No. 143. This interpretation is effective for fiscal years ending after December 15, 2005, and early adoption is encouraged. NiSource is currently reviewing the legal obligations surrounding future retirement of tangible long-lived assets with regards to this interpretation.

SFAS No. 123 (revised 2004) – Share-Based Payment. In December 2004, the FASB issued SFAS No. 123R which requires that the cost resulting from all share-based payment transactions be recognized in the financial statements and establishes fair value as the measurement objective in accounting for these transactions. This statement is effective for public entities as of the beginning of the first interim or annual reporting period beginning after December 15, 2005, as directed by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. NiSource plans to adopt this standard on January 1, 2006, using a modified version of the prospective application as described in the statement.

3. Earnings Per Share

Basic EPS is computed by dividing income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period. Basic average common shares outstanding increased from the comparative 2004 period due primarily to the issuance of approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts associated with the SAILS^{SM} on November 1, 2004. The weighted average shares outstanding for diluted EPS include the incremental effects of the various long-term incentive compensation plans. The numerator in calculating both basic and diluted EPS for each year is reported net income. The computation of diluted average common shares follows:

Three Months Ended March 31, *(in thousands)*	**2005**	2004
Denominator		
Basic average common shares outstanding	**270,327**	262,287
Dilutive potential common shares		
Nonqualified stock options	**319**	227
Shares contingently issuable under employee stock plans	**885**	1,186
Shares restricted under employee stock plans	**601**	631
Diluted Average Common Shares	**272,132**	264,331

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

4. Stock Options and Awards

FASB SFAS No. 123R encourages, but does not require at this time, entities to adopt the fair value method of accounting for stock-based compensation plans. NiSource plans to adopt SFAS No. 123R on January 1, 2006, as allowed for by the SEC in their April 15, 2005 amendment to Rule 4-01(a) of Regulation S-X. The fair value method would require the amortization of the fair value of stock-based compensation at the date of grant over the related vesting period. NiSource continues to apply the intrinsic value method of APB No. 25 for awards granted under its stock-based compensation plans. The following table illustrates the effect on net income and EPS as if NiSource had applied the fair value recognition provisions of SFAS No. 123R to stock-based employee compensation.

Three Months Ended March 31, *($ in millions, except per share data)*	**2005**	2004
Net Income		
As reported	**206.3**	213.5
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**1.0**	1.3
Less: Total stock-based employee compensation expense determined under the fair value method for all awards, net of tax	**7.2**	2.8
Pro forma	**200.1**	212.0
Earnings per share		
Basic - as reported	**0.76**	0.81
- pro forma	**0.74**	0.81
Diluted - as reported	**0.76**	0.81
- pro forma	**0.74**	0.80

NiSource has traditionally awarded stock options to employees at the beginning of each year that vested one year from the date of grant. For stock options granted during January 2005, NiSource awarded stock options that vested immediately, but included a one-year exercise restriction. Due to the one-year vesting terms of the options awarded prior to 2005 and the immediate vesting of the options awarded in January 2005, the pro-forma expense shown for the first quarter 2005 is higher than the first quarter 2004 pro-forma expense.

5. Restructuring Activities

Since 2000, NiSource has implemented restructuring initiatives to streamline its operations and realize efficiencies from the acquisition of Columbia. The restructuring activities were primarily associated with reductions in headcount and facility exit costs.

In connection with these restructuring initiatives, a total of approximately 1,600 management, professional, administrative and technical positions have been identified for elimination. As of March 31, 2005, approximately 1,560 employees were terminated, of whom none were terminated during the first quarter 2005. As of March 31, 2005 and December 31, 2004, the Consolidated Balance Sheets reflected liabilities of $13.0 million and $14.6 million related to the restructuring initiatives, respectively. For the first quarter of 2005, $1.1 million in payments were made in association with the restructuring initiatives and a $0.5 million reduction to the restructuring liability was recorded mainly to adjust for a reduction in estimated expenses related to previous restructuring initiatives partly offset by an increase in facility exit costs. Of the remaining restructuring liability, $11.8 million was related to facility exit costs. The reduction in the estimated liability was reflected in "Operation and Maintenance" expense.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

6. Discontinued Operations and Assets Held for Sale

In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.1 million as of March 31, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

Columbia Transmission is in the process of selling certain facilities that are non-core to the operation of the pipeline system. NiSource has accounted for the assets of these facilities, with a net book value of $17.0 million, as assets held for sale. NiSource is also actively pursuing a buyer of certain assets formerly held by Transcom valued at $6.1 million.

Results from discontinued operations from the golf course assets of Lake Erie Land and adjustments for NiSource's former exploration and production subsidiary, CER, and water utilities are provided in the following table:

Three Months Ended March 31, *($ in millions)*	**2005**	2004
Revenues from discontinued operations	**$ 1.0**	$ 0.9
Loss from discontinued operations	**(3.8)**	(5.2)
Income taxes	**(1.6)**	(2.1)
Net Loss from discontinued operations	**$ (2.2)**	$ (3.1)

The balance of Discontinued Operations and Assets Held for Sale included net property, plant, and equipment of $40.8 million and $38.6 million at March 31, 2005 and December 31, 2004, respectively.

7. Regulatory Matters

Gas Distribution Operations Related Matters

Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. Through the month of March 2005, approximately 725 thousand of Gas Distribution Operations' residential and small commercial and industrial customers selected an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The program provides residential and small commercial customers the option to choose their natural gas supplier and avoids the stranded costs associated with the previous pilot. In addition, Columbia received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

Since November 1, 2004, Columbia of Ohio has been operating under a new regulatory stipulation approved by the PUCO that expires on October 31, 2008. This regulatory stipulation has been contested by the OCC, and on June 9, 2004, the PUCO denied the OCC's Second Application for Rehearing. The OCC then filed an appeal with the Supreme Court of Ohio on July 29, 2004, contesting the PUCO's May 5, 2004 order on rehearing, which granted in part Columbia of Ohio's joint application for rehearing, and the PUCO's June 9, 2004 order, denying the OCC's Second Application for Rehearing. Columbia of Ohio intervened in the appellate proceeding. On December 8, 2004, the PUCO and Columbia of Ohio filed motions to dismiss the appeal, based upon the OCC's failure to comply with the Supreme Court of Ohio's procedural rules. On December 17, 2004, the OCC filed its Memoranda Contra. On March 23, 2005, the Supreme Court of Ohio issued a decision in which it granted the motions to dismiss and dismissed the appeal based upon the OCC's failure to comply with the Court's procedural rules. On April 1, 2005, the OCC filed a Motion for Reconsideration with the Supreme Court of Ohio. Columbia of Ohio and the PUCO filed Memoranda Contra on April 8, 2005.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad-debt recovery requirements in November 2004. As of March 31, 2005, Columbia of Ohio has $35.3 million of uncollected accounts receivable pending future recovery. On May 2, 2005, Columbia filed an application for approval to decrease its Uncollectible Expense Rider rate, effective June 2005. This request for reduction in its Uncollectible Expense Rider rate was based on projected annual recovery requirements of $26.3 million for the period ending March 31, 2006 – a reduction of $11.4 million from Columbia's currently effective rate.

On December 2, 2004, Columbia of Ohio filed two applications with the Ohio Power Siting Board, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On February 7, 2005, the Board notified Columbia that the applications were certified as complete. Columbia of Ohio also filed requests for waivers from certain of the Board's requirements. The waivers were approved on February 4, 2005. On April 14, 2005, the Board issued an Order (i) finding that the effective date of the applications is April 15, 2005, (ii) granting Columbia's motion to consolidate the cases for hearing purposes, and (iii) establishing a public hearing date of June 20, 2005, and an adjudicatory hearing date of June 21, 2005.

On April 27, 2005 Bay State filed for a rate increase of $22.2 million, or 4.7%, with the Massachusetts DTE. The rate filing includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program. If approved, the increase would go into effect on December 1, 2005.

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA5 annual demand cost recovery filing, covering the period November 1, 2003 through October 31, 2004, was made on August 26, 2003. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2003. On June 8, 2004, Northern Indiana and the OUCC entered into a joint stipulation and agreement resolving all issues in GCA5. Among the settlement agreement's provisions, Northern Indiana has agreed to return $3.8 million to its customers over a twelve-month period following IURC approval, which occurred on August 18, 2004. An additional provision of the agreement extended the current ARP, including Northern Indiana's GCIM, from the current expiration date of December 31, 2004 to March 31, 2005. This date has been further extended through March 31, 2006, as discussed below.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. Northern Indiana expects the IURC's order in the second quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the 1997 ARP to March 31, 2006. The IURC approved the settlement agreement on January 26, 2005. The agreement, as approved by the IURC, grandfathers the terms of existing contracts that marketers have with Choice customers and establishes a scope for negotiations that parties will follow when convening within the next several months to establish a long-term resolution of ARP. Parties have been meeting since early January to establish the future terms of ARP, to be effective post March 31, 2006. The filing of an agreement or petition is expected in the second quarter of 2005.

On December 14, 2004, the Maine PUC opened an investigation into the reasonable maintenance and replacement of cast iron facilities of Northern Utilities. The Maine PUC sought Northern Utilities opinion regarding the merits of an accelerated cast iron replacement program that would result in the replacement of all cast iron mains and services in Northern Utilities distribution system over ten years. Northern Utilities estimated that the incremental cost of such a program over ten years would be $35 million. Northern Utilities took the position that such a program was not necessary, but if the Maine PUC determined that such a program was required, Northern Utilities should be allowed to seek approval for an annual rate adjustment mechanism for the incremental investment associated with the accelerated cast iron replacement program. On March 28, 2005, the Maine PUC approved a settlement between Northern Utilities and the Maine OPA in which Northern Utilities agreed to replace approximately $15 million of cast iron facilities in a portion of its distribution system over a four-year period. The settlement, supported by the Maine PUC Staff Bench Analysis, also allows Northern Utilities to seek approval of an annual rate adjustment mechanism to recover the incremental cost of the accelerated cast iron replacement program. The Maine OPA has agreed not to oppose the request.

Electric Operations Related Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. Credits amounting to $14.4 million and $13.1 million were recognized for electric customers for the first quarter of 2005 and 2004, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003. In April 2005, Northern Indiana, as well as the other two participants of the ITC, announced their withdrawal from the ITC and the ITC will cease operations effective November 1, 2005. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana will incur new categories of transmission charges based upon MISO's FERC-approved tariff. One of the new categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana appealed this decision to the Indiana Appellate Court, but on April 27, 2005, the Court affirmed the IURC's original decision. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. The MISO Schedule 10 administrative fees are currently estimated to be approximately $3.1 million annually.

The MISO has launched the MMI, implementing structures and processes of an electricity market for the MISO region. The MMI provides non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO's MMI tariffs have been approved by FERC. Financially binding activities began with the opening of the market for bids and offers on March 25, 2005, and the Real-Time Market on April 1, 2005. Northern Indiana and TPC are actively participating in the MMI. Management is assessing the impact of MMI, and, based on the first month of market operation, expects a financial impact of $3.5 to $4.0 million annually in operating expenses for MMI administrative costs. These are in addition to the MISO Schedule 10 administrative costs for which Northern Indiana was denied deferral treatment in 2004. MMI energy costs are being accounted for in the same manner that energy costs were recorded prior to the implementation of the MMI, and are recovered through the FAC, pending approval by the IURC of MISO Day 2 costs. The detailed MMI tariff manages system reliability through the use of a market-based congestion management system. The FERC approved tariff includes a centralized dispatch platform, which

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

dispatches the most economic resources to meet load requirements efficiently and reliably in the MISO region. The tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The tariff also allows for the allocation, auction or sale of FTRs, which are instruments that hedge against congestion costs occurring in the day-ahead market. Northern Indiana has not yet been a participant in the auction market for FTRs, but has been allocated, at zero cost, a number of FTRs for use through the summer season. The MISO performs a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO also performs the real time resource dispatch for resources under its control on a five-minute basis.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. Northern Indiana is in discussions with the OUCC on a new basis for establishing the cap. An agreement is anticipated to be filed with the IURC in the second quarter of 2005, and Northern Indiana anticipates that approval will also be received from the IURC in the second quarter of 2005. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the industrial customers' challenge was withdrawn and dismissed in January 2004. In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the demolition and environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for these costs.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and ITC. A hearing in this matter was held December 1st and 2nd of 2004. An IURC order is expected in the second quarter of 2005.

On March 31, 2005, Northern Indiana and the OUCC filed an MOU with the IURC that could result in settlements of the City of Gary petition and Purchased Power and Transmission Tracker petition. The settlement agreement that is contemplated by the MOU would provide, among other things, for the recovery of Northern Indiana's costs for intermediate dispatchable power purchased from TPC and would require Northern Indiana to file a base rate case in 2007. The MOU provides that a settlement is contingent upon: 1) acceptable results of a third party evaluation study to be performed by an independent consultant relating to the use of Whiting Clean Energy and the Mitchell Station to meet the control performance standards required by the National Electric Reliability Council and 2) affirmative consent to the other terms of the MOU by Northern Indiana's large industrial electric customers. The scope of the proposed settlement does not include MISO costs. The ability to recover or defer MISO costs will be determined in another proceeding before the IURC, filed by several of the investor-owned electric utilities in Indiana (see the following paragraph). Northern Indiana expects that it will be able to file a settlement with the OUCC, based upon the outcome of the independent consultant's study, with the IURC in the second quarter of 2005, and that it would be approved in the third quarter of 2005. Northern Indiana has also filed a separate petition with the IURC in which it, TPC and Whiting Clean Energy, have requested expedited approval for the sale of intermediate dispatchable power this summer from Whiting Clean Energy through TPC to Northern Indiana.

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Notes to Consolidated Financial Statements (continued) (unaudited)

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005 and an IURC order is expected in the second quarter of 2005.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement IDEM's nitrogen oxide State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. Northern Indiana currently anticipates a total capital investment amounting to approximately $305 million. This amount was filed in Northern Indiana's latest compliance plan, which was approved by the IURC on January 19, 2005. The ECRM revenues amounted to $6.3 million for the three months ended March 31, 2005, and $30.3 million from inception to date, while EERM revenues were $0.4 million for the first quarter of 2005. On February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While not concluding that Northern Indiana's service was not reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter have both filed motions requesting the IURC to reconsider its order.

8. Risk Management Activities and Energy Trading Activities

NiSource uses commodity-based derivative financial instruments to manage certain risks in its business. NiSource accounts for its derivatives under SFAS No. 133.

Hedging Activities. The activity for the first quarter 2005 and 2004 affecting accumulated other comprehensive income, with respect to cash flow hedges included the following:

The three months ended March 31, *(in millions, net of tax)*	**2005**	2004
Net unrealized gains on derivatives qualifying as cash flow hedges at the beginning of the period	**$ 93.7**	$ 91.7
Unrealized hedging gains arising during the period on derivatives qualifying as cash flow hedges	**52.6**	21.3
Reclassification adjustment for net loss (gain) included in net income	**1.8**	(11.3)
Net unrealized gains on derivatives qualifying as cash flow hedges at the end of the period	**$ 148.1**	$ 101.7

Unrealized gains and losses on NiSource's hedges were recorded as price risk management assets and liabilities along with unrealized gains and losses on NiSource's trading portfolio. The accompanying Consolidated Balance Sheets include price risk management assets related to unrealized gains and losses on hedges of $254.4 million and $200.0 million at March 31, 2005 and December 31, 2004, respectively, of which $107.5 million and $51.7 million were included in "Current Assets," and $146.9 million and $148.3 million were included in "Other Assets." Price risk management liabilities related to unrealized gains and losses on hedges (including net option premiums) were $24.3 million and $26.7 million at March 31, 2005 and December 31, 2004, respectively, of which $17.8 million and $21.3 million were included in "Current Liabilities," and $6.5 million and $5.4 million were included in "Other Liabilities", respectively.

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Notes to Consolidated Financial Statements (continued) (unaudited)

During the first quarter of 2005 and 2004, a loss of $0.1 million and a gain of $0.1 million, net of tax respectively, was recognized in earnings due to the change in value of certain derivative instruments primarily representing time value. Additionally, all derivatives classified as a hedge are assessed for hedge effectiveness, with any components determined to be ineffective charged to earnings or classified as a regulatory asset or liability per SFAS No. 71 as appropriate. During the first quarter of 2005 and 2004, NiSource reclassified no amounts related to its cash flow hedges from other comprehensive income to earnings, due to the probability that certain forecasted transactions would not occur. It is anticipated that during the next twelve months the expiration and settlement of cash flow hedge contracts will result in income recognition of amounts currently classified in other comprehensive income of approximately $47.2 million, net of tax.

Commodity Price Risk Programs. Northern Indiana, Northern Indiana Fuel and Light, Kokomo Gas, Northern Utilities, and Columbia of Pennsylvania use NYMEX derivative contracts to minimize risk associated with gas price volatility. These derivative hedging programs must be marked to fair value, but because these derivatives are used within the framework of their gas cost recovery mechanism, regulatory assets or liabilities are recorded to offset the change in the fair value of these derivatives. The Consolidated Balance Sheets reflected $12.1 million and $0.5 million of price risk management assets associated with these programs at March 31, 2005 and December 31, 2004, respectively. In addition, the Consolidated Balance Sheets reflected $2.2 million and $9.2 million of price risk management liabilities associated with these programs at March 31, 2005 and December 31, 2004, respectively.

Northern Indiana offers a Price Protection Service as an alternative to the standard gas cost recovery mechanism. This service provides Northern Indiana customers with the opportunity to either lock in their gas cost or place a cap on the total cost that could be charged for any future month specified. In order to hedge the anticipated physical future purchases associated with these obligations, Northern Indiana purchases NYMEX futures and options contracts that correspond to a fixed or capped price in the associated delivery month. The NYMEX futures and options contracts are designated as cash flow hedges. Columbia of Virginia started a program in April 2005 similar to the Northern Indiana Price Protection Service, which would allow non-jurisdictional customers the opportunity to lock in their gas cost.

Northern Indiana also offers a DependaBill program to its customers as an alternative to the standard tariff rate that is charged to residential customers. The program allows Northern Indiana customers to fix their total monthly bill at a flat rate regardless of gas usage or commodity cost. In order to hedge the anticipated physical purchases associated with these obligations, Northern Indiana purchases fixed priced gas, as well as options to call on additional volumes that match the anticipated delivery needs of the program and currently uses NYMEX futures and options contracts for these hedge transactions. These derivatives are presently designated as cash flow hedges. The Consolidated Balance Sheets reflected $2.1 million and zero of price risk management assets and $0.1 million and $6.2 million of price risk management liabilities at March 31, 2005 and December 31, 2004, respectively, associated with the Price Protection Service and the DependaBill programs.

For regulatory incentive purposes, Northern Indiana enters into purchase contracts at first of the month prices that give counterparties the daily option to either sell an additional package of gas at first of the month prices or recall the original volume to be delivered. Northern Indiana charges a fee for this option. The changes in the fair value of these options are primarily due to the changing expectations of the future intra-month volatility of gas prices. These written options are derivative instruments, must be marked to fair value and do not meet the requirement for hedge accounting treatment. However, in accordance with SFAS No. 71, Northern Indiana records the related gains and losses associated with these transactions as a regulatory asset or liability.

For regulatory incentive purposes, Columbia of Kentucky, Columbia of Ohio, and Columbia of Pennsylvania, (collectively, the "Columbia LDCs") enter into contracts that allow counterparties the option to sell gas to Columbia LDCs at first of the month prices for a particular month of delivery. Columbia LDCs charge the counterparties a fee for this option. The changes in the fair value of the options are primarily due to the changing expectations of the future intra-month volatility of gas prices. Columbia LDCs defer a portion of the change in the fair value of the options as either a regulatory asset or liability in accordance with SFAS No. 71. The remaining change is recognized currently in earnings. The Consolidated Balance Sheets reflected $3.3 million and $4.6 million of price risk management liabilities associated with the programs at March 31, 2005 and December 31, 2004, respectively.

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Notes to Consolidated Financial Statements (continued) (unaudited)

Columbia Energy Services has fixed price gas delivery commitments to three municipalities in the United States. Columbia Energy Services entered into a forward purchase agreement with a gas supplier, wherein the supplier will fulfill the delivery obligation requirements at a slight premium to index. In order to hedge this anticipated future purchase of gas from the supplier, Columbia Energy Services entered into commodity swaps priced at the locations designated for physical delivery. These swaps are designated as cash flow hedges of the anticipated purchases.

Interest Rate Risk Activities. Between October 27, 2004 and November 1, 2004, NiSource Finance entered into $900 million of forward starting interest rate swaps, hedging the future interest payments of long-term debt. The $900 million of forward starting swaps included $450 million notional value of 12-year forward starting swaps entered into with three counterparties and $450 million notional value of 15-year forward starting swaps entered into with three additional counterparties. Entering into these hedge transactions allows NiSource Finance to mitigate the risk from rising interest rates and uncertain interest expense cash flows in the future. Assuming prevailing credit spreads in effect at the time the forward starting swaps were put in place, the swaps would result in a net effective interest rate of approximately 5.55%-5.65% for the planned 12-year note issuance and approximately 5.70%-5.80% for the planned 15-year note issuance. These approximate interest rates assume the relationship between swap spreads embedded in the forward starting swaps and NiSource Finance's credit spread remain constant from execution date of the swaps through the planned notes issuance date anticipated in September 2005. Each of the forward starting swap transactions have both an effective date and a mandatory early termination date of September 7, 2005, which is the date NiSource Finance anticipates completing $900 million of new debt issuance, consisting of $450 million of 12-year notes and $450 million of 15-year notes.

NiSource has entered into interest rate swap agreements to modify the interest rate characteristics of its outstanding long-term debt from fixed to variable. On May 12, 2004, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $660 million with six counterparties having a 6 1/2-year term. NiSource Finance will receive payments based upon a fixed 7.875% interest rate and pay a floating interest amount based on United States 6-month BBA LIBOR plus an average of 3.08% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on May 15, 2009 at mid-market.

On July 22, 2003, NiSource Finance entered into fixed-to-variable interest rate swap agreements in a notional amount of $500 million with four counterparties with an 11-year term. NiSource will receive payments based upon a fixed 5.40% interest rate and pay a floating interest amount based on U.S. 6-month BBA LIBOR plus an average of 0.78% per annum. There was no exchange of premium at the initial date of the swaps. In addition, each party has the right to cancel the swaps on either July 15, 2008 or July 15, 2013 at mid-market.

As a result of the fixed-to-variable interest rate swap transactions referenced above, $1,160 million of NiSource Finance's existing long-term debt is now subject to fluctuations in interest rates. These interest rate swaps are designated as fair value hedges. The effectiveness of the interest rate swaps in offsetting the exposure to changes in the debt's fair value is measured using the short-cut method pursuant to SFAS No. 133. NiSource had no net gain or loss recognized in earnings due to hedging ineffectiveness from prior years.

Marketing and Trading Activities. The remaining operations of TPC primarily involve commercial and industrial gas sales and power trading.

In April 2003, the remaining gas-related activities (physical commodity sales to commercial and industrial customers) that had been classified as derivatives were considered to fall within the normal purchase and sale exception under SFAS No. 133. Therefore, all gas-related derivatives used to offset the physical obligations necessary to fulfill these commodity sales were designated as cash flow hedges.

The fair market values of NiSource's power trading assets and liabilities were $8.0 million and $7.3 million, respectively, at March 31, 2005 and $8.8 million and $11.9 million, respectively, at December 31, 2004.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

9. Pension and Other Postretirement Benefits

NiSource uses September 30 as its measurement date for its pension and other postretirement benefit plans. NiSource expects to make contributions of $3.6 million to its pension plans and $52.7 million to its other postretirement medical and life plans in 2005.

The following table provides the components of the plans' net periodic benefits cost for first quarter of 2005 as compared to the first quarter of 2004:

	Pension Benefits		Other Benefits	
Three months ended March 31, *(in millions)*	**2005**	2004	**2005**	2004
Net periodic cost				
Service cost	**$ 10.4**	$ 9.8	**$ 2.3**	$ 2.2
Interest cost	**32.0**	31.7	**10.4**	9.9
Expected return on assets	**(41.1)**	(39.3)	**(4.0)**	(3.5)
Amortization of transitional obligation	**-**	-	**2.4**	2.9
Amortization of prior service cost	**2.6**	2.4	**0.2**	0.2
Recognized actuarial loss	**4.3**	4.5	**0.9**	0.7
Net Periodic Benefits Cost	**$ 8.2**	$ 9.1	**$ 12.2**	$ 12.4

10. Other Commitments and Contingencies

A. **Guarantees and Indemnities.** As a part of normal business, NiSource and certain subsidiaries enter into various agreements providing financial or performance assurance to third parties on behalf of certain subsidiaries. Such agreements include guarantees and stand-by-letters of credit. These agreements are entered into primarily to support or enhance the creditworthiness otherwise attributed to a subsidiary on a stand-alone basis, thereby facilitating the extension of sufficient credit to accomplish the subsidiaries' intended commercial purposes. The total commercial commitments in existence at March 31, 2005 and the years in which they expire were:

(in millions)	Total	2005	2006	2007	2008	2009	After
Guarantees of subsidaries debt	$ 4,041.5	$ 932.8	$ 293.1	$ 32.4	$ 8.7	$ 464.0	$ 2,310.5
Guarantees supporting commodity transactions of subsidiaries	1,155.0	248.0	667.4	28.2	48.3	51.5	111.6
Letters of credit	106.9	0.4	20.6	1.1	84.8	-	-
Other guarantees	362.5	50.0	-	-	8.6	7.8	296.1
Total commercial commitments	$ 5,665.9	$ 1,231.2	$ 981.1	$ 61.7	$ 150.4	$ 523.3	$ 2,718.2

Guarantees of Subsidiaries Debt. NiSource has guaranteed the payment of $4.0 billion of debt for various wholly owned subsidiaries including Whiting Leasing, NiSource Finance, and through a support agreement, Capital Markets. Other than debt associated with the former PEI subsidiaries that were sold, the debt is reflected on NiSource's Consolidated Balance Sheets. The subsidiaries are required to comply with certain financial covenants under the debt indenture and in the event of default, NiSource would be obligated to pay the debt's principal and related interest. NiSource does not anticipate its subsidiaries will have any difficulty maintaining compliance.

Guarantees Supporting Commodity Transactions of Subsidiaries. NiSource has issued guarantees, which support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries involved in energy marketing and trading and those satisfying requirements under forward gas sales agreements of current and former subsidiaries. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource Inc.
Notes to Consolidated Financial Statements (continued) (unaudited)

Lines and Letters of Credit. NiSource Finance maintains a revolving line of credit with a syndicate of financial institutions which can be used either for borrowings or the issuance of letters of credit. At March 31, 2005, NiSource had no guaranteed amounts outstanding under the revolving line of credit. Through this revolver and through other letter of credit facilities, NiSource has issued standby letters of credit of approximately $106.9 million for the benefit of third parties.

Other Guarantees. After the October 20, 2003 sale of six subsidiaries, PEI continues to own Whiting Clean Energy. The total of the outstanding debt guaranteed for Whiting Clean Energy at March 31, 2005 was $324.3 million, of which approximately $301.5 million of debt related to Whiting Clean Energy was included in NiSource's Consolidated Balance Sheets.

NiSource retains certain operational and financial guarantees with respect to the former PEI subsidiaries and CER. NiSource has retained guarantees of $144.8 million as of March 31, 2005 of debt outstanding related to three of the PEI projects. In addition, NiSource has retained several operational guarantees related to the former PEI subsidiaries. These operational guarantees are related to environmental compliance, inventory balances, employee relations, and a residual future purchase guarantee. The fair value of the guarantees was determined to be $11.1 million and a portion of the net proceeds in the sale amount were assumed allocated to the guarantees as prescribed by FIN 45.

Off Balance Sheet Items. NiSource has purchase and sales agreement guarantees totaling $137.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has issued guarantees, which support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries. Refer to the discussion above in this Note 10, "Guarantees and Indemnities - Guarantees Supporting Commodity Transactions of Subsidiaries" for additional information.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale and decline over time as volumes are delivered in satisfaction of the contractual obligations, ending in February 2006. As of March 31, 2005, approximately 27.6 Bcf remained to be delivered under the forward sales agreements. NiSource is indemnified by Triana, and MSCP will fund up to a maximum of $49.3 million of additional equity to Triana to support Triana's indemnity, for Triana's gas delivery and related obligations to Mahonia. The MSCP commitment declines over time in concert with the surety bonds and the guaranteed obligation to deliver gas to Mahonia.

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, combined with the Triana indemnity and the $49.3 million of further commitments to Triana from MSCP, adequately offset any losses that may be incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource has not recognized a liability related to the retention of the Mahonia guarantees.

B. Other Legal Proceedings. In the normal course of its business, NiSource and its subsidiaries have been named as defendants in various legal proceedings. In the opinion of management, the ultimate disposition of these currently asserted claims will not have a material adverse impact on NiSource's consolidated financial position.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

C. Environmental Matters.

General. The operations of NiSource are subject to extensive and evolving federal, state and local environmental laws and regulations intended to protect the public health and the environment. Such environmental laws and regulations affect operations as they relate to impacts on air, water and land.

As of March 31, 2005, a reserve of approximately $73.3 million has been recorded to cover probable corrective actions at sites where NiSource has environmental remediation liability. Regulatory assets have been recorded to the extent environmental expenditures are expected to be recovered in rates. The ultimate liability in connection with these sites will depend upon many factors, including the volume of material contributed to the site, the number of the other potentially responsible parties and their financial viability, the extent of corrective actions required and rate recovery. Based upon investigations and management's understanding of current environmental laws and regulations, NiSource believes that any corrective actions required will not have a material effect on its financial position or results of operations.

Gas Distribution Operations and Gas Transmission and Storage Operations.
There were no new environmental matters relating to Gas Distribution Operation or Gas Transmission and Storage Operations during the first quarter of 2005.

Electric Operations.
Air. On June 28 and 29, 2004, the EPA responded to the states' initial recommendations for the EPA designation of areas meeting and not meeting the NAAQS for fine particles. (Fine particles are those less than or equal to 2.5 micrometers in diameter and are also referred to as PM2.5.) The EPA's PM2.5 nonattainment designations were announced on December 17, 2004, and published in the Federal Register on January 5, 2005. The designations become effective on April 5, 2005. Indiana has disputed some of the June 2004, EPA designation recommendations and submitted final 2004 monitoring data on February 17, 2005, for EPA re-evaluation of the disputed areas. On March 7, 2005, the Indiana Attorney General filed a legal action on behalf of the IDEM asking that all but three areas (none of these three areas are in Northern Indiana's service territory) be removed from the EPA's nonattainment list. The EPA is expected to finalize by early 2006, an implementation rule detailing state obligations to bring the nonattainment areas into attainment with the PM2.5 NAAQS. Indiana and other states will be required to finalize state rulemaking by April 2008 that specify emissions reductions consistent with the final EPA implementation rule to bring the designated areas into attainment by as early as April 2010. Northern Indiana will continue to closely monitor developments in this area.

On March 10, 2005, the EPA issued the CAIR final regulations. The rule establishes phased reductions of NOx and SO2 from 28 Eastern States, including Indiana electric utilities, by establishing an annual emissions cap for NOx and SO2 and an additional cap on NOx emissions during the ozone control season. Phase I reductions would be required by January 2009 and January 2010 for NOx and SO2, respectively. Phase II reductions for both NOx and SO2 would be required by January 2015. Emission trading programs would be established to meet the emission caps. As an affected state, Indiana is required to initiate a state rule making, for submittal to the EPA by September 11, 2006, creating a SIP detailing how it will implement the federal rule and meet the emission caps. The final form of the state rule will determine whether or not Northern Indiana and other utilities in the state will be able to participate in the EPA's emission trading programs and impact the level of control required for each unit. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

On March 15, 2005, the EPA issued the CAMR, that will require mercury emissions reductions from electric power generating stations. The rule establishes a two-phased reduction of mercury from Indiana electric utilities by establishing a cap-and-trade program with a state-wide annual cap on emissions. The first phase begins in 2010, a second phase in 2018, designed to achieve about a 70% reduction in utility emissions of mercury. Emission trading programs could be established to assist compliance with these emission caps. Indiana's final SIP rule implementing the CAMR will determine Northern Indiana's ability to participate in the federal trading program and impact the level of control required for each unit. Northern Indiana will continue to closely monitor developments in this area and cannot accurately estimate the timing or cost of emission controls at this time.

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

As an alternative to the regulatory approach defined in the CAIR and CAMR rules, as discussed above, the Bush Administration is attempting to pursue multipollutant legislation in 2005, the Clear Skies Act, which would require significant reductions of SO2, NOx and mercury emissions from electric power generating stations, including Northern Indiana's stations. The proposed legislation contains phased-in reductions for these three pollutants under alternative control approaches, including trading programs. The current proposal has not been passed out of its legislative committee and may still be revisited by Congress either later this year or at some point in the future. Until the legislation passes and/ or the rulemaking is completed by the EPA and implemented by the states, the potential impact on Northern Indiana will be uncertain. Nonetheless, if implemented, these potential reduction requirements could impose substantial costs on affected utilities, including Northern Indiana.

Water. On February 16, 2004, the EPA Administrator signed the Phase II Rule of the Clean Water Act Section 316(b) which requires all large existing steam electric generating stations meet certain performance standards to reduce the effects on aquatic organisms at their cooling water intake structures. The rule became effective on September 7, 2004. Under this rule, stations will either have to demonstrate that the performance of their existing fish protection systems meet the new standards or develop new systems whose compliance is based on any of five options. To determine the impacts of the Bailly Station's intake on the aquatic organisms in Lake Michigan, a detailed background biological sampling program was initiated in April 2005 and will continue for at least one year. The results of this sampling program will be utilized to choose the appropriate compliance option, or combination of options, for the facility. Specific impacts and available compliance options of the final Phase II rule for the remaining three Northern Indiana generating stations are still in the process of being determined at this time.

Remediation. On March 31, 2005, the EPA and Northern Indiana entered into an Administrative Order on Consent under the authority of Section 3008(h) of the Resource Conservation and Recovery Act for the Bailly Station. The order requires Northern Indiana to identify the nature and extent of releases of hazardous waste and hazardous constituents from the facility. Northern Indiana must also remediate any release of hazardous constituents that present an unacceptable risk to human health or the environment. A reserve has been established to fund the required investigations and conduct interim measures at the facility. The final costs of clean up have not yet been determined. As site investigations and clean up proceed and as additional information becomes available reserves are adjusted.

11. Accumulated Other Comprehensive Income (Loss)

The following table displays the components of Accumulated Other Comprehensive Income (Loss), which is included in "Common Stock Equity," on the Consolidated Balance Sheets.

(in millions)	**March 31, 2005**	December 31, 2004
Other comprehensive income, before tax:		
Unrealized losses on securities	**$ (0.2)**	$ (0.4)
Unrealized gains on cash flow hedges	**229.9**	142.8
Minimum pension liability adjustment	**(243.6)**	(243.6)
Other comprehensive loss, before tax	**(13.9)**	(101.2)
Income tax benefit related to items of other comprehensive loss	**18.4**	49.8
Total Accumulated Other Comprehensive Income (Loss), net of tax	**$ 4.5**	$ (51.4)

NISOURCE INC.
Notes to Consolidated Financial Statements (continued) (unaudited)

12. Business Segment Information

Operating segments are components of an enterprise for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

NiSource's operations are divided into four primary business segments. The Gas Distribution Operations segment provides natural gas service and transportation for residential, commercial and industrial customers in Ohio, Pennsylvania, Virginia, Kentucky, Maryland, Indiana, Massachusetts, Maine and New Hampshire. The Gas Transmission and Storage Operations segment offers gas transportation and storage services for LDCs, marketers and industrial and commercial customers located in northeastern, mid-Atlantic, midwestern and southern states and the District of Columbia. The Electric Operations segment provides electric service in 21 counties in the northern part of Indiana and engages in wholesale and wheeling transactions. The Other Operations segment primarily includes gas marketing, power marketing and trading, and ventures focused on distributed power generation technologies, including cogeneration facilities, fuel cells and storage systems.

The following tables provide information about business segments. NiSource uses operating income as its primary measurement for each of the reported segments and makes decisions on finance, dividends and taxes at the corporate level on a consolidated basis. Segment revenues include intersegment sales to affiliated subsidiaries, which are eliminated in consolidation. Affiliated sales are recognized on the basis of prevailing market, regulated prices or at levels provided for under contractual agreements. Operating income is derived from revenues and expenses directly associated with each segment.

Three Months Ended March 31, *(in millions)*	**2005**	2004
REVENUES		
Gas Distribution		
Unaffiliated	**$ 2,016.6**	$ 1,858.6
Intersegment	**(0.8)**	2.7
Total	**2,015.8**	1,861.3
Gas Transmission and Storage		
Unaffiliated	**158.2**	166.9
Intersegment	**71.5**	69.9
Total	**229.7**	236.8
Electric Operations		
Unaffiliated	**281.5**	255.8
Intersegment	**0.9**	5.1
Total	**282.4**	260.9
Other Operations		
Unaffiliated	**224.5**	182.9
Intersegment	**5.0**	5.1
Total	**229.5**	188.0
Adjustments and eliminations	**(75.9)**	(74.7)
Consolidated Revenues	**$ 2,681.5**	$ 2,472.3
Operating Income (Loss)		
Gas Distribution	**$ 274.9**	$ 285.0
Gas Transmission and Storage	**109.5**	111.4
Electric	**65.4**	58.8
Other	**(5.2)**	(18.0)
Corporate	**(6.9)**	5.6
Consolidated Operating Income	**$ 437.7**	$ 442.8

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

NISOURCE INC.

Note regarding forward-looking statements
The Management's Discussion and Analysis, including statements regarding market risk sensitive instruments, contains "forward-looking statements," within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Investors and prospective investors should understand that many factors govern whether any forward-looking statement contained herein will be or can be realized. Any one of those factors could cause actual results to differ materially from those projected. These forward-looking statements include, but are not limited to, statements concerning NiSource plans, objectives, expected performance, expenditures and recovery of expenditures through rates, stated on either a consolidated or segment basis, and any and all underlying assumptions and other statements that are other than statements of historical fact. From time to time, NiSource may publish or otherwise make available forward-looking statements of this nature. All such subsequent forward-looking statements, whether written or oral and whether made by or on behalf of NiSource, are also expressly qualified by these cautionary statements. All forward-looking statements are based on assumptions that management believes to be reasonable; however, there can be no assurance that actual results will not differ materially.

Realization of NiSource's objectives and expected performance is subject to a wide range of risks and can be adversely affected by, among other things, weather, fluctuations in supply and demand for energy commodities, growth opportunities for NiSource's businesses, increased competition in deregulated energy markets, the success of regulatory and commercial initiatives, dealings with third parties over whom NiSource has no control, the scope, timing and impact of any outsourcing initiative, actual operating experience of NiSource assets, the regulatory process, regulatory and legislative changes, changes in general economic, capital and commodity market conditions, and counter-party credit risk, many of which risks are beyond the control of NiSource. In addition, the relative contributions to profitability by each segment, and the assumptions underlying the forward-looking statements relating thereto, may change over time.

The following Management's Discussion and Analysis should be read in conjunction with NiSource's Annual Report on Form 10-K for the fiscal year ended December 31, 2004.

CONSOLIDATED REVIEW

Executive Summary

NiSource generates virtually 100% of the company's operating income through the sale, distribution, transportation and storage of natural gas and the generation, transmission and distribution of electricity, which are rate regulated.

For the first quarter of 2005, net income was $206.3 million, or $0.76 per share. This compares to net income of $213.5 million, or $0.81 per share, for the year-ago period. The quarterly difference was primarily due to a decline in revenue resulting from the renegotiation of pipeline long-term contracts, lower gas distribution customer usage and warmer weather, as compared to the prior period. Partially offsetting these declines were increased revenues from regulatory initiatives and remarketing efforts within Gas Transmission and Storage Operations. The pipeline renegotiation process is now complete and the new contracts span an average of seven years with staggered expiration dates.

Also contributing to the decline in EPS was an increase of 8.0 million shares in the average number of shares outstanding at March 31, 2005, compared to the year earlier, due primarily to the NiSource SAILS^{SM} conversion in November 2004.

NiSource made progress towards its key initiatives in the first quarter of 2005 and built a platform for long-term sustainable growth in 2006 and beyond. As discussed in NiSource's annual report on Form 10-K, financial results for 2005 will continue to be negatively impacted by regulatory proceedings and pipeline re-contracting that took place in 2004 and several operational and financial initiatives underway. Despite these issues, NiSource made progress on its key initiatives during the quarter.

NISOURCE INC.

As a regulated company, NiSource is exposed to regulatory risk and manages this risk by monitoring its operations and working with various regulatory bodies to maintain a business that continues to provide value for its customers and stockholders in this changing environment. During the first quarter of 2005, NiSource continued to make progress with regulatory and commercial initiatives that began in 2004. Northern Indiana and the OUCC signed an MOU that would allow Northern Indiana to recover purchased power costs under certain conditions while at the same time would secure safe, reliable and intermediate dispatchable supplies of power for its electric customers. Bay State filed a $22.2 million, or 4.7 %, base rate case in Massachusetts that, if approved, would go into effect December 1, 2005. The rate case includes requests for a performance-based rate plan and cost recovery for a steel infrastructure replacement program. Columbia of Kentucky received regulatory approval to renew its Customer Choice[SM] Program, which began in 2000 as a pilot and was scheduled to end March 31, 2005. The program will now continue as a new pilot through March 31, 2009. Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time.

NiSource also continued to strengthen its financial position through management of the balance sheet and expenses. NiSource entered into a $1.25 billion revolving credit agreement to fund future working capital requirements and other corporate needs. The new five-year agreement replaces existing agreements and is expected to reduce interest expense by approximately $0.9 million for the remainder of 2005 and by about $1.2 million annually thereafter.

NiSource has selected IBM as the business process service provider with whom NiSource will move forward into a period of exclusive negotiation toward a contract to outsource up to $2 billion of business support activities over ten years. Teams of employees from the areas under consideration for transformation have been working for three months through a disciplined process with Accenture Ltd. and IBM – the two service providers that responded to an extensive RFP from NiSource – to identify potential solutions and savings. NiSource has not yet finalized which activities and processes will be outsourced or to what extent. A team from NiSource and IBM is working on the details of the future relationship between the two companies. NiSource expects to make final decisions and conclude contract negotiations in June 2005.

NiSource will continue to focus on its 2005 strategic platform for growth. This plan is centered on four key initiatives: pipeline growth and expansion; broad regulatory and commercial initiatives premised on existing assets; ongoing financial management of our balance sheet; and expense management.

Results of Operations
The Quarter Ended March 31, 2005

Net Income
NiSource reported net income of $206.3 million, or $0.76 per share, for the three months ended March 31, 2005, compared to net income of $213.5 million, or $0.81 per share, for the first quarter 2004. Operating income was $437.7 million, a decrease of $5.1 million from the same period in 2004. All per share amounts are basic earnings per share. Basic average shares of common stock outstanding at March 31, 2005 were 270.3 million compared to 262.3 million at March 31, 2004. The increase was primarily due to the issuance during the fourth quarter of 2004 of 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS[SM].

Comparability of line item operating results was impacted by regulatory trackers that allow for the recovery in rates of certain costs such as bad debt expenses. These trackers increase both operating expenses and net revenues and had essentially no impact on total operating income results. Approximately $18 million of the increase in operating expenses was offset by a corresponding increase to net revenues reflecting recovery of these costs.

NISOURCE INC.

Net Revenues

Total consolidated net revenues (gross revenues less cost of sales) for the three months ended March 31, 2005, were $1,013.0 million, a $21.7 million increase from the same period last year. Excluding the impact of $18 million of trackers discussed above, revenues were essentially flat. Increased revenues of approximately $16 million from regulatory initiatives, including the expiration of the 1999 stipulation for Columbia of Ohio and the ECT, were offset by the impact of the restructuring of firm transportation and storage contracts that expired October 31, 2004, net of remarketing activities, and lower customer usage and warmer weather compared to the prior period.

Expenses

Operating expenses for the first quarter 2005 were $575.3 million, an increase of $26.8 million from the 2004 period. Excluding the impact of $18 million of trackers discussed above, operating expenses were $8.8 million higher, reflecting higher depreciation primarily the result of the expiration of the 1999 stipulation for Columbia of Ohio. Operation and maintenance expenses for the first quarter 2005 were $15.2 million higher than they were in the first quarter of 2004. Taking into consideration the trackers directly offset in revenues, operation and maintenance expenses, quarter-over-quarter, were essentially flat.

Other Income (Deductions)

Interest expense, net was $104.0 million for the quarter, an increase of $1.8 million compared to the first quarter 2004. Other, net was a loss of $0.5 million for the current quarter compared to $2.8 million of income for the comparable 2004 period due to costs associated with the sale of more accounts receivables compared to the previous period.

Income Taxes

Income tax expense for the first quarter 2005 was $123.4 million, a decrease of $2.3 million compared to the 2004 period, due to lower pre-tax income and a $1.1 million income tax benefit from an electric production deduction (discussed below), offset by a $1.0 million increase in state income tax expense and a $1.5 million increase in tax expense related to the regulatory treatment of depreciation differences.

The American Jobs Creation Act of 2004, signed into law on October 22, 2004, created new Internal Revenue Code Section 199 which, beginning in 2005, permits taxpayers to claim a deduction from taxable income attributable to certain domestic production activities. Northern Indiana and Whiting Clean Energy's electric production activities qualify for this deduction. The deduction is equal to 3% of QPAI for the taxable year, with certain limitations. This deduction increases to 6% of QPAI beginning in 2007 and 9% of QPAI beginning in 2010 and thereafter. The 2005 tax benefit associated with the Section 199 domestic production deduction is estimated to be $2 million. The United States Treasury Department has issued guidance for calculating this deduction in Notice 2005-14, but there are many issues still to be addressed in forthcoming proposed regulations. As such, the estimated $2 million tax benefit is subject to revision based on subsequently released Treasury guidance.

NISOURCE INC.

Liquidity and Capital Resources

Generally, cash flow from operations has provided sufficient liquidity to meet operating requirements. A significant portion of NiSource's operations, most notably in the gas distribution, gas transportation and electric businesses, is subject to seasonal fluctuations in cash flow. During the heating season, which is primarily from November through March, cash receipts from gas sales and transportation services typically exceed cash requirements. During the summer months, cash on hand, together with the seasonal increase in cash flows from the electric business during the summer cooling season and external short-term and long-term financing, is used to purchase gas to place in storage for heating season deliveries, perform necessary maintenance of facilities, make capital improvements in plant and expand service into new areas.

Operating Activities. Net cash from operating activities for the three months ended March 31, 2005 was $1,021.6 million, an increase of $249.2 million from the comparable 2004 period. This change was due to increased cash from the change in working capital. Cash from working capital increased $319.3 million due to the increased sale of accounts receivable, and lower inventory levels, as a result of increased gas storage withdrawals at a higher cost.

Investing Activities. Capital expenditures of $104.1 million in the first quarter of 2005 were $6.2 million lower than the comparable 2004 period. The spending for the first quarter primarily reflected on-going system improvements and upgrades to maintain service and reliability. Capital spending is expected to increase in the remaining 2005 periods as compared to last year, mainly to support increased pipeline integrity related work and growth initiatives within Gas Transmission and Storage Operations.

Financing Activities. At March 31, 2005, NiSource had no borrowings under the company's $1.25 billion line of credit and NiSource's shelf capacity was $1.85 billion.

Long-term Debt

NiSource had filed a shelf registration statement on July 29, 2003 with the SEC to periodically sell up to $2.5 billion in debt securities, common and preferred stock, and other securities. The registration statement became effective on August 7, 2003, which when combined with NiSource's pre-existing shelf capacity, provided NiSource with an aggregate $2.8 billion of total issuance capacity. After the $500 million of notes issued on November 4, 2003 and the $450 million of notes issued on November 23, 2004, NiSource's shelf capacity remains at $1.85 billion.

On November 23, 2004, NiSource Finance issued $450 million of 5-year floating rate unsecured notes that mature November 23, 2009. The notes are callable, at par, on or after November 23, 2006. Subsequently, on December 10, 2004, NiSource Finance used $250 million of the proceeds from the $450 million floating rate note offering to redeem $250 million of existing floating rate notes that were due May 2005. The remaining proceeds were used to repay a portion of NiSource Finance short-term borrowings.

On November 1, 2004, NiSource issued approximately 6.8 million shares of common stock upon the settlement of the forward stock purchase contracts comprising a component of NiSource's SAILS^{SM}. NiSource received approximately $144.4 million in satisfaction of the SAILS^{SM} holders' obligation under the stock purchase contracts, which was used to pay down short-term borrowings. Effective November 1, 2004, the interest rate on the $144.4 million of debentures that comprised the debt component of the SAILS^{SM} was reset to 3.628% per annum. The debentures mature November 1, 2006.

During February 2004, Northern Indiana redeemed $111.1 million of its medium-term notes and Bay State redeemed $10 million of its medium-term notes, with an average interest rate of 7.49% and 7.63%, respectively. The associated redemption premium was $4.6 million, of which $4.2 million was charged to operating expense and $0.4 million was recorded as a regulatory asset.

NISOURCE INC.

Credit Facilities

During March 2005, NiSource obtained a new $1.25 billion five-year revolving credit facility with a syndicate of banks led by Barclays Capital. The new facility replaced an expiring $500 million 364-day credit facility, as well as a $750 million three-year credit facility that would have expired in March 2007. NiSource had no outstanding credit facility advances at March 31, 2005 and $307.6 million at December 31, 2004, at a weighted average interest rate of 3.04%. NiSource had $553 million of short-term investment balances at March 31, 2005. As of March 31, 2005 and December 31, 2004, NiSource had $106.9 million and $111.6 million of standby letters of credit outstanding, respectively. At March 31, 2005, $84.8 million of the $106.9 million total outstanding letters of credit resided within a separate bi-lateral letter of credit arrangement with Barclays Bank that NiSource obtained during February 2004. Of the remaining $22 million of standby letters of credit outstanding at March 31, 2005, $18.2 million resided under NiSource's five-year revolving credit facility and $3.8 million resided under an uncommitted arrangement with another financial institution. As of March 31, 2005, $1,231.8 million of credit was available under the credit facility.

Sale of Trade Accounts Receivables

On May 14, 2004, Columbia of Ohio entered into an agreement to sell, without recourse, substantially all of its trade receivables, as they originate, to CORC, a wholly-owned subsidiary of Columbia of Ohio. CORC, in turn, is party to an agreement, also dated May 14, 2004, in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit sponsored by Dresdner Kleinwort Wasserstein. The conduit can purchase up to $300 million of accounts receivable under the agreement. The agreement, which replaced a prior similar agreement, expires in May 2005, but can be renewed if mutually agreed to by both parties. As of March 31, 2005, $300 million of accounts receivable had been sold by CORC.

Under the agreement, Columbia of Ohio acts as administrative agent, by performing record keeping and cash collection functions for the accounts receivable sold by CORC. Columbia of Ohio receives a fee, which provides adequate compensation, for such services.

On December 30, 2003, Northern Indiana entered into an agreement to sell, without recourse, all of its trade receivables, as they originate, to NRC, a wholly-owned subsidiary of Northern Indiana. NRC, in turn, is party to an agreement in which it sells an undivided percentage ownership interest in the accounts receivable to a commercial paper conduit. The conduit can purchase up to $200 million of accounts receivable under the agreement. The agreement will expire on December 26, 2005, but can be renewed if mutually agreed to by both parties. As of March 31, 2005, NRC had sold $200 million of accounts receivable. Under the arrangement, Northern Indiana may not sell any new receivables if Northern Indiana's debt rating falls below BBB- or Baa3 at Standard and Poor's and Moody's, respectively.

Under the agreement, Northern Indiana acts as administrative agent, performing record keeping and cash collection functions for the accounts receivable sold. Northern Indiana receives a fee, which provides adequate compensation, for such services.

Market Risk Disclosures

Through its various business activities, NiSource is exposed to both non-trading and trading risks. The non-trading risks to which NiSource is exposed include interest rate risk, commodity market risk and credit risk of its subsidiaries. The risk resulting from trading activities consists primarily of commodity market and credit risks. NiSource's risk management policy permits the use of certain financial instruments to manage its market risk, including futures, forwards, options and swaps.

Various analytical techniques are employed to measure and monitor NiSource's market and credit risks, including VaR. VaR represents the potential loss or gain for an instrument or portfolio from changes in market factors, for a specified time period and at a specified confidence level.

NISOURCE INC.

Non-Trading Risks
Commodity price risk resulting from non-trading activities at NiSource's rate-regulated subsidiaries is limited, since regulations allow recovery of prudently incurred purchased power, fuel and gas costs through the rate-making process. If states should explore additional regulatory reform, these subsidiaries may begin providing services without the benefit of the traditional ratemaking process and may be more exposed to commodity price risk.

NiSource is exposed to interest rate risk as a result of changes in interest rates on borrowings under revolving credit agreements, variable rate pollution control bonds and floating rate notes, which have interest rates that are indexed to short-term market interest rates. NiSource is also exposed to interest rate risk due to changes in interest rates on fixed-to-variable interest rate swaps that hedge the fair value of long-term debt. Based upon average borrowings and debt obligations subject to fluctuations in short-term market interest rates during the first quarter of 2005, an increase in short-term interest rates of 100 basis points (1%) would have increased interest expense by $4.9 million for the three months ended March 31, 2005.

Due to the nature of the industry, credit risk is a factor in many of NiSource's business activities. Credit risk arises because of the possibility that a customer, supplier or counterparty will not be able or willing to fulfill its obligations on a transaction on or before the settlement date. For derivative contracts such as interest rate swaps, credit risk arises when counterparties are obligated to pay NiSource the positive fair value or receivable resulting from the execution of contract terms. Exposure to credit risk is measured in terms of both current and potential exposure. Current credit exposure is generally measured by the notional or principal value of financial instruments and direct credit substitutes, such as commitments, standby letters of credit and guarantees. Because many of NiSource's exposures vary with changes in market prices, NiSource also estimates the potential credit exposure over the remaining term of transactions through statistical analysis of market prices. In determining exposure, NiSource considers collateral that it holds to reduce individual counterparty credit risk.

Trading Risks
The transactions associated with NiSource's power trading operations give rise to various risks, including market risks resulting from the potential loss from adverse changes in the market prices of electricity. The power trading operations market and trade over-the-counter contracts for the purchase and sale of electricity. Those contracts within the power trading portfolio that require settlement by physical delivery are often net settled in accordance with industry standards.

Fair value represents the amount at which willing parties would transact an arms-length transaction. Fair value is determined by applying a current price to the associated contract volume for a commodity. The current price is derived from one of three sources including actively quoted markets such as the NYMEX, other external sources including electronic exchanges and over-the-counter broker-dealer markets, as well as financial models such as the Black-Scholes option pricing model.

The fair values of the contracts related to NiSource's trading operations, the activity affecting the changes in the fair values during the first quarter of 2005, the sources of the valuations of the contracts during 2005 and the years in which the remaining contracts (all power trading) mature are:

(in millions)		**2005**
Fair value of contracts outstanding at the beginning of the period	$	**(3.0)**
Contracts realized or otherwise settled during the period (including net option premiums received)		**(0.8)**
Fair value of new contracts entered into during the period		**2.5**
Other changes in fair values during the period		**2.1**
Fair value of contracts outstanding at the end of the period	$	**0.8**

NiSource Inc.

(in millions)	2005	2006	2007	2008	2009	After
Prices from other external sources	$ 0.5	$ -	$ -	$ -	$ -	$ -
Prices based on models/other method	0.3	-	-	-	-	-
Total fair values	$ 0.8	$ -	$ -	$ -	$ -	$ -

The caption "Prices from other external sources" generally includes contracts traded on electronic exchanges and over-the-counter contracts whose value is based on published indices or other publicly available pricing information. Contracts shown within "Prices based on models/other method" are generally valued employing the widely used Black-Scholes option-pricing model.

Market Risk Measurement

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other market factors, such as liquidity, will result in losses for a specified position or portfolio. NiSource calculates a one-day VaR at a 95% confidence level for the power trading group and the gas marketing group that utilize a variance/covariance methodology. Based on the results of the VaR analysis, the daily market exposure for power trading on an average, high and low basis was $0.1 million, $0.4 million and effectively zero, during the first quarter of 2005, respectively. The daily market exposure for the gas marketing portfolio on an average, high and low basis was $0.1 million, $0.2 million and $0.1 million during the first quarter of 2005, respectively. Prospectively, management has set the VaR limits at $2.5 million for power trading and $0.5 million for gas marketing. Exceeding the VaR limits would result in management actions to reduce portfolio risk.

Refer to Note 8, "Risk Management and Energy Trading Activities," in the Notes to Consolidated Financial Statements for further discussion of NiSource's risk management.

Off Balance Sheet Arrangements

NiSource has issued guarantees that support up to approximately $1.2 billion of commodity-related payments for its current subsidiaries involved in energy marketing and power trading and to satisfy requirements under forward gas sales agreements of a former subsidiary. These guarantees were provided to counterparties in order to facilitate physical and financial transactions involving natural gas and electricity. To the extent liabilities exist under the commodity-related contracts subject to these guarantees, such liabilities are included in the Consolidated Balance Sheets.

NiSource has purchase and sales agreement guarantees totaling $137.5 million, which guarantee performance of the seller's covenants, agreements, obligations, liabilities, representations and warranties under the agreements. No amounts related to the purchase and sales agreement guarantees are reflected in the Consolidated Balance Sheets. Management believes that the likelihood NiSource would be required to perform or otherwise incur any significant losses associated with any of the aforementioned guarantees is remote.

NiSource has other guarantees, operating leases, and lines and letters of credit outstanding. Refer to Note 8, "Risk Management and Energy Trading Activities," and Note 10, "Guarantees and Indemnities," in the Notes to Consolidated Financial Statements for additional information about NiSource's off balance sheet arrangements.

NiSource has retained liabilities related to the CER forward gas sales agreements with Mahonia for guarantees of the forward sales and for indemnity agreements with respect to surety bonds backing the forward sales. The guarantees, surety bonds and associated indemnity agreements remain in place subsequent to the closing of the CER sale and decline over time as volumes are delivered in satisfaction of the contractual obligations, ending in February 2006. As of March 31, 2005, approximately 27.6 Bcf remained to be delivered under the forward sales agreements. NiSource is indemnified by Triana, and MSCP will fund up to a maximum of $49.3 million of additional equity to Triana to support Triana's indemnity, for Triana's gas delivery and related obligations to Mahonia. The MSCP commitment declines over time in concert with the surety bonds and the guaranteed obligation to deliver gas to Mahonia.

Immediately after the close of the sale, Triana owned approximately 1.1 Tcf of proved reserves, and was capitalized with $330 million, approximately $200 million of which was provided as initial equity by MSCP and the remainder of which is provided as part of a $500 million revolving credit facility. NiSource believes that the combination of Triana's proved reserves, sufficient capitalization, and access to the credit facility, combined with the Triana indemnity and the $49.3 million of further commitments to Triana from MSCP, adequately offset any losses that may be incurred by NiSource due to Triana's non-performance under the Mahonia agreements. Accordingly, NiSource has not recognized a liability related to the retention of the Mahonia guarantees.

RESULTS AND DISCUSSION OF SEGMENT OPERATIONS

Presentation of Segment Information

NiSource's operations are divided into four primary business segments; Gas Distribution Operations, Gas Transmission and Storage Operations, Electric Operations, and Other Operations.

NISOURCE INC.
Gas Distribution Operations

Three Months Ended March 31, *(in millions)*	2005	2004
Net Revenues		
Sales Revenues	$ 1,839.0	$ 1,679.5
Less: Cost of gas sold	1,417.7	1,280.8
Net Sales Revenues	421.3	398.7
Transportation Revenues	176.8	181.8
Net Revenues	598.1	580.5
Operating Expenses		
Operation and maintenance	198.7	183.3
Depreciation and amortization	55.8	47.7
Other taxes	68.7	64.5
Total Operating Expenses	323.2	295.5
Operating Income	$ 274.9	$ 285.0
Revenues ($ in Millions)		
Residential	1,261.7	1,115.1
Commercial	431.3	395.9
Industrial	74.6	80.7
Transportation	176.8	181.8
Off System Sales	51.2	40.8
Other	20.2	47.0
Total	2,015.8	1,861.3
Sales and Transportation Volumes (MMDth)		
Residential sales	109.1	109.8
Commercial sales	39.5	41.4
Industrial sales	7.8	8.1
Transportation	174.7	187.2
Off System Sales	7.2	7.0
Other	0.2	0.3
Total	338.5	353.8
Heating Degree Days	2,673	2,724
Normal Heating Degree Days	2,627	2,655
% Colder (Warmer) than Normal	2%	3%
Customers		
Residential	2,382,114	2,313,364
Commercial	215,719	215,178
Industrial	5,740	5,991
Transportation	749,831	784,219
Other	61	61
Total	3,353,465	3,318,813

NiSource's natural gas distribution operations serve approximately 3.4 million customers in nine states: Ohio, Indiana, Pennsylvania, Massachusetts, Virginia, Kentucky, Maryland, New Hampshire and Maine. The regulated subsidiaries offer both traditional bundled services as well as transportation only for customers that purchase gas from alternative suppliers. The operating results reflect the temperature-sensitive nature of customer demand with over 72% of annual residential and commercial throughput affected by seasonality. As a result, segment operating income is higher in the first and fourth quarters reflecting the heating demand during the winter season.

NISOURCE INC.
Gas Distribution Operations (continued)

Regulatory Matters
Gas Distribution Operations continues to offer CHOICE® opportunities, where customers can choose to purchase gas from a third party supplier, through regulatory initiatives in all of its jurisdictions. Through the month of March 2005, approximately 725 thousand of Gas Distribution Operations' residential and small commercial and industrial customers selected an alternate supplier.

On March 29, 2005, the PSC approved a renewed pilot program for Columbia of Kentucky authorizing the continuation of the Customer Choice℠ Program. The program provides residential and small commercial customers the option to choose their natural gas supplier and avoids the stranded costs associated with the previous pilot. In addition, Columbia received approval from the PSC to implement programs that provide Columbia of Kentucky with the opportunity to stabilize wholesale costs for gas during the winter heating season and share certain cost savings with customers.

Since November 1, 2004, Columbia of Ohio has been operating under a new regulatory stipulation approved by the PUCO that expires on October 31, 2008. This regulatory stipulation has been contested by the OCC, and on June 9, 2004, the PUCO denied the OCC's Second Application for Rehearing. The OCC then filed an appeal with the Supreme Court of Ohio on July 29, 2004, contesting the PUCO's May 5, 2004 order on rehearing, which granted in part Columbia of Ohio's joint application for rehearing, and the PUCO's June 9, 2004 order, denying the OCC's Second Application for Rehearing. Columbia of Ohio intervened in the appellate proceeding. On December 8, 2004, the PUCO and Columbia of Ohio filed motions to dismiss the appeal, based upon the OCC's failure to comply with the Supreme Court of Ohio's procedural rules. On December 17, 2004, the OCC filed its Memoranda Contra. On March 23, 2005, the Supreme Court of Ohio issued a decision in which it granted the motions to dismiss and dismissed the appeal based upon the OCC's failure to comply with the Court's procedural rules. On April 1, 2005, the OCC filed a Motion for Reconsideration with the Supreme Court of Ohio. Columbia of Ohio and the PUCO filed Memoranda Contra on April 8, 2005.

On December 17, 2003, the PUCO approved an application by Columbia of Ohio and other Ohio LDCs to establish a tracking mechanism that will provide for recovery of current bad debt expense and for the recovery over a five-year period of previously deferred uncollected accounts receivable. On October 1, 2004, Columbia of Ohio filed an application for approval to increase its Uncollectible Expense Rider and on October 20, 2004, the PUCO approved the application. The PUCO's approval of this application resulted in Columbia of Ohio's commencing recovery of the deferred uncollectible accounts receivables and establishment of future bad-debt recovery requirements in November 2004. As of March 31, 2005, Columbia of Ohio has $35.3 million of uncollected accounts receivable pending future recovery. On May 2, 2005, Columbia filed an application for approval to decrease its Uncollectible Expense Rider rate, effective June 2005. This request for reduction in its Uncollectible Expense Rider rate was based on projected annual recovery requirements of $26.3 million for the period ending March 31, 2006 – a reduction of $11.4 million from Columbia's currently effective rate.

On December 2, 2004, Columbia of Ohio filed two applications with the Ohio Power Siting Board, requesting certificates of environmental compatibility and public need for the construction of the Northern Columbus Loop Natural Gas Pipeline project. The project is proposed in three phases (Phases IV, V and VI), and contemplates an approximately 25-mile long pipeline, to be constructed in northern Columbus and southern Delaware County. The project will help secure current and future natural gas supplies for Columbia of Ohio's customers in the region. On February 7, 2005, the Board notified Columbia that the applications were certified as complete. Columbia of Ohio also filed requests for waivers from certain of the Board's requirements. The waivers were approved on February 4, 2005. On April 14, 2005, the Board issued an Order (i) finding that the effective date of the applications is April 15, 2005, (ii) granting Columbia's motion to consolidate the cases for hearing purposes, and (iii) establishing a public hearing date of June 20, 2005, and an adjudicatory hearing date of June 21, 2005.

On April 27, 2005 Bay State filed for a rate increase of $22.2 million, or 4.7 %, with the Massachusetts DTE. The rate filing includes requests for a performance based rate plan and cost recovery of a steel infrastructure replacement program. If approved, the increase would go into effect on December 1, 2005.

NISOURCE INC.
Gas Distribution Operations (continued)

Northern Indiana's gas costs are recovered under a flexible GCA mechanism approved by the IURC in 1999. Under the approved procedure, a demand component of the fuel adjustment factor is determined annually effective November 1 of each year, after hearings and IURC approval. The commodity component of the adjustment factor is determined by monthly filings, which do not require IURC approval but are reviewed by the IURC during the annual hearing that takes place regarding the demand component filing. Northern Indiana's GCA factor also includes a GCIM which allows the sharing of any cost savings or cost increases with customers based on a comparison of actual gas supply portfolio cost to a market-based benchmark price.

Northern Indiana's GCA5 annual demand cost recovery filing, covering the period November 1, 2003 through October 31, 2004, was made on August 26, 2003. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2003. On June 8, 2004, Northern Indiana and the OUCC entered into a joint stipulation and agreement resolving all issues in GCA5. Among the settlement agreement's provisions, Northern Indiana has agreed to return $3.8 million to its customers over a twelve-month period following IURC approval, which occurred on August 18, 2004. An additional provision of the agreement extended the current ARP, including Northern Indiana's GCIM, from the current expiration date of December 31, 2004 to March 31, 2005. This date has been further extended through March 31, 2006, as discussed below.

Northern Indiana's GCA6 annual demand cost recovery filing, covering the period November 1, 2004 through October 31, 2005 was made on August 26, 2004. The IURC authorized the collection of the demand charge, subject to refund, effective November 1, 2004 on October 20, 2004. The IURC held an evidentiary hearing in this Cause on March 2, 2005. Northern Indiana expects the IURC's order in the second quarter of 2005.

Northern Indiana, the OUCC, Testimonial Staff of the IURC, and the Marketer Group (a group which collectively represents marketers participating in Northern Indiana Choice) filed a Stipulation and Agreement with the IURC on October 12, 2004, that, among other things, extends the expiration date of the 1997 ARP to March 31, 2006. The IURC approved the settlement agreement on January 26, 2005. The agreement, as approved by the IURC, grandfathers the terms of existing contracts that marketers have with Choice customers and establishes a scope for negotiations that parties will follow when convening within the next several months to establish a long-term resolution of ARP. Parties have been meeting since early January to establish the future terms of ARP, to be effective post March 31, 2006. The filing of an agreement or petition is expected in the second quarter of 2005.

On December 14, 2004, the Maine PUC opened an investigation into the reasonable maintenance and replacement of cast iron facilities of Northern Utilities. The Maine PUC sought Northern Utilities opinion regarding the merits of an accelerated cast iron replacement program that would result in the replacement of all cast iron mains and services in Northern Utlities distribution system over ten years. Northern Utilities estimated that the incremental cost of such a program over ten years would be $35 million. Northern Utilities took the position that such a program was not necessary, but if the Maine PUC determined that such a program was required, Northern Utilities should be allowed to seek approval for an annual rate adjustment mechanism for the incremental investment associated with the accelerated cast iron replacement program. On March 28, 2005, the Maine PUC approved a settlement between Northern Utilities and the Maine OPA in which Northern Utilities agreed to replace approximately $15 million of cast iron facilities in a portion of its distribution system over a four-year period. The settlement, supported by the Maine PUC Staff Bench Analysis, also allows Northern Utilities to seek approval of an annual rate adjustment mechanism to recover the incremental cost of the accelerated cast iron replacement program. The Maine OPA has agreed not to oppose the request.

Environmental Matters

Currently, various environmental matters impact the Gas Distribution Operations segment. As of March 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 10-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Distribution Operations.

NISOURCE INC.
Gas Distribution Operations (continued)

Weather
In general, NiSource calculates the weather related revenue variance based on changing customer demand driven by weather variance from normal heating degree-days. Normal is evaluated using heating degree days across the NiSource distribution region. While the temperature base for measuring heating degree-days (i.e. the estimated average daily temperature at which heating load begins) varies slightly across the region, the NiSource composite measurement is based on 62 degrees.

Weather in the Gas Distribution Operation's territories for the first quarter of 2005 was 2% warmer than the comparable quarter in 2004, but 2% colder than normal.

Throughput
Total volumes sold and transported of 338.5 MMDth for the first quarter of 2005 decreased 15.3 MMDth from the same period last year. This decrease in volume is attributed to lower customer usage as a result of slightly warmer weather in the first quarter of 2005 compared to the first quarter of 2004.

Net Revenues
Net revenues for the three months ended March 31, 2005 were $598.1 million, an increase of $17.6 million from the same period in 2004 due primarily to an increase in revenues recognized for trackers of $20.0 million which are offset in operating expense. Additionally, the expiration of the 1999 stipulation for Columbia of Ohio resulted in $13.0 million of additional revenue recognized in the first quarter of 2005 compared to the first quarter of 2004. These increases in net revenues were partially offset by a decrease in customer usage.

Operating Income
For the first quarter of 2005, Gas Distribution Operations reported operating income of $274.9 million, a decrease of $10.1 million from the same period in 2004. The decrease in operating income was mainly attributable to reduced usage and slightly warmer weather as compared to the first quarter of last year, as noted above. The $20 million increase in revenue from trackers was offset by $16.3 million of increased tracker related operation and maintenance expense and $3.7 million of increased operating taxes. The expiration of the 1999 stipulation for Columbia of Ohio also resulted in an increase in depreciation expense of $7.0 million, which partially offset the $13.0 million increase in revenue for the first quarter of 2005 compared to the first quarter of 2004.

NISOURCE INC.
Gas Transmission and Storage Operations

Three Months Ended March 31, *(in millions)*	2005	2004
Operating Revenues		
Transportation revenues	**$ 178.4**	$ 188.3
Storage revenues	**45.2**	45.2
Other revenues	**6.1**	3.3
Total Operating Revenues	**229.7**	236.8
Less: Cost of gas sold	**5.5**	3.9
Net Revenues	**224.2**	232.9
Operating Expenses		
Operation and maintenance	**71.4**	78.3
Depreciation and amortization	**28.1**	28.3
Other taxes	**15.2**	14.9
Total Operating Expenses	**114.7**	121.5
Operating Income	**$ 109.5**	$ 111.4

	2005	2004
Throughput (MMDth)		
Columbia Transmission		
Market Area	**395.6**	406.9
Columbia Gulf		
Mainline	**138.7**	160.0
Short-haul	**18.2**	27.0
Columbia Pipeline Deep Water	**3.5**	4.4
Crossroads Gas Pipeline	**12.0**	10.7
Granite State Pipeline	**13.9**	13.9
Intrasegment eliminations	**(138.6)**	(154.2)
Total	**443.3**	468.7

NiSource's Gas Transmission and Storage Operations segment consists of the operations of Columbia Transmission, Columbia Gulf, Columbia Deep Water, Crossroads Pipeline and Granite State Gas. In total NiSource owns a pipeline network of approximately 16,000 miles extending from offshore in the Gulf of Mexico to New York and the eastern seaboard. The pipeline network serves customers in nineteen northeastern, mid-Atlantic, midwestern and southern states, as well as the District of Columbia. In addition, the NiSource gas transmission and storage operations segment operates one of the nation's largest underground natural gas storage systems.

Regulatory Matters
On March 31, 2005, the FERC issued an order regarding Columbia Transmission's annual EPCA filing. The FERC's order accepted the filing, subject to refund, and established a hearing to address issues related to the appropriate methodology for allocating costs associated with the new electric Downingtown Compressor units. The order does not inhibit Columbia's ability to fully recover its electric costs; as such, management does not believe this order will have a material financial impact.

On March 29, 2005, the FERC issued an unconditional order accepting Columbia Transmission's March 1, 2005 RAM filing. Columbia Transmission's March 1, 2004 RAM is still pending before the FERC, with no statutory time requirement for future action; however, with the approval of the 2005 RAM filing, management does not anticipate a material adverse order.

Environmental Matters
Currently, various environmental matters impact the Gas Transmission and Storage Operations segment. As of March 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 10-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Gas Transmission and Storage Operations.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Proposed Millennium Pipeline Project
The proposed Millennium Project, in which Columbia Transmission is participating and will serve as developer and operator, will provide access to a number of supply and storage basins and the Dawn, Ontario trading hub. The project is now being marketed in two phases. Phase 1 of the project is to begin at a proposed interconnect with Empire, an existing pipeline that originates at the Canadian border and extends easterly towards Syracuse. Empire would construct a lateral pipeline southward to connect with Millennium near Corning, N.Y. Millennium would extend eastward to an interconnect with Algonquin Gas Transmission at Ramapo, N.Y. As currently planned, Phase 2 would cross the Hudson River, linking to the New York City metropolitan market.

On September 19, 2002, the FERC issued its order granting final certificate authority for the original Millennium project and specified that Millennium may not begin construction until certain environmental and other conditions are met. One such condition, impacting what is now being marketed as Phase 2 of the project, is compliance with the Coastal Zone Management Act, which is administered by the NYDOS. NYDOS has determined that the Hudson River crossing plan is not consistent with the Act. Millennium's appeal of that decision to the United States Department of Commerce was denied. Millennium filed an appeal of the United States Department of Commerce ruling relating to the project's Hudson River crossing plan in the United States Federal District Court on February 13, 2004. The procedural schedule calls for all briefings to be completed by the end of 2005.

During the second quarter of 2004, a NiSource affiliate purchased an additional interest in the project. NiSource is finalizing plans to transfer this interest to other sponsors in the second quarter of 2005. The other sponsors are Columbia Transmission, MCNIC Millennium Company (subsidiary of DTE Energy Company), and KeySpan Millennium, L.L.C. (subsidiary of KeySpan Corporation).

Hardy Storage Project
In November 2004, Columbia Transmission and a subsidiary of Piedmont reached an agreement to jointly develop a major new underground natural gas storage field to help meet increased market demand for natural gas in the eastern United States.

Columbia Transmission and Piedmont have formed Hardy Storage, to develop a natural gas storage field from a depleted natural gas production field in West Virginia. Columbia Transmission and Piedmont each have a 50% equity interest in the project, and Columbia Transmission will serve as operator of the facilities.

An open season for Hardy Storage conducted in early 2004 resulted in full subscription of the project's storage capacity under long-term firm contracts. The field, which will have the capacity to store approximately 12 Bcf natural gas, is planned to begin service in November 2007, and will ultimately deliver 176 MMDth per day of firm storage service to the four customers subscribing for Hardy Storage capacity. These customers have also signed long-term firm agreements with Columbia Transmission for transportation capacity to deliver gas from Hardy Storage to their markets. Columbia Transmission will expand its natural gas transmission system to create this capacity.

Both Hardy Storage and Columbia Transmission filed the necessary applications for the projects with the FERC on April 25, 2005, with plans to begin construction later this year. Service from both projects is expected to be available in 2007.

Throughput
Throughput for the Gas Transmission and Storage Operations segment totaled 443.3 MMDth for the first quarter 2005, compared to 468.7 MMDth for the same period in 2004. The decrease of 25.4 MMDth is due to the continued decline of offshore natural gas production and slightly warmer weather in the first quarter of 2005 than for the comparable period in 2004.

NISOURCE INC.
Gas Transmission and Storage Operations (continued)

Net Revenues
Net revenues were $224.2 million for the first quarter 2005, a decrease of $8.7 million from the same period in 2004, primarily due to a $6.8 million impact from the restructuring of firm transportation and storage contracts that expired October 31, 2004, net of remarketing activities.

Operating Income
Operating income was $109.5 million for the first quarter 2005 compared to $111.4 million in the first quarter 2004. Operating income decreased as a result of the change in net revenues mentioned above, partially offset by lower operating expenses of $6.8 million, including lower employee and administrative expense of $2.7 million and outside services of $1.0 million.

NISOURCE INC.
Electric Operations

Three Months Ended March 31, *(in millions)*	2005	2004
Net Revenues		
Sales revenues	$ 282.4	$ 260.9
Less: Cost of sales	95.7	81.4
Net Revenues	186.7	179.5
Operating Expenses		
Operation and maintenance	61.1	60.3
Depreciation and amortization	45.5	44.1
Other taxes	14.7	16.3
Total Operating Expenses	121.3	120.7
Operating Income	$ 65.4	$ 58.8
Revenues ($ in millions)		
Residential	73.4	71.2
Commercial	73.2	70.4
Industrial	112.4	101.3
Wholesale	7.5	11.4
Other	15.9	6.6
Total	282.4	260.9
Sales (Gigawatt Hours)		
Residential	767.0	754.5
Commercial	894.2	860.2
Industrial	2,328.3	2,338.1
Wholesale	161.2	269.9
Other	32.6	32.4
Total	4,183.3	4,255.1
Electric Customers		
Residential	392,527	388,520
Commercial	50,485	49,394
Industrial	2,531	2,531
Wholesale	28	24
Other	766	787
Total	446,337	441,256

NiSource generates and distributes electricity, through its subsidiary Northern Indiana, to approximately 446 thousand customers in 21 counties in the northern part of Indiana. The operating results reflect the temperature-sensitive nature of customer demand with annual sales affected by temperatures in the northern part of Indiana. As a result, segment operating income is generally higher in the second and third quarters, reflecting cooling demand during the summer season.

Market Conditions
The regulatory frameworks applicable to Electric Operations continue to be affected by fundamental changes that will impact Electric Operations' structure and profitability. Notwithstanding those changes, competition within the industry will create opportunities to compete for new customers and revenues. Management has taken steps to improve operating efficiencies in this changing environment.

NISOURCE INC.
Electric Operations (continued)

Regulatory Matters
During 2002, Northern Indiana settled certain regulatory matters related to an electric rate review. On September 23, 2002, the IURC issued an order adopting most aspects of the settlement. The order approving the settlement provides that electric customers of Northern Indiana will receive bill credits of approximately $55.1 million each year, for a cumulative total of $225 million, for the minimum 49-month period, beginning on July 1, 2002. The order also provides that 60% of any future earnings beyond a specified earnings level will be retained by Northern Indiana. Credits amounting to $14.4 million and $13.1 million were recognized for electric customers for the first quarter of 2005 and 2004, respectively.

On June 20, 2002, Northern Indiana, Ameren Corporation and First Energy Corporation established terms for joining the MISO through participation in an ITC. Northern Indiana transferred functional control of its electric transmission assets to the ITC and MISO on October 1, 2003. In April 2005, Northern Indiana, as well as the other two participants of the ITC, announced their withdrawal from the ITC and the ITC will cease operations effective November 1, 2005. As part of Northern Indiana's use of MISO's transmission service, Northern Indiana will incur new categories of transmission charges based upon MISO's FERC-approved tariff. One of the new categories of charges, Schedule 10, relates to the payment of administrative charges to MISO for its continuing management and operations of the transmission system. Northern Indiana filed a petition on September 30, 2003, with the IURC seeking approval to establish accounting treatment for the deferral of the Schedule 10 charges from MISO. On July 21, 2004, the IURC issued an order which denied Northern Indiana's request for deferred accounting treatment for the MISO Schedule 10 administrative fees. Northern Indiana appealed this decision to the Indiana Appellate Court, but on April 27, 2005, the Court affirmed the IURC's original decision. Northern Indiana recorded a charge during the second quarter 2004 in the amount of $2.1 million related to the MISO administrative charges deferred through June 30, 2004, and recognized $1.6 million in MISO fees for the second half of 2004. The MISO Schedule 10 administrative fees are currently estimated to be approximately $3.1 million annually.

The MISO has launched the MMI, implementing structures and processes of an electricity market for the MISO region. The MMI provides non-discriminatory transmission service, reliable grid operation, and the purchase and sale of electric energy in a competitive, efficient and non-discriminatory manner. MISO's MMI tariffs have been approved by FERC. Financially binding activities began with the opening of the market for bids and offers on March 25, 2005, and the Real-Time Market on April 1, 2005. Northern Indiana and TPC are actively participating in the MMI. Management is assessing the impact of MMI, and, based on the first month of market operation, expects a financial impact of $3.5 to $4.0 million annually in operating expenses for MMI administrative costs. These are in addition to the MISO Schedule 10 administrative costs for which Northern Indiana was denied deferral treatment in 2004. MMI energy costs are being accounted for in the same manner that energy costs were recorded prior to the implementation of the MMI, and are recovered through the FAC, pending approval by the IURC of MISO Day 2 costs. The detailed MMI tariff manages system reliability through the use of a market-based congestion management system. The FERC approved tariff includes a centralized dispatch platform, which dispatches the most economic resources to meet load requirements efficiently and reliably in the MISO region. The tariff uses Locational Marginal Pricing (i.e. the energy price for the next lowest priced megawatt available at each location within the MISO footprint). The tariff also allows for the allocation, auction or sale of FTRs, which are instruments that hedge against congestion costs occurring in the day-ahead market. Northern Indiana has not yet been a participant in the auction market for FTRs, but has been allocated, at zero cost, a number of FTRs for use through the summer season. The MISO performs a day-ahead unit commitment and dispatch forecast for all resources in its market. The MISO also performs the real time resource dispatch for resources under its control on a five-minute basis.

Northern Indiana has been recovering the costs of electric power purchased for sale to its customers through the FAC. The FAC provides for costs to be collected if they are below a negotiated cap. If costs exceed this cap, Northern Indiana must demonstrate that the costs were prudently incurred to achieve approval for recovery. Northern Indiana is in discussions with the OUCC on a new basis for establishing the cap. An agreement is anticipated to be filed with the IURC in the second quarter of 2005, and Northern Indiana anticipates that approval will also be received from the IURC in the second quarter of 2005. A group of industrial customers challenged the manner in which Northern Indiana applied such costs under a specific interruptible sales tariff. A settlement was reached with the customers and the industrial customers' challenge was withdrawn and dismissed in January 2004.

NISOURCE INC.
Electric Operations (continued)

In addition, as a result of the settlement, Northern Indiana has sought and received approval by the IURC to reduce the charges applicable to the interruptible sales tariff. This reduction will remain in effect until the Mitchell Station returns to service.

In January 2002, Northern Indiana indefinitely shut down its Mitchell Station. In February 2004, the City of Gary announced an interest in acquiring the land on which the Mitchell Station is located for economic development, including a proposal to increase the length of the runways at the Gary International Airport. On May 7, 2004, the City of Gary filed a petition with the IURC seeking to have the IURC establish a value for the Mitchell Station and establish the terms and conditions under which the City of Gary would acquire the Mitchell Station. Northern Indiana has reached an agreement with the City of Gary that provides for a joint redevelopment process for the Mitchell Station where the City of Gary could ultimately receive ownership of the property provided that the City of Gary and Northern Indiana can find funding for the demolition and environmental cleanup cost associated with demolishing the facility. The agreement expressly provides that neither Northern Indiana nor its customers will be obligated to provide funds for these costs. The associated demolition and environmental cleanup costs are estimated to be between $38 million to $53 million.

On May 25, 2004, Northern Indiana filed a petition for approval of a Purchased Power and Transmission Tracker Mechanism to recover the cost of purchased power to meet Northern Indiana's retail electric load requirements and charges imposed on Northern Indiana by MISO and ITC. A hearing in this matter was held December 1st and 2nd of 2004. An IURC order is expected in the second quarter of 2005.

On March 31, 2005, Northern Indiana and the OUCC filed an MOU with the IURC that could result in settlements of the City of Gary petition and Purchased Power and Transmission Tracker petition. The settlement agreement that is contemplated by the MOU would provide, among other things, for the recovery of Northern Indiana's costs for intermediate dispatchable power purchased from TPC and would require Northern Indiana to file a base rate case in 2007. The MOU provides that a settlement is contingent upon: 1) acceptable results of a third party evaluation study to be performed by an independent consultant relating to the use of Whiting Clean Energy and the Mitchell Station to meet the control performance standards required by the National Electric Reliability Council and 2) affirmative consent to the other terms of the MOU by Northern Indiana's large industrial electric customers. The scope of the proposed settlement does not include MISO costs. The ability to recover or defer MISO costs will be determined in another proceeding before the IURC, filed by several of the investor-owned electric utilities in Indiana (see the following paragraph). Northern Indiana expects that it will be able to file a settlement with the OUCC, based upon the outcome of the independent consultant's study, with the IURC in the second quarter of 2005, and that it would be approved in the third quarter of 2005. Northern Indiana has also filed a separate petition with the IURC in which it, TPC and Whiting Clean Energy, have requested expedited approval for the sale of intermediate dispatchable power this summer from Whiting Clean Energy through TPC to Northern Indiana.

On July 9, 2004, a verified joint petition was filed by PSI Energy, Inc., Indianapolis Power & Light Company, Northern Indiana and Vectren Energy Delivery of Indiana, Inc., seeking approval of certain changes in operations that are likely to result from the MISO's implementation of energy markets, and for determination of the manner and timing of recovery of costs resulting from the MISO's implementation of standard market design mechanisms, such as the MISO's proposed real-time and day-ahead energy markets. The hearing in this matter was completed on February 11, 2005 and an IURC order is expected in the second quarter of 2005.

On November 26, 2002, Northern Indiana received approval for an ECT. Under the ECT Northern Indiana is permitted to recover (1) allowance for funds used during construction and a return on the capital investment expended by Northern Indiana to implement Indiana Department of Environmental Management's nitrogen oxide State Implementation Plan through an ECRM and (2) related operation and maintenance and depreciation expenses once the environmental facilities become operational through an EERM. Under the IURC's November 26, 2002 order, Northern Indiana is permitted to submit filings on a semi-annual basis for the ECRM and on an annual basis for the EERM. Northern Indiana currently anticipates a total capital investment amounting to approximately $305 million. This amount was filed in Northern Indiana's latest compliance plan, which was approved by the IURC on January 19, 2005. The ECRM revenues amounted to $6.3 million for the three months ended March 31, 2005, and $30.3 million from inception to date, while EERM revenues were $0.4 million for the first quarter of 2005. On

NISOURCE INC.
Electric Operations (continued)

February 4, 2005, Northern Indiana filed ECR-5 simultaneously with EER-2 for capital expenditures of $235.6 million and depreciation and operating expenses of $10.5 million through December 31, 2004.

On April 13, 2005, Northern Indiana received an order from the IURC in a complaint filed by Jupiter. The complaint asserted that Northern Indiana's service quality was not reasonably adequate. While not concluding that Northern Indiana's service was not reasonably adequate, the IURC ruled that Northern Indiana must construct a backup line and pay Jupiter $2.5 million to install special fast switching equipment at the Jupiter plant. Further, Northern Indiana is precluded from recovering the $2.5 million in rates. Northern Indiana and Jupiter have both filed motions requesting the IURC to reconsider its order.

Environmental Matters
Currently, various environmental matters impact the Electric Operations segment. As of March 31, 2005, a reserve has been recorded to cover probable environmental response actions. Refer to Note 10-C, "Environmental Matters," in the Notes to Consolidated Financial Statements for additional information regarding environmental matters for Electric Operations.

Sales
Electric sales quantities for the first quarter of 2005 were 4,183.3 gwh, a decrease of 71.8 gwh compared to the 2004 period, as a result of decreased wholesale transaction sales. Residential and commercial sales quantities improved modestly due to increases in the number of customers and increased customer usage, while industrial sales quantities remained relatively stable.

Net Revenues
In the first quarter of 2005, electric net revenues of $186.7 million increased by $7.2 million from the comparable 2004 period. This improvement was primarily a result of increased environmental cost recovery trackers of $3.7 million and increased industrial net customer revenues of $3.0 million.

Operating Income
Operating income for the first quarter of 2005 was $65.4 million, an increase of $6.6 million from the same period in 2004. The increase was primarily due to the changes in net revenue mentioned above. While operating expenses were relatively flat as compared to the 2004 period, increases were seen in electric generation maintenance expense of $2.4 million and employee and administrative expense of $1.9 million, which were partially offset by a $3.3 million expense in the comparable 2004 period for Electric Operations' portion of a redemption premium paid for the early extinguishment of certain medium-term notes at Northern Indiana.

NiSource Inc.
Other Operations

Three Months Ended March 31, *(in millions)*		**2005**		2004
Net Revenues				
Products and services revenue	$	**229.5**	$	188.0
Less: Cost of products purchased		**224.1**		188.5
Net Revenues		**5.4**		(0.5)
Operating Expenses				
Operation and maintenance		**6.4**		12.1
Depreciation and amortization		**2.9**		3.0
Loss (gain) on sale or impairment of assets		**(0.5)**		0.7
Other taxes		**1.8**		1.7
Total Operating Expenses		**10.6**		17.5
Operating Loss	$	**(5.2)**	$	(18.0)

The Other Operations segment participates in energy-related services including gas marketing, power trading and ventures focused on distributed power generation technologies, fuel cells and storage systems. PEI operates the Whiting Clean Energy project, which is a 525 mw cogeneration facility that uses natural gas to produce electricity for sale in the wholesale markets and also provides steam for industrial use. Additionally, the Other Operations segment is involved in real estate and other businesses.

Lake Erie Land Company, Inc.
In March 2005, Lake Erie Land, wholly owned by NiSource, recognized a pre-tax impairment charge of $2.9 million related to the Sand Creek Golf Club property and began accounting for the operations of the golf club as discontinued operations. The assets of the Sand Creek Golf Club, valued at $12.1 million as of March 31, 2005, are reported as assets of discontinued operations. An additional $5.6 million of assets, representing an estimate of land to be sold during the next twelve-months, are reflected as assets held for sale.

PEI Holdings, Inc.
Whiting Clean Energy. PEI's Whiting Clean Energy project at BP's Whiting, Indiana refinery was placed in service in 2002. Initially, the facility was not able to deliver steam to BP to the extent originally contemplated without plant modifications. Whiting Clean Energy reached an agreement in October 2004 with the engineering, procurement and construction contractor, under which the contractor paid for a portion of the necessary plant modifications and other expenses. Whiting Clean Energy is also pursuing recovery from the insurance provider for construction delays and necessary plant modifications and repairs.

For the first quarter of 2005, the PEI holding companies' consolidated after-tax loss was approximately $8.1 million. The profitability of the Whiting Clean Energy project in future periods will be dependent on, among other things, approval of the electric sales agreement discussed in the following paragraph, prevailing prices in the energy markets and regional load dispatch patterns. Also impacting the profitability of Whiting Clean Energy is the steam requirements for BP's oil refinery. During the first quarter of 2005, Whiting Clean Energy completed renegotiation of the terms of its agreement with BP's oil refinery in Whiting, Indiana. Under the revised agreement, Whiting Clean Energy will continue to meet BP's need for steam, while reducing the power plant's required run time.

In the first quarter of 2005, Northern Indiana selected TPC from bidders responding to a Request for Proposals issued in October 2004 to provide 230 mw of intermediate dispatchable power, utilizing the generation facilities of Whiting Clean Energy, pending regulatory approval. Whiting Clean Energy has filed a petition with FERC seeking expedited approval of a tariff covering the sale of such intermediate dispatchable power. TPC has similarly filed with FERC a petition seeking approval by June 1 of its proposed contract with Northern Indiana. TPC and Whiting Clean Energy, along with Northern Indiana, have also filed a separate petition with the IURC in which they have

NISOURCE INC.
Other Operations (continued)

requested expedited approval for the sale of intermediate dispatchable power this summer from Whiting Clean Energy through TPC to Northern Indiana. Northern Indiana and the OUCC have signed an MOU that may result in a settlement agreement that would allow Northern Indiana to recover the costs of such purchases if certain conditions are met. Under the MOU, the proposed settlement agreement is subject to an independent, third-party review and would require the approval of the IURC, which Northern Indiana does not expect to receive until the third quarter of 2005.

Net Revenues
Net revenues of $5.4 million for the first quarter of 2005 increased by $5.9 million from the first quarter of 2004, due to increased net revenue from the Whiting Clean Energy facility of $2.4 million driven by reduced power generated related steam provided to BP and increased power trading revenues of $1.2 million.

Operating Income
Other Operations reported an operating loss of $5.2 million for the first quarter of 2005, versus an operating loss of $18.0 million for the comparable 2004 period. The decrease in the operating loss resulted primarily from the improved operation of Whiting Clean Energy, the reversal of a $2.1 million legal reserve and lower operation and maintenance expenses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NISOURCE INC.

For a discussion regarding quantitative and qualitative disclosures about market risk see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Market Risk Disclosures."

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
NiSource's chief executive officer and its principal financial officer, after evaluating the effectiveness of NiSource's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), have concluded based on the evaluation required by paragraph (b) of Exchange Act Rules 13a-15 and 15d-15 that, as of the end of the period covered by this report. NiSource's disclosure controls and procedures were adequate and effective to ensure that material information relating to NiSource and its consolidated subsidiaries would be made known to them by others within those entities.

Changes in Internal Controls

There was no change in NiSource's internal control over financial reporting during the fiscal quarter covered by this report that has materially affected, or is reasonably likely to materially affect, NiSource's internal control over financial reporting.

PART II

ITEM 1. LEGAL PROCEEDINGS

NISOURCE INC.

1. United States of America ex rel. Jack J. Grynberg v. Columbia Gas Transmission Corporation, et al., U.S. District Court, E.D. Louisiana

   The plaintiff filed a complaint in 1997, under the False Claims Act, on behalf of the United States of America, against approximately seventy pipelines, including Columbia Gulf and Columbia Transmission. The plaintiff claimed that the defendants had submitted false royalty reports to the government (or caused others to do so) by mis-measuring the volume and heating content of natural gas produced on Federal land and Indian lands. The Plaintiff's original complaint was dismissed without prejudice for misjoinder of parties and for failing to plead fraud with specificity. The plaintiff then filed over sixty-five new False Claims Act complaints against over 330 defendants in numerous Federal courts. One of those complaints was filed in the Federal District Court for the Eastern District of Louisiana against Columbia Energy Group and thirteen affiliated entities (collectively, the "Columbia defendants").

   Plaintiff's second complaint, filed in 1997, repeats the mis-measurement claims previously made and adds valuation claims alleging that the defendants have undervalued natural gas for royalty purposes in various ways, including sales to affiliated entities at artificially low prices. Most of the Grynberg cases were transferred to Federal court in Wyoming in 1999.

   The defendants, including the Columbia defendants, have filed motions to dismiss for lack of subject matter jurisdiction in this case. Oral argument on the motions to dismiss was held on March 17 and 18, 2005 before a Special Master. The Special Master is expected to submit a final report and recommendation to the Federal District Court.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

NISOURCE INC.

(a) Exhibits

(10.1) First Amendment to the Savings Restoration Plan for NiSource Inc. and Affiliates (incorporated by reference to Exhibit 10.1 to the NiSource Inc. Current Report on Form 8-K dated January 3, 2005).**

(10.2) Form of Nonqualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to the NiSource Inc. Current Report on Form 8-K dated January 3, 2005).**

(10.3) Revolving Credit Agreement among NiSource Finance Corp., as Borrower, NiSource Inc., as Guarantor, Credit Suisse First Boston, as Syndication Agent, JPMorgan Chase Bank, N.A., The Bank Of Tokyo-Mitsubishi, Ltd., Chicago Branch and Citicorp USA, Inc., as Co-Documentation Agents, Barclays Bank Plc, as Administrative Agent and LC Bank, Barclays Capital and Credit Suisse First Boston, as Lead Arrangers and Barclays Capital, as Sole Book Runner, dated as of March 11, 2005 (incorporated by reference to Exhibit 99.1 to the NiSource Inc. Current Report on Form 8-K dated March 11, 2005).

(10.4) NiSource Inc. Executive Severance Policy, effective as of June 1, 2002 as amended effective January 1, 2005. * **

(10.5) Second Amendment to the NiSource Corporate Incentive Plan, effective as of January 1, 2004 as amended effective January 1, 2005. * **

(31.1) Certification of Gary L. Neale, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(31.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

(32.1) Certification of Gary L. Neale, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

(32.2) Certification of Michael W. O'Donnell, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). *

* Exhibit filed herewith.

** Management contract or compensatory plan or arrangement of NiSource Inc.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, NiSource hereby agrees to furnish the SEC, upon request, any instrument defining the rights of holders of long-term debt of NiSource not filed as an exhibit herein. No such instrument authorizes long-term debt securities in excess of 10% of the total assets of NiSource and its subsidiaries on a consolidated basis.

SIGNATURE

NISOURCE INC.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NiSource Inc.
(Registrant)

Date: May 5, 2005

By: /s/ Jeffrey W. Grossman
Jeffrey W. Grossman
Vice President and Controller
(Principal Accounting Officer
and Duly Authorized Officer)

NiSource Inc.
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